



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

universe

| 寰宇 |

2005-2006

Interim Report 中期報告

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

AUDITORS

PricewaterhouseCoopers

Certified Public Accountants

CORPORATE INFORMATION *(Continued)*

LEGAL ADVISERS

So Keung Yip & Sin
17th Floor
Standard Chartered Bank Building
4 Des Voeux Road Central
Hong Kong

SHARE REGISTRAR

Abacus Share Registrars Limited
Level 25, Three Pacific Place
1 Queen's Road East
Hong Kong

AUDIT COMMITTEE

Ng Kwok Tung *(Chairman)*
Chiu Shin Koi
Ma Ting Hung

REMUNERATION COMMITTEE

Ma Ting Hung *(Chairman)*
Ng Kwok Tung
Chiu Shin Koi
Lam Shiu Ming, Daneil
Chiu Suet Ying

CORPORATE INFORMATION *(Continued)*

NOMINATION COMMITTEE

Chiu Shin Koi (*Chairman*)

Ng Kwok Tung

Ma Ting Hung

Lam Shiu Ming, Daneil

Chiu Suet Ying

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 2005, and the unaudited condensed consolidated balance sheet as at 31st December 2005 as follows:—

UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	For the six months ended 31st December	
		2005 HK\$'000	(Restated) 2004 HK\$'000
Turnover	2	48,773	101,028
Cost of sales		(35,362)	(77,802)
Gross profit		13,411	23,226
Other revenue		1,784	154
Other operating income		431	466
Selling expenses		(556)	(1,252)
Administrative expenses		(10,932)	(11,692)
Other operating expenses		(133)	(5,187)
Operating profit	3	4,005	5,715
Finance costs		—	(197)
Share of loss of an associated company		—	(572)
Profit before taxation		4,005	4,946
Taxation	4	(351)	(617)
Profit attributable to equity holders of the Company		3,654	4,329
Basic earnings per share (HK cents)	5	0.23	0.27
Fully diluted earnings per share (HK cents)	5	N/A	N/A

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

	Note	As at 31st December 2005 HK\$'000	(Restated) As at 30th June 2005 HK\$'000
Non-current assets			
Property, plant and equipment	6	15,432	21,512
Investment properties	6	47,500	38,400
Leasehold land	6	9,064	12,121
Film rights and films in progress	6	66,968	77,356
Interest in associated company		—	1,294
Deferred tax assets		5,335	5,270
Long-term bank deposit		7,800	7,800
		152,099	163,753
Current assets			
Film deposits		14,326	17,018
Inventories		14,624	17,358
Accounts receivable	8	18,786	32,219
Deposits paid and prepayments		9,764	5,065
Pledged bank deposits		2,000	4,000
Bank balances and cash		120,203	82,087
		179,703	157,747
Current liabilities			
Accounts payable	9	8,202	7,545
Other payables and accrued charges		6,807	5,708
Deposits received		19,562	15,098
Due to ultimate holding company		83	86
Obligations under finance leases	10	83	77
Taxation payable		8	8
		34,745	28,522
Net current assets			
		144,958	129,225
Total assets less current liabilities			
		297,057	292,978
Financed by:			
Share capital	11	32,492	32,492
Reserves		260,142	256,449
Total capital and reserves			
		292,634	288,941
Other long-term liabilities	10	64	102
Deferred tax liabilities		4,359	3,935
		297,057	292,978

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended
31st December

	2005 HK\$'000	2004 HK\$'000
Net cash inflow from operating activities	51,912	64,883
Net cash outflow in investing activities	(13,764)	(62,503)
Net cash outflow in financing activities	(32)	(3,345)
Increase/(decrease) in cash and cash equivalents	38,116	(965)
Cash and cash equivalents at 30th June	82,087	75,543
Cash and cash equivalents at 31st December	<u>120,203</u>	<u>74,578</u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	<u>120,203</u>	<u>74,578</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company					
	Share capital HK\$'000	Share premium HK\$'000	Reserve arising on consolidation HK\$'000	Investment properties revaluation reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st July 2005	32,492	127,211	821	1,220	127,197	288,941
Surplus on revaluation of investment properties	—	—	—	47	—	47
Deferred tax arising from the revaluation of investment properties	—	—	—	(8)	—	(8)
Profit for the period	—	—	—	—	3,654	3,654
At 31st December 2005	<u>32,492</u>	<u>127,211</u>	<u>821</u>	<u>1,259</u>	<u>130,851</u>	<u>292,634</u>

