

universe

寰宇

UNIVERSE INTERNATIONAL HOLDINGS LIMITED

寰宇國際控股有限公司

Incorporated in Bermuda with limited liability

於百慕達註冊成立之有限公司

Stock Code 股份代號: 1046

universe

Interim Report

2006-2007

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

Authorized Representatives

Lam Shiu Ming, Daneil
Chan Hau Chuen

Principal Bankers

The Hongkong and Shanghai Banking
Corporation Limited
Wing Hang Bank, Limited
Chong Hing Bank Limited

Auditors

PricewaterhouseCoopers
Certified Public Accountants

Legal Advisers

So Keung Yip & Sin
802-805, 8th Floor
Wheelock House
No. 20 Pedder Street
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

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
Wyler Centre Phase II
192-200 Tai Lin Pai Road
Kwai Chung
New Territories
Hong Kong

Websites

www.uih.com.hk
www.u333.com



The board of directors (the "Director(s)") (the "Board") of Universe International Holdings Limited (the "Company") announces the unaudited condensed consolidated balance sheet as at 31st December 2006 and the unaudited condensed consolidated income statement, the unaudited condensed consolidated statement of changes in equity and the unaudited condensed consolidated cash flow statement of the Company and its subsidiaries (the "Group") for the six months ended 31st December 2006, as follows:

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Note</i>	Unaudited As at 31st December 2006 HK\$'000	Audited As at 30th June 2006 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	16,749	16,016
Investment properties	5	24,495	51,845
Leasehold land	5	8,903	9,031
Film rights and films in progress	5	91,775	95,735
Deferred income tax assets		2,989	5,447
Long-term bank deposit		7,800	7,800
		152,711	185,874
Current assets			
Film deposits		4,576	9,330
Inventories		10,830	12,004
Accounts receivable	8	23,542	16,309
Deposits paid and prepayments		13,588	9,660
Pledged bank deposits		4,000	2,000
Cash and cash equivalents		155,481	108,623
Non-current assets held for sale	6	—	31,650
		212,017	189,576
Total assets		364,728	375,450

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

	<i>Note</i>	Unaudited As at 31st December 2006 HK\$'000	Audited As at 30th June 2006 HK\$'000
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	9	32,492	32,492
Other reserves		129,705	129,705
Retained earnings			
— Proposed final dividend		—	14,621
— Others		159,355	139,881
Total equity		321,552	316,699
LIABILITIES			
Non-current liabilities			
Other long-term liabilities	10	65	99
Deferred income tax liabilities		3,542	8,892
		3,607	8,991
Current liabilities			
Accounts payable	12	6,412	9,684
Other payables and accrued charges		9,356	7,258
Deposits received		23,710	32,629
Amount due to ultimate holding company		—	86
Obligations under finance leases	10	83	95
Taxation payable		8	8
		39,569	49,760
Total liabilities		43,176	58,751
Total equity and liabilities		364,728	375,450
Net current assets		172,448	139,816
Total assets less current liabilities		325,159	325,690

The notes on pages 7 to 24 are an integral part of the unaudited condensed consolidated interim financial statements.



UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the
six months ended
31st December

	Note	2006 HK\$'000	2005 HK\$'000
Turnover	4	91,111	48,773
Cost of turnover	13	(66,635)	(35,362)
Other gains — net		3,438	2,215
Selling expenses	13	(1,190)	(556)
Administrative expenses	13	(15,287)	(10,932)
Other operating expenses	13	(284)	(133)
Profit on disposal of investment properties		5,429	—
Profit before income tax		16,582	4,005
Income tax credit / (expense)	14	2,633	(351)
Profit for the period		19,215	3,654
Attributable to equity holders of the Company		19,215	3,654
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in HK cents)			
— basic	15	1.18	0.23
— diluted	15	N/A	N/A

