



UNIVERSE

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

INTERIM REPORT 2008/09 中期報告

CORPORATE INFORMATION

Executive Directors

Mr Lam Shiu Ming, Daneil (*Chairman*)

Ms Chiu Suet Ying

Mr Yeung Kim Piu

Independent Non-executive Directors

Mr Ng Kwok Tung

Dr Leung Shiu Ki, Albert

Mr Ma Chun Fung, Horace

Company Secretary

Mr Chan Hau Chuen

Authorized Representatives

Mr Lam Shiu Ming, Daneil

Mr Chan Hau Chuen

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited

Wing Hang Bank, Limited

Chong Hing Bank Limited

Auditor

PricewaterhouseCoopers

Certified Public Accountants

Legal Advisers

So Keung Yip & Sin

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Wheelock House

20 Pedder Street

Central

Hong Kong

Share Registrar

Tricor Abacus Limited

26th Floor, Tesbury Centre

28 Queen's Road East

Hong Kong

Audit Committee

Mr Ng Kwok Tung (*Chairman*)

Dr Leung Shiu Ki, Albert

Mr Ma Chun Fung, Horace

Remuneration Committee

Mr Ma Chun Fung, Horace (*Chairman*)

Mr Ng Kwok Tung

Dr Leung Shiu Ki, Albert

Mr Lam Shiu Ming, Daneil

Ms Chiu Suet Ying

Nomination Committee

Dr Leung Shiu Ki, Albert (*Chairman*)

Mr Ng Kwok Tung

Mr Ma Chun Fung, Horace

Mr Lam Shiu Ming, Daneil

Ms Chiu Suet Ying

Registered Office

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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 2008 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 (collectively, the "Group") for the six months ended 31st December 2008 as follows:

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

	Note	Unaudited As at 31st December 2008 HK\$'000	Audited As at 30th June 2008 HK\$'000
ASSETS			
Non-current assets			
Leasehold land	5	11,946	12,097
Property, plant and equipment	5	17,815	18,528
Investment properties	5	23,170	23,170
Intangible asset	5	1,408	1,408
Film rights and films in progress	5	104,604	98,947
Deferred income tax assets		5,177	5,076
		164,120	159,226
Current assets			
Film deposits		13,234	2,619
Inventories		5,680	5,811
Accounts receivable	7	21,489	30,250
Deposits paid and prepayments		13,673	8,370
Pledged bank deposit		2,000	2,000
Cash and cash equivalents		137,318	145,159
		193,394	194,209
Total assets		357,514	353,435

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

(Continued)

	Note	Unaudited As at 31st December 2008 HK\$'000	Audited As at 30th June 2008 HK\$'000
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	8	32,492	32,492
Share premium		127,211	127,211
Other reserves		1,279	19,833
Retained earnings		144,233	125,768
Total equity		305,215	305,304
LIABILITIES			
Non-current liabilities			
Other long-term liabilities	10	196	183
Deferred income tax liabilities		3,696	3,691
		3,892	3,874
Current liabilities			
Accounts payable	12	5,523	5,914
Other payables and accrued charges		7,218	6,819
Deposits received		35,463	31,323
Amount due to the ultimate holding company		1	1
Obligations under finance leases	10	80	78
Taxation payable		122	122
		48,407	44,257
Total liabilities		52,299	48,131
Total equity and liabilities		357,514	353,435
Net current assets		144,987	149,952
Total assets less current liabilities		309,107	309,178

The notes on pages 7 to 26 are an integral part of these unaudited condensed consolidated interim financial statements.

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 31st December	
	Note(s)	2008 HK\$'000	2007 HK\$'000
Turnover	4	34,009	79,865
Cost of turnover	13	(22,986)	(69,343)
Other gains — net		2,423	3,733
Selling expenses			
— others	13	(564)	(891)
— share-based compensation	9, 11 & 13	—	(1,282)
Administrative expenses			
— others	13	(13,004)	(14,295)
— share-based compensation	9, 11 & 13	—	(17,272)
Other operating expenses	13	(63)	(36)
Loss before income tax		(185)	(19,521)
Income tax credit	14	96	765
Loss attributable to equity holders of the Company		(89)	(18,756)
Loss per share (expressed in HK cent(s))			
— basic	15	0.01	1.15
— diluted	15	N/A	N/A

The notes on pages 7 to 26 are an integral part of these 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	Reserve arising on consolidation HK\$'000	Revaluation reserve HK\$'000	Share-based compensation reserve HK\$'000	Retained earnings HK\$'000	
Balance at 1st July 2008	32,492	127,211	821	458	18,554	125,768	305,304
Share-based compensation reserve transfer upon cancellation of share options	9	—	—	—	(18,554)	18,554	—
Loss for the period	—	—	—	—	—	(89)	(89)
Total recognized income and expense for the period	—	—	—	—	(18,554)	18,465	(89)
Balance at 31st December 2008	32,492	127,211	821	458	—	144,233	305,215

Note	Attributable to equity holders of the Company						Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Reserve arising on consolidation HK\$'000	Revaluation reserve HK\$'000	Share-based compensation reserve HK\$'000	Retained earnings HK\$'000	
Balance at 1st July 2007	32,492	127,211	821	453	—	152,886	313,863
Grant of share options	9	—	—	—	18,554	—	18,554
Loss for the period	—	—	—	—	—	(18,756)	(18,756)
Total recognized income and expense for the period	—	—	—	—	18,554	(18,756)	(202)
Balance at 31st December 2007	32,492	127,211	821	453	18,554	134,130	313,661

The notes on pages 7 to 26 are an integral part of these unaudited condensed interim financial statements.