	Attributable to equity holders of the Company					
	Share capital HK\$'000	Share premium HK\$'000	Reserve arising on consolidation HK\$'000	Investment properties revaluation reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st July 2004, as previously reported	32,492	127,211	821	2,955	114,921	278,400
Prior year adjustment in respect of:						
— Deferred tax arising from the revaluation of investment properties	—	—	—	(517)	—	(517)
At 1st July 2004, as restated	32,492	127,211	821	2,438	114,921	277,883
Profit for the period	—	—	—	—	4,329	4,329
At 31st December 2004	<u>32,492</u>	<u>127,211</u>	<u>821</u>	<u>2,438</u>	<u>119,250</u>	<u>282,212</u>

NOTES TO CONDENSED ACCOUNTS

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

These unaudited consolidated condensed accounts are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The preparation of the unaudited condensed consolidated accounts in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

These condensed accounts should be read in conjunction with the 2005 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 2005 except that the Group has changed certain of its accounting policies following the adoption of new/revised Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and interpretations (collectively, “new HKFRS”) which are effective for accounting periods commencing on or after 1st January 2005.

These condensed accounts have been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing these information. The new HKFRS that will be applicable at 30th June 2006, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim financial statements.

Following the adoption of those new HKFRS which are relevant to the Group’s operations, the significant changes to the Group’s accounting policies and the effect of which are set out below:—

- (a) HKAS 1 — HKAS 1 has affected the presentation of share of net after-tax result of associated company and other disclosure.
- (b) HKAS 17 — The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land are expensed in the profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account. In prior years, the leasehold land was accounted for at fair value or cost less accumulated depreciation and accumulated impairment. This new accounting policy has been adopted retrospectively and comparative amounts have been restated accordingly.

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

- (c) Effect of changes in the accounting policies on the condensed consolidated balance sheet is as follows:—

	As at 31st December 2005 HK\$'000	As at 30th June 2005 HK\$'000
HKAS 17		
— Decrease in property, plant and equipment	(9,064)	(12,121)
— Increase in leasehold land	9,064	12,121

The adoption of other new HKFRS did not result in substantial changes to the Group's accounting policies.

2. SEGMENT INFORMATION

PRIMARY REPORTING FORMAT — BUSINESS SEGMENTS

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.

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

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

SECONDARY REPORTING FORMAT — GEOGRAPHICAL SEGMENTS

Distribution of films in various videogram formats and leasing of investment properties are solely operated in Hong Kong and Macau, while the Group operates its licensing and sub-licensing of film rights and film exhibition in five main geographical segments.

There are no sales between geographical segments.

2. SEGMENT INFORMATION (Continued)

PRIMARY REPORTING FORMAT — BUSINESS SEGMENTS (Continued)

An analysis of the Group's turnover and profit attributable to equity holders of the Company for the period by business segments is as follows:—

	Unaudited					Group HK\$'000
	For the six months ended 31st December 2005					
	Sale of goods HK\$'000	Licensing and sub-licensing of film rights and film exhibition HK\$'000	Leasing of investment properties HK\$'000	Others HK\$'000	Elimination HK\$'000	
Turnover						
External sales	19,100	26,922	2,207	544	—	48,773
Inter-segment sales	—	2,500	—	129	(2,629)	—
	<u>19,100</u>	<u>29,422</u>	<u>2,207</u>	<u>673</u>	<u>(2,629)</u>	<u>48,773</u>
Segment results	32	217	1,801	171	—	2,221
Other revenue						1,784
Profit before taxation						4,005
Taxation						(351)
Profit attributable to equity holders of the Company						<u>3,654</u>
Capital expenditures	5,082	133	70	—	—	5,285
Unallocated capital expenditures						8,481
Total capital expenditures						<u>13,766</u>
Depreciation	665	19	31	2	—	717
Unallocated depreciation						272
Total depreciation						<u>989</u>
Amortisation charge	7,928	15,229	—	—	—	<u>23,157</u>