The notes on pages 7 to 24 are an integral part of the unaudited condensed consolidated interim financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Note	Attributable to equity holders of the Company				Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Other reserves HK\$'000	Retained earnings HK\$'000	
Balance at 1st July 2006	32,492	127,211	2,494	154,502	316,699
Revaluation reserve adjustment upon disposal of an investment property	—	—	(1,220)	1,220	—
Deferred income tax adjustment upon disposal of an investment property	—	—	—	259	259
Profit for the period	—	—	—	19,215	19,215
Total recognized income for the period	—	—	(1,220)	20,694	19,474
Dividends related to 2005/2006 paid in December 2006	—	—	—	(14,621)	(14,621)
Balance at 31st December 2006	32,492	127,211	1,274	160,575	321,552

	Attributable to equity holders of the Company				Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Other reserves HK\$'000	Retained earnings HK\$'000	
Balance at 1st July 2005	32,492	127,211	2,041	127,197	288,941
Fair value adjustments upon transfer from leasehold land and buildings to investment properties	—	—	47	—	47
Deferred income tax effect on fair value adjustment upon transfer from leasehold land and buildings to investment properties	—	—	(8)	—	(8)
Net income recognized directly in equity Profit for the period	—	—	39	—	39
	—	—	—	3,654	3,654
Total recognized income for the period	—	—	39	3,654	3,693
Balance at 31st December 2005	32,492	127,211	2,080	130,851	292,634

The notes on pages 7 to 24 are an integral part of the unaudited condensed consolidated interim financial statements.



UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

		For the six months ended 31st December	
		2006	2005
		HK\$'000	HK\$'000
Note(s)			
	Net cash generated from operating activities	41,089	51,912
	Cash flow from investing activities:		
	Purchases of property, plant and equipment	(1,614)	(906)
5	Proceeds on disposal of property, plant and equipment	—	2
	Proceeds on disposal of investment property and non-current assets held for sale	64,429	—
5,6	Purchase of film rights and investment in films in progress	(42,379)	(12,860)
	Net cash used in investing activities	20,436	(13,764)
	Cash flow from financing activities:		
	Dividends paid	(14,621)	—
16	Capital element of finance lease payments	(46)	(32)
	Net cash used in financing activities	(14,667)	(32)
	Net increase in cash and cash equivalents	46,858	38,116
	Cash and cash equivalents at 30th June	108,623	82,087
	Cash and cash equivalents at 31st December	155,481	120,203

The notes on pages 7 to 24 are an integral part of the unaudited condensed consolidated interim financial statements.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Universe International Holdings Limited (the “Company”) and its subsidiaries (together the “Group”) are principally engaged in the business of production of films and television series, distribution of films in various videogram formats, licensing and sub-licensing of film rights, film exhibition and leasing of investment properties.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The Company is listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The unaudited condensed consolidated interim financial statements are presented in thousands of units of Hong Kong dollars (HK\$’000), unless otherwise stated. The unaudited condensed consolidated interim financial statements have been approved for issue by the Board of Directors on 19th March 2007.

2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 30th June 2006.

The preparation of the unaudited condensed consolidated interim financial statements 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.

3. ACCOUNTING POLICIES

The accounting policies and methods of computation used in preparing these unaudited condensed consolidated interim financial statements are consistent with those followed in preparing the Group’s annual financial statements for the year ended 30th June 2006, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards (“HKFRS”), HKASs and Interpretations (“Int”) (hereinafter collectively referred to as “new HKFRSs”) which are relevant to the Group’s operation and are effective for the accounting periods beginning on or after 1st January 2006:



3. ACCOUNTING POLICIES *(Continued)*

- Amendment to HKAS 19 Employee Benefits
 - Actuarial Gains and Losses, Group Plans and Disclosures
- Amendment to HKAS 21 The Effects of Changes in Foreign Exchange Rates
 - Net Investment in a Foreign Operation
- Amendment to HKAS 39 Financial Instruments: Recognition and Measurement
 - Cash Flow Hedge Accounting of Forecast Intragroup Transactions
 - The Fair Value Option
- Amendments to HKAS 39 Financial Instruments: Recognition and Measurement & HKFRS 4 Insurance Contracts
 - Financial Guarantee Contracts
- HKFRS-Int 4 Determining whether an Arrangement contains a Lease

The adoption of these new HKFRSs has no material effect on the Group's results and financial position for the current or prior accounting periods reflected in these unaudited condensed consolidated interim financial statements.