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

		For the six months ended 31st December	
	Note	2008 HK\$'000	2007 HK\$'000 (Note 19)
Net cash generated from operating activities		10,970	36,955
Cash flow from investing activities			
Purchase of property, plant and equipment	5	(93)	(1,459)
Proceeds from disposal of property, plant and equipment		3	38
Purchase of film rights and investment in films in progress	5	(20,581)	(18,025)
Interest received		1,845	3,018
Net cash used in investing activities		(18,826)	(16,428)
Cash flow from financing activities			
Inception of finance leases		56	249
Capital element of finance lease payments		(41)	(43)
Net cash generated from financing activities		15	206
Net (decrease)/increase in cash and cash equivalents		(7,841)	20,733
Cash and cash equivalents at 30th June		145,159	135,054
Cash and cash equivalents at 31st December		137,318	155,787

The notes on pages 7 to 26 are an integral part of these 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 (collectively, the “Group”) are principally engaged in the business of production of films and television series, distribution of films in various videogram formats, film exhibition, licensing and sub-licensing of film rights 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 2009.

2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements for the six months ended 31st December 2008 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 (“HKICPA”).

The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 30th June 2008.

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 2008.

Certain new standards, amendments and interpretation of Hong Kong Financial Reporting Standards ("HKFRS") issued by HKICPA have been published and are effective for accounting periods beginning on or after 1st July 2008 as follows:-

HKAS 39 (amendment)	Financial Instruments: Recognition and Measurement
HKFRS 7 (amendment)	Financial Instruments: Disclosures
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new standards, amendments and interpretation of HKFRS which are mandatory for the financial year ending 30th June 2009 has no material effects on the Group's results and financial position for the current or prior accounting periods reflected in these unaudited condensed consolidated interim financial statements.

The Group has not early adopted any new standards, amendments and interpretation of the HKFRS which have been issued but not yet effective for the financial year ending 30th June 2009.

4. SEGMENT INFORMATION

Primary reporting format — business segments

The Group is principally engaged in the distribution of films in various videogram formats, film exhibition, licensing and sub-licensing of film rights and leasing of investment properties.

The Group is organized into the following main business segments:

- Distribution of films in various videogram formats
- Film exhibition, licensing and sub-licensing of film rights
- 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 film exhibition, licensing and sub-licensing of film rights and leasing of investment properties in four (2007: 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 loss attributable to equity holders of the Company for the period by business segments was as follows:

	Unaudited					Group HK\$'000
	For the six months ended 31st December 2008					
	Sale of goods HK\$'000	Film exhibition, licensing and sub-licensing of film rights HK\$'000	Leasing of investment properties HK\$'000	Others HK\$'000	Elimination HK\$'000	
Turnover						
External sales	9,161	23,503	544	801	—	34,009
Inter-segment sales	—	4,001	—	22	(4,023)	—
	9,161	27,504	544	823	(4,023)	34,009
Segment results	(563)	(1,857)	391	(1)	—	(2,030)
Interest income						1,845
Loss before income tax						(185)
Income tax credit						96
Loss attributable to equity holders of the Company						(89)
Other information						
Capital expenditures	4,104	278	—	—	—	4,382
Unallocated capital expenditures						16,292
Total capital expenditures						20,674
Depreciation and amortization of leasehold land						
	394	37	56	4	—	491
Unallocated depreciation and amortization of leasehold land						465
Total depreciation and amortization of leasehold land						956
Amortization of film rights	3,896	11,028	—	—	—	14,924

4. SEGMENT INFORMATION (Continued)

Primary reporting format — business segments (Continued)

	Unaudited For the six months ended 31st December 2007					Group HK\$'000
	Sale of goods HK\$'000	Film exhibition, licensing and sub-licensing of film rights HK\$'000	Leasing of investment properties HK\$'000	Others HK\$'000	Elimination HK\$'000	
Turnover						
External sales	14,553	63,365	620	1,327	—	79,865
Inter-segment sales	—	4,113	—	39	(4,152)	—
	14,553	67,478	620	1,366	(4,152)	79,865
Segment results	(10,301)	(13,249)	304	707	—	(22,539)
Interest income						3,018
Loss before income tax						(19,521)
Income tax credit						765
Loss attributable to equity holders of the Company						(18,756)
Other information						
Capital expenditures	1,411	330	469	—	—	2,210
Unallocated capital expenditures						17,274
Total capital expenditures						19,484
Depreciation and amortization of leasehold land	517	30	30	2	—	579
Unallocated depreciation and amortization of leasehold land						413
Total depreciation and amortization of leasehold land						992
Amortization of film rights	5,595	44,108	—	—	—	49,703