2. SEGMENT INFORMATION (Continued)

PRIMARY REPORTING FORMAT — BUSINESS SEGMENTS (Continued)

	Unaudited For the six months ended 31st December 2004					(Restated) Group
	Sale of goods HK\$'000	Licensing and sub-licensing of film rights and film exhibition HK\$'000	Leasing of investment properties and machinery for replication of optical discs HK\$'000	Others HK\$'000	Elimination HK\$'000	Group 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	423	7,371	(2,016)	641	—	6,419
Unallocated cost						(858)
Other revenue						154
Finance costs						(197)
Share of loss of an associated company						(572)
Profit before taxation						4,946
Taxation						(617)
Profit attributable to equity holders of the Company						<u>4,329</u>
Capital expenditures	37,319	4,365	5	—	—	41,689
Unallocated capital expenditures						14,087
Total capital expenditures						<u>55,776</u>
Depreciation	5,855	83	28	2	—	5,968
Unallocated depreciation						1,141
Total depreciation						<u>7,109</u>
Amortisation charge	23,069	27,082	—	—	—	<u>50,151</u>

2. SEGMENT INFORMATION (Continued)

PRIMARY REPORTING FORMAT — BUSINESS SEGMENTS (Continued)

	Unaudited As at 31st December 2005					Group HK\$'000
	Sale of goods HK\$'000	Licensing and sub-licensing of film rights and film exhibition HK\$'000	Leasing of investment properties HK\$'000	Others HK\$'000	Elimination HK\$'000	
Segment assets	48,766	26,482	47,793	4,372	—	127,413
Unallocated assets						204,389
Total assets						331,802
Segment liabilities	8,354	14,465	1,506	4,719	—	29,044
Unallocated liabilities						10,124
Total liabilities						39,168

	Audited As at 30th June 2005					Group HK\$'000
	Sale of goods HK\$'000	Licensing and sub-licensing of film rights and film exhibition HK\$'000	Leasing of investment properties and machinery for replication of optical discs HK\$'000	Others HK\$'000	Elimination HK\$'000	
Segment assets	56,505	51,918	38,650	1,128	—	148,201
Unallocated assets						173,299
Total assets						321,500
Segment liabilities	6,902	10,732	1,058	4,447	—	23,139
Unallocated liabilities						9,420
Total liabilities						32,559

2. SEGMENT INFORMATION *(Continued)*

SECONDARY REPORTING FORMAT — GEOGRAPHICAL SEGMENTS

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

	Unaudited For the six months ended 31st December 2005		
	Turnover HK\$'000	Segment results HK\$'000	Capital expenditures HK\$'000
Hong Kong and Macau	31,199	1,771	13,766
Asia (other than Hong Kong and Macau)	13,766	397	—
North America	15	1	—
Australia and New Zealand	175	2	—
Europe	3,618	50	—
	<u>48,773</u>	<u>2,221</u>	<u>13,766</u>
Add: other revenue		<u>1,784</u>	
Operating profit		<u>4,005</u>	

	Unaudited For the six months ended 31st December 2004		
	Turnover HK\$'000	Segment results HK\$'000	Capital expenditures HK\$'000
Hong Kong and Macau	64,063	40	55,776
Asia (other than Hong Kong and Macau)	36,334	5,422	—
North America	424	22	—
Australia and New Zealand	175	47	—
Others	32	30	—
	<u>101,028</u>	<u>5,561</u>	<u>55,776</u>
Add: other revenue		<u>154</u>	
Operating profit		<u>5,715</u>	