4. 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 organized 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 is solely operated in Hong Kong and Macau, while the Group operates its licensing and sub-licensing of film rights, film exhibition and leasing of investment properties in five main geographical segments.

There are no sales between geographical segments.

4. SEGMENT INFORMATION (Continued)

Primary reporting format — business segments

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 For the six months ended 31st December 2006					
	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	Group HK\$'000
Turnover						
External sales	20,935	67,536	1,865	775	—	91,111
Inter-segment sales	—	5,503	—	236	(5,739)	—
	<u>20,935</u>	<u>73,039</u>	<u>1,865</u>	<u>1,011</u>	<u>(5,739)</u>	<u>91,111</u>
Results						
Segment results before impairment losses	761	5,981	1,149	196	—	8,087
Impairment losses of film rights and film deposits	(25)	(87)	—	—	—	(112)
Segment results	<u>736</u>	<u>5,894</u>	<u>1,149</u>	<u>196</u>	<u>—</u>	<u>7,975</u>
Interest income						3,178
Profit on disposal of investment properties	—	—	5,429	—	—	5,429
Profit before income tax						16,582
Income tax credit						2,633
Profit attributable to equity holders of the Company						<u>19,215</u>
Other information						
Capital expenditures	3,515	4,888	—	—	—	8,403
Unallocated capital expenditures						35,590
Total capital expenditures						<u>43,993</u>
Depreciation and amortization of leasehold land	470	24	44	2	—	540
Unallocated depreciation and amortization of leasehold land						358
Total depreciation and amortization of leasehold land						<u>898</u>
Amortization charge	8,497	37,840	—	—	—	<u>46,337</u>



4. SEGMENT INFORMATION (Continued)

Primary reporting format — business segments (Continued)

	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>
Results						
Segment results	32	217	1,801	171	—	2,221
Interest income						<u>1,784</u>
Profit before income tax						4,005
Income tax expense						<u>(351)</u>
Profit attributable to equity holders of the Company						<u><u>3,654</u></u>
Other information						
Capital expenditures	5,082	133	70	—	—	5,285
Unallocated capital expenditures						<u>8,481</u>
Total capital expenditures						<u><u>13,766</u></u>
Depreciation and amortization of leasehold land	665	19	31	2	—	717
Unallocated depreciation and amortization of leasehold land						<u>272</u>
Total depreciation and amortization of leasehold land						<u><u>989</u></u>
Amortization charge	7,928	15,229	—	—	—	<u><u>23,157</u></u>

4. SEGMENT INFORMATION (Continued)

Primary reporting format — business segments (Continued)

	Unaudited As at 31st December 2006					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	30,269	48,248	24,866	4,938	—	108,321
Unallocated assets						256,407
Total assets						364,728
Segment liabilities	5,502	20,310	491	5,216	—	31,519
Unallocated liabilities						11,657
Total liabilities						43,176

	Audited As at 30th June 2006					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	35,864	27,302	83,744	4,362	—	151,272
Unallocated assets						224,178
Total assets						375,450
Segment liabilities	6,617	27,467	4,701	4,244	—	43,029
Unallocated liabilities						15,722
Total liabilities						58,751

4. SEGMENT INFORMATION (Continued)

Secondary reporting format — geographical segments

An analysis of the Group's turnover and capital expenditures for the period by geographical segments are as follows:

	Unaudited For the six months ended 31st December 2006	
	Turnover HK\$'000	Capital expenditures HK\$'000
Hong Kong and Macau	47,531	43,993
Asia (other than Hong Kong and Macau)	38,139	—
South and North America	1,638	—
Australia and New Zealand	98	—
Europe	3,705	—
	91,111	43,993

	Unaudited For the six months ended 31st December 2005	
	Turnover HK\$'000	Capital expenditures HK\$'000
Hong Kong and Macau	31,199	13,766
Asia (other than Hong Kong and Macau)	13,766	—
South and North America	15	—
Australia and New Zealand	175	—
Europe	3,618	—
	48,773	13,766