2. SEGMENT INFORMATION *(Continued)*

SECONDARY REPORTING FORMAT — GEOGRAPHICAL SEGMENTS *(Continued)*

	Unaudited As at 31st December 2005 HK\$'000	Audited As at 30th June 2005 HK\$'000
Assets		
Hong Kong and Macau	320,580	304,327
Asia (other than Hong Kong and Macau)	10,192	14,937
North America	—	382
Australia and New Zealand	—	17
Europe	1,030	1,837
	<u>331,802</u>	<u>321,500</u>

3. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	For the six months ended 31st December	
	2005 HK\$'000	2004 HK\$'000
Crediting		
Interest income	1,784	154
Gain on disposal of fixed assets	1	3
Charging		
Depreciation:		
— owned fixed assets	951	7,071
— leased fixed assets	38	38
Cost of inventories sold	10,029	14,740
Write-off of expired film rights	91	175
Impairment losses of film rights	—	4,055
Amortisation charge of film rights	23,157	50,151
Staff costs	8,261	9,680

4. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the period. (2004: 17.5%)

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

	For the six months ended 31st December	
	2005 HK\$'000	2004 HK\$'000
Hong Kong profits tax	—	93
Deferred taxation relating to the origination and reversal of temporary differences	351	524
	351	617

5. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to equity holders of the Company of approximately HK\$3,654,000 (2004: approximately HK\$4,329,000) for the period and the weighted average of 1,624,605,370 (2004: 1,624,605,370) ordinary shares in issue during the period.

The diluted earnings per share for the period ended 31st December 2004 and 2005 are not presented as there was no dilutive potential ordinary shares outstanding during the periods.

6. CAPITAL EXPENDITURES

	Property, plant and equipment HK\$'000	Investment properties HK\$'000	Leasehold land HK\$'000	Film rights and films in progress HK\$'000
Opening net book amount at 1st July 2005	21,512	38,400	12,121	77,356
Additions	906	—	—	12,860
Revaluation	47	—	—	—
Disposals	(1)	—	—	—
Transfer to investment properties	(6,176)	9,100	(2,924)	—
Amortisation charge/ depreciation (Note 3)	(856)	—	(133)	(23,157)
Write-off (Note 3)	—	—	—	(91)
Closing net book amount at 31st December 2005	15,432	47,500	9,064	66,968

6. CAPITAL EXPENDITURES (Continued)

	Property, plant and equipment HK\$'000	Investment properties HK\$'000	Leasehold land HK\$'000	Film rights and films in progress HK\$'000
Opening net book amount at 1st July 2004	34,910	31,400	6,945	89,672
Additions	519	—	—	55,257
Disposals	(4)	—	—	—
Amortisation charge/ depreciation (Note 3)	(7,033)	—	(76)	(50,151)
Impairment losses (Note 3)	—	—	—	(4,055)
Write-off (Note 3)	—	—	—	(175)
Closing net book amount at 31st December 2004	<u>28,392</u>	<u>31,400</u>	<u>6,869</u>	<u>90,548</u>

7. INTEREST IN JOINT VENTURE

The Group has entered into four jointly controlled asset arrangements to produce television series and a film (30th June 2005: four). The Group has participating interests ranging from 60% to 80% in these joint ventures. At 31st December 2005, the aggregate amounts of assets and liabilities recognized in the accounts relating to the Group's interests in these jointly controlled asset arrangements are as follows:—

	Unaudited As at 31st December 2005 HK\$'000	Audited As at 30th June 2005 HK\$'000
Assets		
Television series production in progress	24,822	24,555
Film in progress	12,300	10,292
Accounts receivable	2,040	1,713
Cash and bank balances	2,566	2,765
	<u>41,728</u>	<u>39,325</u>
Liabilities		
Accruals	1,742	464
Deposits received	9,255	2,670
	<u>10,997</u>	<u>3,134</u>

8. ACCOUNTS RECEIVABLE

At 31st December 2005, the ageing analysis of the accounts receivable was as follows:—

	Unaudited As at 31st December 2005 HK\$'000	Audited As at 30th June 2005 HK\$'000
Current to 90 days	7,255	16,259
91 days to 180 days	4,173	8,460
Over 180 days	7,358	7,500
	18,786	32,219

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.

9. ACCOUNTS PAYABLE

At 31st December 2005, the ageing analysis of the accounts payable was as follows:—

	Unaudited As at 31st December 2005 HK\$'000	Audited As at 30th June 2005 HK\$'000
Current to 90 days	1,982	2,803
91 days to 180 days	1,488	18
Over 180 days	4,732	4,724
	8,202	7,545

10. OTHER LONG-TERM LIABILITIES

	Unaudited As at 31st December 2005 HK\$'000	Audited As at 30th June 2005 HK\$'000
Obligations under finance leases	147	179
Current portion of long-term liabilities	(83)	(77)
	64	102

10. OTHER LONG-TERM LIABILITIES (Continued)

At 31st December 2005, the Group's obligations under finance leases were repayable as follows:

	Unaudited As at 31st December 2005 HK\$'000	Audited As at 30th June 2005 HK\$'000
Within one year	83	77
In the second year	64	77
In the third to fifth year	—	25
	147	179
Future finance charges on obligation under finance leases	—	—
Present value of obligations under finance leases	147	179
The present value of obligations under finance leases is as follows:		
Within one year	83	77
In the second year	64	77
In the third to fifth year	—	25
	147	179

11. SHARE CAPITAL

	Authorised Ordinary shares	
	No. of shares	HK\$'000
At 1st July 2005 and 31st December 2005	5,000,000,000	100,000
	Issued and fully paid Ordinary shares	
	No. of shares	HK\$'000
At 1st July 2005 and 31st December 2005	1,624,605,370	32,492

12. COMMITMENTS

(a) Commitments under operating leases

At 31st December 2005, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Unaudited As at 31st December 2005 HK\$'000	Audited As at 30th June 2005 HK\$'000
Land and buildings		
Not later than one year	—	40
Later than one year and not later than five years	—	—
	<u>—</u>	<u>—</u>
	<u>—</u>	<u>40</u>

(b) Other commitments

At 31st December 2005, the Group had commitments contracted but not provided for in these accounts as follows:

	Unaudited As at 31st December 2005 HK\$'000	Audited As at 30th June 2005 HK\$'000
Purchase of film rights and production of films (<i>Note</i>)	<u>36,495</u>	<u>45,662</u>

Note: Included in the above commitment was an amount of HK\$1,421,000 (2005: HK\$2,963,000) representing the Group's share of capital commitment in respect of jointly controlled assets.

13. CONTINGENT LIABILITIES

PENDING LITIGATIONS

A Court of First Instance 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).

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. 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 2005, 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

(I) PURCHASE OF SERVICE

During the six months ended 31st December 2005, ULV had paid rental on motor vehicles and apartment leased for directors of HK\$150,000 (2004: HK\$150,000) and HK\$360,000 (2004: 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 ("GEL"), the ultimate holding company of the Company.

The entire issued share capital of the GEL 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.

(II) KEY MANAGEMENT COMPENSATION

	For the six months ended 31st December	
	2005 HK\$'000	2004 HK\$'000
Salaries and other short-term employee benefits	2,528	1,689

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.

15. EVENTS AFTER THE BALANCE SHEET DATE

As announced on 23rd January 2006, ULV has entered into an unconditional multiple rights assignment with Universe Film Productions Company Limited ("UFP") whereby ULV acquired the full and complete rights, titles and interests in and to the certain films from UFP for a total consideration of HK\$3,160,000.

The entire issued share capital of UFP is beneficially owned by GEL, the entire issued share capital of which is in turn held by Central Core Resources Limited, the trustee of a discretionary trust under which certain immediate family members of Mr. Lam Shiu Ming, Daneil ("Mr. Lam") and Ms. Chiu Suet Ying are discretionary objects. GEL, a substantial shareholder of the Company and a connected person of the Company within the meaning of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), owns approximately 53.7% of the entire issued shares of the Company. Mr. Lam is also a founder of the said discretionary trust. By virtue of the interest of GEL in UFP, this acquisition constituted a connected transaction for the Company under Rule 14A.13(1)(a) of the Listing Rules.