4. SEGMENT INFORMATION *(Continued)*

Secondary reporting format — geographical segments *(Continued)*

	Unaudited As at 31st December 2006 HK\$'000	Audited As at 30th June 2006 HK\$'000
Assets		
Hong Kong and Macau	340,339	360,620
Asia (other than Hong Kong and Macau)	24,000	14,524
South and North America	—	4
Europe	389	160
Others	—	142
	364,728	375,450

5. CAPITAL EXPENDITURES

	Unaudited			
	Property, plant & 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 2006	16,016	51,845	9,031	95,735
Additions	1,614	—	—	42,379
Disposals	(111)	(27,350)	—	—
Amortization charge/ depreciation <i>(Note 13)</i>	(770)	—	(128)	(46,337)
Write-off <i>(Note 13)</i>	—	—	—	(2)
Closing net book amount at 31st December 2006	16,749	24,495	8,903	91,775



5. CAPITAL EXPENDITURES (Continued)

	Unaudited			
	Property, plant & 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)	—
Amortization charge/ depreciation (Note 13)	(856)	—	(133)	(23,157)
Write-off (Note 13)	—	—	—	(91)
Closing net book amount				
at 31st December 2005	15,432	47,500	9,064	66,968

6. NON-CURRENT ASSETS HELD FOR SALE

On 22nd March 2006, Universe Property Investment Limited ("UPI"), an indirect wholly owned subsidiary of the Company entered into a provisional agreement with an independent third party whereby UPI would sell the following investment property. The formal agreement was signed on 4th April 2006 and the transaction was completed on 1st August 2006. In accordance with HKFRS 5, the investment property has been presented as non-current assets held for sale in the consolidated balance sheet of the Group as at 30th June 2006.

Property	Consideration	Completion date
20th Floor and car parking no. P59 on 2nd Floor, Wyler Centre, Phase II, 192 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong	HK\$33,303,400	1st August 2006

For the six months ended 31st December 2006, a profit on disposal of these assets of HK\$1,653,000 has been credited to the unaudited condensed consolidated income statement.

7. INTEREST IN JOINT VENTURE

The Group has entered into four jointly controlled asset arrangements to produce television series and a film (30th June 2006: four). The Group has participating interest ranging from 60% to 80% in these joint ventures. At 31st December 2006, the aggregate amounts of assets and liabilities recognized in the unaudited condensed consolidated interim financial statements relating to the Group's interest in these jointly controlled asset arrangements are as follows:

	Unaudited As at 31st December 2006 HK\$'000	Audited As at 30th June 2006 HK\$'000
Assets		
Television series production in progress	12,178	28,083
Film in progress	3,425	14,426
Accounts receivable	11,569	4,765
Prepayment	19	512
Cash and cash equivalents	—	39
	27,191	47,825
Liabilities		
Accounts payable	4,435	1,818
Accruals	393	393
Deposits received	2,575	10,789
	7,403	13,000



8. ACCOUNTS RECEIVABLE

	Unaudited As at 31st December 2006 HK\$'000	Audited As at 30th June 2006 HK\$'000
Accounts receivable	23,937	16,704
Less: Provision for impairment of accounts receivable	(395)	(395)
Accounts receivable — net	23,542	16,309

As at 31st December 2006, the ageing analysis of the accounts receivable was as follows:

	Unaudited As at 31st December 2006 HK\$'000	Audited As at 30th June 2006 HK\$'000
Current to 90 days	12,577	10,014
91 days to 180 days	6,555	1,028
Over 180 days	4,410	5,267
	23,542	16,309

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

There is no concentration of credit risk with respect to accounts receivable, as the Group has a large number of customers, internationally dispersed.

9. SHARE CAPITAL

	Number of ordinary shares	Ordinary shares HK\$'000
At 1st July 2006 and 31st December 2006	1,624,605,370	32,492

The total authorized number of ordinary shares is 5,000 million shares (30th June 2006: 5,000 million shares) with a par value of HK\$0.02 per share (30th June 2006: HK\$0.02 per share). All shares issued are fully paid.

Share options

Pursuant to a resolution passed in the annual general meeting held on 26th November 2003, the Company conditionally approved and adopted a share option scheme (the "Share Option Scheme") in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

There were no share options granted under the Share Option Scheme for the period from 26th November 2003 to 31st December 2006.