INTERIM DIVIDEND

The Board of Directors does not recommend the payment of an interim dividend in respect of the six months ended 31st December 2005 (2004: Nil).

REVIEW OF OPERATIONS

OVERALL GROUP'S RESULTS

The Group's unaudited consolidated turnover for the six months ended 31st December 2005 was approximately HK\$48.8 million, representing a decrease of approximately HK\$52.3 million over the same period last year. Profit attributable to equity holders of the Company was approximately HK\$3.7 million (2004: approximately HK\$4.3 million), translating into earnings per share for the period of 0.23 HK cents compared with 0.27 HK cents during the corresponding period in 2004.

The decrease in turnover was a result of a continuing stagnant local video distribution market and fewer new films and television series being released during the period under review.

Notwithstanding, the 51.7% decline in turnover, the management is delighted to report that the Group recorded a profit attributable to equity holders of the Company of approximately HK\$3.7 million, representing a decrease of 15.6% over the same period last year.

The ability to remain profitability on the back of lower turnover in the first half of the financial year 2006 demonstrates Group's effectiveness in controlling cost structure of the business and the implementation of the multi-faceted content production strategy.

VIDEO DISTRIBUTION

During the period under review, the video distribution business continued to shrink, recording a 53.3% decrease in turnover to HK\$19.1 million.

REVIEW OF OPERATIONS *(Continued)*

VIDEO DISTRIBUTION *(Continued)*

The substantial decrease in turnover from video distribution was mainly attributable to fewer number of new title being released during the period under review, as the management streamlined this business operation and adopted a more cautious and prudent approach in the film acquisition, in light of the still rampant illegal distribution of copyrighted films on the internet through peer to peer file sharing activities. In addition, severe price competition persisted in the local video distribution market also impacted on the turnover and profit margin of this business segment.

In view of the difficulties of the video distribution business, the Group will continue to improve the cost structure of this business segment and will exercise prudence when acquiring new titles for video distribution.

FILM EXHIBITION, FILM LICENSING AND SUB-LICENSING

A decline in the number of the production of new films completed by the Group in the first half of the financial year 2006, coupled with continued contraction of the local film exhibition market for Chinese Language films affected the turnover of this business segment. Turnover generated from this business segments was HK\$26.9 million, representing a decrease of 51.6% over the same period last year. This business segment accounted for 55.2% (2004: 55.0%) of the Group's total turnover.

Turnover from film exhibition was HK\$1.7 million, representing a decrease of 56.3% compared to the same period last year. Apart from the external factor of a sluggish film exhibition market in Hong Kong, a decline in turnover from film exhibition was mainly attributable to the Group produced fewer films as it focused on the investment in television series. Notwithstanding a decrease in turnover, the operating results improved where a loss reduced to HK\$93,000, compared with a loss of HK\$6.6 million in the previous period, reflecting Group's effectiveness in controlling film production and promotional cost.

REVIEW OF OPERATIONS *(Continued)*

FILM EXHIBITION, FILM LICENSING AND SUB-LICENSING *(Continued)*

Turnover and gross profit from film licensing and sub-licensing activities were HK\$25.2 million and HK\$9.9 million respectively, representing a decrease of 51.2% and 63.4% over the same period last year. Such substantial decrease resulted from the fact that Group only completed the production of one film and one television series for film licensing business during the period under review. In terms of upcoming release, as at 31st December 2005, the Group has two films blockbusters, (being “Recycle” (鬼域) and “The Sparrow” (文雀)) and two television series (being “Legend of Wang Zhao Jun” (昭君出塞) and “The Myth of Ah You” (阿有正傳)), which are in progress.

In line with the Group’s multi-faceted content production strategy of targeting demands of various markets, the overseas market sustained major source of turnover, accounting for 36.0% of the Group’s total turnover (2004: 36.6%), the management believes that it is beneficial to the Group’s long term development as it reduces its reliance on the Hong Kong market.

As a testimony to the quality of films produced by the Group, “Divergence” (三岔口) had been awarded the Best Leading Actor, the Best Cinematography and the Best Film Editing awards at the 42nd Golden Horse Award Presentation Ceremony.

LEASING OF INVESTMENT PROPERTIES AND MACHINERY FOR REPLICATION OF OPTICAL DISCS

This business segment posted an encouraging contribution for the period under review, as result of the closure of the unsatisfactory business of leasing of machinery for replication of optical discs in the second half of last fiscal year, the business of leasing of machinery for replication of optical discs made a loss of HK\$2.9 million during the same period last year.

As a result of the Group’s effort in streamlining the business of video distribution, the more space vacated was tenanted in return for rental income, in line with this, turnover from leasing of investment properties increased by 8.4% to HK\$2.2 million for the period under review.

OUTLOOK

Going forward, the Group will focus on producing high quality films and television series. It will also step up its efforts in expanding its distribution network and exploring new market.

Meanwhile, the Group will continue to streamline its business operation with a view of enhancing the operational efficiency and productivity. Leveraging on our experience and competitive advantages, we are confident that the Group can continue to consolidate its position in the industry.

FINANCIAL RESOURCES/LIQUIDITY AND CAPITAL STRUCTURE

As at 31st December 2005, the Group had cash balances and unutilised banking facilities of approximately HK\$130.0 million (30th June 2005: HK\$93.9 million) and HK\$55.0 million (30th June 2005: HK\$55.0 million) respectively.

As at 31st December 2005, the Group had total assets of approximately HK\$331.8 million, representing a slight increase of HK\$10.3 million over that of 30th June 2005.

The Group's gearing ratio as at 31st December 2005 was approximately 0.1% (30th June 2005: 0.1%), which was calculated on the basis of the Group's long term borrowings of approximately HK\$147,000 (of which HK\$83,000 and HK\$64,000 are repayable within one year and in the second year respectively) and on total capital and reserves attributable to equity holders of the Company of approximately HK\$292.6 million.

There was no finance costs incurred during the period under review as a result of repayment of all bank loans in last financial year.

In light of the fact that most of the Group's transactions were denominated in Hong Kong dollars and United States 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 2005, certain assets of the Group with aggregate carrying value of HK\$73.7 million (30th June 2005: HK\$73.9 million) were pledged to secure banking facilities utilized by subsidiaries.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December 2005, the Group had 65 employees (30th June 2005: 63). Remuneration is reviewed annually and certain employees are entitled to commission. In addition to basic salaries, staff benefits include discretionary bonus, medical insurance scheme and mandatory provident fund.

SHARE OPTION SCHEME

Pursuant to a resolution passed in the annual general meeting held on 26th November 2003, the Company adopted a share option scheme (the "Share Option Scheme") in compliance with 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 under the Share Option Scheme for the period from 26th November 2003 to 31st December 2005.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31st December 2005, the interests which are all long positions of each of the Directors and the 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 (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	Approximate percentage of Shareholding
Mr. Lam Shiu Ming, Daneil	Founder of a discretionary trust (<i>Note</i>)	872,406,705	53.70%

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

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.

Save as disclosed above, as at 31st December 2005, none of the Directors or the chief executive 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)*

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 corporation.

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 position in the shares or underlying shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2005, 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	Approximate percentage of shareholding
Globalcrest Enterprises Limited <i>(Note)</i>	872,406,705	53.70%
Central Core Resources Limited <i>(Note)</i>	872,406,705	53.70%
Pan Asia Special Opportunities Fund	83,464,285	5.14%

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

Note: 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.

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 financial reporting matters including a review of the unaudited condensed accounts for the six months ended 31st December 2005 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 2005, the Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules 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 standards set out in the Model Code throughout the period.



COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules throughout the period.

By Order of the Board

Lam Shiu Ming, Daneil

Chairman and Executive Director

Hong Kong, 20th March 2006

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