10. OTHER LONG-TERM LIABILITIES

	Unaudited As at 31st December 2006 HK\$'000	Audited As at 30th June 2006 HK\$'000
Obligations under finance leases	148	194
Current portion of long-term liabilities	(83)	(95)
	65	99

10. OTHER LONG-TERM LIABILITIES (Continued)

As at 31st December 2006, the Group's obligations under finance leases were repayable as follows:

	Unaudited As at 31st December 2006 HK\$'000	Audited As at 30th June 2006 HK\$'000
Within one year	83	95
In the second year	18	44
In the third to fifth year	47	55
	148	194
Future finance charges on obligations under finance leases	—	—
Present value of obligations under finance leases	148	194
The present value of obligations under finance leases is as follows:		
Within one year	83	95
In the second year	18	44
In the third to fifth year	47	55
	65	99
	148	194

11. EMPLOYEE BENEFIT EXPENSES

On 1st December 2000, a Mandatory Provident Fund scheme ("the MPF scheme") has been set up for employees, including executive directors. Under the MPF scheme, the Group's contributions are at 5% of employees' relevant income as defined in the Hong Kong Mandatory Provident Fund Schemes Ordinance up to a maximum of HK\$1,000 per employee per month. The employees also contribute a corresponding amount to the MPF scheme if their relevant income is more than HK\$4,000 per month before 1st February 2003 and HK\$5,000 after 1st February 2003. The MPF contributions are fully and immediately vested in the employees as accrued benefits once they are paid.

	Unaudited	
	For the six months ended	
	31st December	
	2006	2005
	HK\$'000	HK\$'000
Wages and salaries	10,805	6,466
Unutilized annual leave	24	114
Staff welfare	954	1,166
Pension costs — defined contribution plan	221	212
Total including directors' emoluments	12,004	7,958

12. ACCOUNTS PAYABLE

As at 31st December 2006, the ageing analysis of the accounts payable was as follows:

	Unaudited	Audited
	As at	As at
	31st December	30th June
	2006	2006
	HK\$'000	HK\$'000
Current to 90 days	2,741	4,335
91 days to 180 days	536	296
Over 180 days	3,135	5,053
	6,412	9,684



13. EXPENSES BY NATURE

Expenses included in cost of turnover, administrative expenses, selling expenses and other operating expenses, are analyzed as follow:

	Unaudited	
	For the six months ended	
	31st December	
	2006	2005
	HK\$'000	HK\$'000
Depreciation on owned assets (Note 5)	758	897
Depreciation on leased assets (Note 5)	140	38
Cost of inventories sold	7,611	10,029
Loss on disposal of property, plant and equipment	111	—
Write-off of expired film rights (Note 5)	2	91
Impairment losses of film deposits	112	—
Amortization of film rights (Note 5)	46,337	23,157
Employee benefit expenses (Note 11)	12,004	7,958

14. INCOME TAX (CREDIT)/EXPENSE

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the period (2005: 17.5%).

The amount of income tax (credit)/expense (credited)/charged to the unaudited condensed consolidated income statement represents:

	Unaudited	
	For the six months ended	
	31st December	
	2006	2005
	HK\$'000	HK\$'000
Hong Kong profits tax	—	—
Deferred income tax relating to the origination and reversal of temporary differences	(2,633)	351
	(2,633)	351

15. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the period attributable to equity holders of the Company of HK\$19,215,000 (2005: HK\$3,654,000) and the weighted average of 1,624,605,370 (2005:1,624,605,370) ordinary shares in issue during the period.

The diluted earnings per share for the six months ended 31st December 2005 and 2006 are not presented as there were no dilutive potential ordinary shares outstanding during the periods.

16. DIVIDENDS

A final dividend in respect of 2005/2006 of 0.9 HK cent (2004/2005 final: Nil) per ordinary share, totalling HK\$14,621,448 was paid in December 2006.

17. 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"), an indirect wholly-owned subsidiary of the Company.

By the above action, Star alleged 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.



17. CONTINGENT LIABILITIES (Continued)

Pending litigations (Continued)

On 9th September 2002, Universe Laser & Video Co. Limited ("ULV"), an indirect 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 is of the opinion that the outcome of the claim against UEL will have no material financial impact on the Group.

Save as disclosed above, as at 31st December 2006, no litigation or claim of material importance is known to the Directors to be pending against either the Company or any of its subsidiaries.

18. COMMITMENTS

(a) Operating leases

As at 31st December 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Unaudited	Audited
	As at	As at
	31st December	30th June
	2006	2006
	HK\$'000	HK\$'000
Land and buildings		
Not later than one year	2,400	—
Later than one year and not later than five years	4,800	—
	7,200	—

18. COMMITMENTS (Continued)

(b) Others

As at 31st December 2006, the Group had commitments contracted but not provided for in the unaudited condensed consolidated interim financial statements as follows:

	Unaudited As at 31st December 2006 HK\$'000	Audited As at 30th June 2006 HK\$'000
Purchase of film rights and production of films	34,749	39,016

Note: As at 31st December 2006, the Group had no any commitment in respect of jointly controlled assets (30th June 2006: Nil).

19. RELATED PARTY TRANSACTIONS

- (a) During the six months ended 31st December 2006, ULV had paid rental on motor vehicles and apartment leased for directors of HK\$125,000 (2005: HK\$150,000) and HK\$480,000 (2005: HK\$360,000) to Mightlong Investments Limited ("MIL") and Mass Express Development Limited ("MEDL"), respectively. The entire issued share capital of MIL (a company incorporated under the Hong Kong Companies Ordinance with limited liabilities) and MEDL (a company incorporated under the Hong Kong Companies Ordinance with limited liabilities) is owned by Globalcrest Enterprises Limited ("Globalcrest") and Ms Chiu Suet Ying respectively.

The entire issued share capital of Globalcrest is held by Central Core Resources Limited ("Central Core"), the trustee of a discretionary trust under which certain immediate family members of Mr Lam Shiu Ming, Daneil and Ms Chiu Suet Ying (who are both Directors) are discretionary objects. Globalcrest, a substantial shareholder of the Company and a connected person of the Company within the meaning of the Listing Rules, owns approximately 53.70% of the entire issued shares of the Company. Mr Lam Shiu Ming, Daneil is also a founder of the said discretionary trust.

19. RELATED PARTY TRANSACTIONS (Continued)

- (b) On 19th December 2006, ULV entered into a tenancy agreement with Rainbow Nice Limited ("RNL") whereby ULV agreed to lease a premises situated at 8 Devon Road, Kowloon Tong, Hong Kong (the "Premises") from RNL for a term of 3 years commencing from 1st January 2007 for the use of Mr Lam Shiu Ming, Daneil and Ms Chiu Suet Ying for residential purpose. The monthly rental payable by ULV will be HK\$200,000 which is inclusive of furniture, fixtures and home electronic appliances but excluding government rent, rates, taxes, and all other outgoings. The transaction was announced by the Company in compliance with the requirements of Chapter 14A of the Listing Rules.

The entire issued share capital of RNL, the landlord of the Premises, is beneficially owned by Ms Chiu Suet Ying. By virtue of the interest of Ms Chiu Suet Ying in RNL, the entering into of the tenancy agreement constituted a continuing connected transaction for the Company under Rule 14A.14 of the Listing Rules.

- (c) Details of key management compensation

	Unaudited	
	For the six months ended	
	31st December	
	2006	2005
	HKD'000	HKD'000
Salaries and other short-term employee benefits	5,337	2,498
Employer's contribution to retirement scheme	30	30
	5,367	2,528

Save as disclosed above and elsewhere in the unaudited condensed consolidated interim financial statements, 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 does not recommend the payment of interim dividend in respect of the six months ended 31st December 2006 (2005: Nil).

REVIEW OF OPERATIONS

Overall Group results

The Group's unaudited consolidated turnover for the six months ended 31st December 2006 was approximately HK\$91.1 million, representing an increase of HK\$42.3 million over the same period last year. Gross profit margin maintained at 26.9%, similar to the level of the same period last year (2005: 27.5%). Profit attributable to equity holders of the Company was HK\$19.2 million (2005: HK\$3.7 million), translating into earnings per share of HK1.18 cents. This represented an increase of 413.0% compared to HK 0.23 cents in the corresponding period last year.

The Group's liquidity position was strong with cash as at 31st December 2006 amounting to HK\$167.3 million.

Video distribution

During the period under review, turnover from video distribution business was HK\$20.9 million, representing an increase of 9.6% over the same period last year. Overall, this business segment accounted for 23.0% (2005: 39.2%) of the Group's total turnover.

As this business segment remained battered by keen market competition and illegal distribution of copyrighted films on the internet through peer-to-peer file sharing activities, the Group has continued to adopt a prudent approach in film acquisitions as well as conducting cost restructuring measures. The Group recorded satisfactory growth during the period under review despite difficult operating conditions where turnover and segment results improved marginally from HK\$19.1 million and HK\$32,000 to HK\$20.9 million and HK\$736,000 respectively.



REVIEW OF OPERATIONS *(Continued)*

Film exhibition, film licensing and sub-licensing

Turnover from this business segment during the six months ended 31st December 2006 was HK\$67.5 million, representing an increase of 150.9% over the same period last year. It accounted for 74.1% (2005: 55.2%) of the Group's total turnover during the period.

Turnover from film exhibition rose to HK\$10.8 million from HK\$1.7 million last year. Such significant increase in turnover was attributable to more films being released during the period under review. Despite higher turnover, operating losses rose to HK\$971,000 compared with HK\$93,000 in the previous period due mainly to an increase in cost of promotions incidental to the film releases.

Turnover from licensing and sub-licensing of film rights was HK\$56.7 million, representing an increase of HK\$31.5 million over the same period last year. With implementation of a multi-faceted content production strategy, it would be beneficial to maintain the Group's growth momentum in this business segment carried forward from the first half of the financial year 2006/2007.

Such rapid growth in turnover was mainly attributable to strong demand from the People Republic of China (the "PRC") for media contents. The Group's initiatives of investing in television series, and leveraging on its distribution network established since the release of the popular television series, "Kung Fu Soccer" in the financial year 2003/2004, helped spurred the Group's income from the PRC market.

In line with the above, overseas markets became major sources of the Group's turnover during the period under review, accounting for 47.8% of the Group's total turnover (2005: 36.0%). Given the continued difficult operating environment in the Hong Kong market, the management believes that it is beneficial to the Group's long term development that it diversifies its sources of income while reducing its reliance on the Hong Kong market.

Leasing of investment properties

On 1st August 2006, UPI completed a disposal transaction of an investment property at a consideration of HK\$33.3 million and recorded a profit of HK\$2.0 million. On 18th December 2006, UPI completed another disposal transaction of an investment property at a consideration of HK\$31.1 million and recorded a profit of HK\$3.4 million.

Leasing of investment properties *(Continued)*

Following the disposal of the aforesaid investment properties during the period under review, turnover from this business segment decreased by 15.5% to HK\$1.9 million.

OUTLOOK

The management expects competition at the local video distribution business will continue to be keen. However, we believe there remain opportunities as long as we adopt a pragmatic and prudent approach towards our business development.

Meanwhile, the management is encouraged by the development of the PRC market and has identified it as the key market for the Group's future development. The Group will continue to focus its resources on the production of high quality television series in response to the increasing demand for the television series in the PRC.

Given the above, the Group is cautiously optimistic with its future development and prospects.

FINANCIAL RESOURCES / LIQUIDITY AND CAPITAL STRUCTURE

As at 31st December 2006, the Group had cash balances of HK\$167.3 million (30th June 2006: \$118.4 million) and unutilized banking facilities amounted to HK\$40 million (30th June 2006 HK\$50 million) respectively. Such significant increase was mainly due to disposal of the two investment properties at the total consideration of HK\$64.4 million.

As at 31st December 2006 the Group had total assets of approximately HK\$364.7 million, representing a slight decrease of HK\$10.7 million over that of 30th June 2006.

The Group's gearing ratio as at 31st December 2006 was approximately 0.1% (30th June 2006: 0.1%), which was calculated on the basis of the Group's long term borrowings of approximately HK\$148,000 (of which HK\$83,000, HK\$18,000 and HK\$47,000 are repayable within one year, in the second year and in the third to fifth year respectively) and on the total equity of the Company of approximately HK\$321.6 million.



FINANCIAL RESOURCES / LIQUIDITY AND CAPITAL STRUCTURE

(Continued)

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 2006, certain assets of the Group with an aggregate carrying value of HK\$44.5 million (30th June 2006: HK\$107.5 million) were pledged to secure banking facilities granted to subsidiaries.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December 2006, the Group had 62 employees (30th June 2006: 69). 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.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December 2006, the interests of the Directors and chief executives of the Company in the shares, underlying shares and debentures 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")) as recorded in the register maintained 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 as set out in Appendix 10 to the Listing Rules (the "Model Code") were as follows:

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

Name of Director	Capacity	Number of shares of the Company held	Percentage of Shareholding
Mr Lam Shiu Ming, Daneil	Founder of a discretionary trust	872,406,705 <i>(Note)</i>	53.70%

The interest stated above represents long positions.

Note: These 872,406,705 shares are beneficially owned by Globalcrest. The entire issued share capital of Globalcrest is held by Central Core, 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.

Other than disclosed above, as at 31st December 2006, none of the Directors or the chief executive of the Company or their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register maintained 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. Neither the Directors nor the chief executive of the Company (including their spouses and children under 18 years of age) had, as at 31st December 2006, any interest in, or had been granted, or exercised, any rights to subscribe for shares, underlying shares or debentures 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 to hold any interests or short position or underlying shares in, or debentures of, the Company or any other body corporate.



SHARE OPTION SCHEME

Pursuant to a resolution passed in the annual general meeting held on 26th November 2003, the Company adopted 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 2006.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above under the section headed "DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURE" at 31st December 2006, the following substantial shareholder was recorded in the register required to be kept by the Company under section 336 of the SFO as holding 5% or more of the issued share capital of the Company:

Name of shareholder	Capacity	Number of shares of the Company held	Percentage of shareholding
Central Core	Trustee	872,406,705	53.70%
Globalcrest	Beneficial owner	872,406,705	53.70%
Pan Asia Special Opportunities Fund	Beneficial owner	83,464,285	5.14%

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

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.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has, throughout the six months ended 31st December 2006, complied with the code provisions ("Code Provision") of the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules except for the Code Provision A.2.1 for the separation of the roles of chairman and chief executive officer ("CEO") as described in the following.

Code Provision A.2.1 sets out that the roles of chairman and CEO should be separate and should not be performed by the same individual. The Company does not at present have any officer holding the position of CEO. Mr Lam Shiu Ming, Daneil is the founder and Chairman of the Company and has also carried out the responsibilities of CEO. Mr Lam possesses the essential leadership skills to manage the Board and extensive knowledge in the business of the Group. The Board considers the present structure to be more suitable to the Company because it can promote the efficient formulation and implementation of the Company's strategies.

INTERNAL CONTROL

The Company is committed to establishment of a good standard of internal control. In compliance with Code Provision C.2 and to further improve the effectiveness of its internal control, the Company engaged an independent accounting firm to conduct a review of the effectiveness of the system of internal control of the Group on 5th December 2006. All findings that require management's attention are under consideration to ensure that they could be properly addressed.

AUDIT COMMITTEE

The Audit Committee was established in 1999. Its current members include three Independent Non-executive Directors, namely Mr Ng Kwok Tung (Chairman), Mr Chiu Shin Koi and Mr Ma Ting Hung.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including a review of the unaudited condensed consolidated interim financial statements for the six months ended 31st December 2006 with the management.



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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 31st December 2006, the Company has adopted the Model Code as the code for dealing in securities of the Company by the Directors. Having made specific enquiry, all the Directors of the Company confirmed that they had complied with the required standard set out in the Model Code throughout the period.

By the Order of the Board

Lam Shiu Ming, Daneil

Chairman

Hong Kong, 19th March 2007



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