4. SEGMENT INFORMATION *(Continued)*

Primary reporting format — business segments *(Continued)*

	Unaudited As at 31st December 2008					Group HK\$'000
	Sale of goods HK\$'000	Film exhibition, licensing and sub-licensing of film rights HK\$'000	Leasing of investment properties HK\$'000	Others HK\$'000	Elimination HK\$'000	
Assets						
Segment assets	21,703	37,472	25,395	8,614	—	93,184
Unallocated assets						264,330
Total assets						357,514
Liabilities						
Segment liabilities	3,867	37,666	90	1,030	—	42,653
Unallocated liabilities						9,646
Total liabilities						52,299

	Audited As at 30th June 2008					Group HK\$'000
	Sale of goods HK\$'000	Film exhibition, licensing and sub-licensing of film rights HK\$'000	Leasing of investment properties HK\$'000	Others HK\$'000	Elimination HK\$'000	
Assets						
Segment assets	24,508	56,161	24,604	5,736	—	111,009
Unallocated assets						242,426
Total assets						353,435
Liabilities						
Segment liabilities	4,180	31,167	543	3,199	—	39,089
Unallocated liabilities						9,042
Total liabilities						48,131

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 was as follows:

	Unaudited For the six months ended 31st December 2008	
	Turnover HK\$'000	Capital expenditures HK\$'000
Hong Kong and Macau	23,595	20,674
Asia (other than Hong Kong and Macau)	8,337	—
South and North America	425	—
Europe	1,652	—
	34,009	20,674

	Unaudited For the six months ended 31st December 2007	
	Turnover HK\$'000	Capital expenditures HK\$'000
Hong Kong and Macau	42,259	19,484
Asia (other than Hong Kong and Macau)	29,950	—
South and North America	2,617	—
Australia and New Zealand	180	—
Europe	4,859	—
	79,865	19,484

4. SEGMENT INFORMATION *(Continued)*

Secondary reporting format — geographical segments *(Continued)*

	Unaudited	Audited
	As at	As at
	31st December	30th June
	2008	2008
	HK\$'000	HK\$'000
Assets		
Hong Kong and Macau	335,730	320,750
Asia (other than Hong Kong and Macau)	20,057	30,441
South and North America	1,688	1,690
Europe	26	503
Others	13	51
	357,514	353,435

5. CAPITAL EXPENDITURES

	Unaudited				Film rights
	Leasehold	Property,	Investment	Intangible	and
	land	plant and	properties	asset	films in
	HK\$'000	equipment	HK\$'000	HK\$'000	progress
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Opening net book amount at 1st July 2008	12,097	18,528	23,170	1,408	98,947
Additions	–	93	–	–	20,581
Disposals	–	(1)	–	–	–
Amortization/depreciation (Note 13)	(151)	(805)	–	–	(14,924)
Closing net book amount at 31st December 2008	11,946	17,815	23,170	1,408	104,604

5. CAPITAL EXPENDITURES *(Continued)*

	Unaudited			Film rights and films in progress HK\$'000
	Leasehold land HK\$'000	Property, plant and equipment HK\$'000	Investment properties HK\$'000	
Opening net book amount at 1st July 2007	8,793	16,438	26,107	112,654
Additions	—	1,459	—	18,025
Disposals	—	(50)	—	—
Transfer from investment properties	3,038	3,039	(6,077)	—
Amortization/depreciation (Note 13)	(143)	(849)	—	(49,703)
Closing net book amount at 31st December 2007	11,688	20,037	20,030	80,976

6. INTERESTS IN JOINTLY CONTROLLED ASSETS

The Group has participating interests ranging from 60% to 80% in three jointly controlled asset arrangements to produce television series (30th June 2008: three). At 31st December 2008, the aggregate amounts of assets, liabilities and loss after income tax recognized in the unaudited condensed consolidated interim financial statements relating to the Group's interests in these jointly controlled asset arrangements were as follows:

	Unaudited As at 31st December 2008 HK\$'000	Audited As at 30th June 2008 HK\$'000
Assets		
Television series rights	2,551	2,551
Liabilities		
Accounts payable	369	369
Deposits received	535	535
	904	904
Income	—	693
Expenses	—	(2,902)
Loss after income tax	—	(2,209)

7. ACCOUNTS RECEIVABLE

	Unaudited As at 31st December 2008 HK\$'000	Audited As at 30th June 2008 HK\$'000
Accounts receivable	26,323	35,084
Less: Provision for impairment of accounts receivable	(4,834)	(4,834)
Accounts receivable — net	21,489	30,250

The carrying amount of accounts receivable approximates to its fair value.

As at 31st December 2008, the ageing analysis of the accounts receivable was as follows:

	Unaudited As at 31st December 2008 HK\$'000	Audited As at 30th June 2008 HK\$'000
Current to 90 days	5,162	27,829
91 days to 180 days	5,827	1,443
Over 180 days	10,500	978
	21,489	30,250

Sales of video products is with credit terms of 7 days to 60 days. Sales 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.

8. SHARE CAPITAL

	Number of ordinary shares	Ordinary shares HK\$'000
At 1st July 2008 and 31st December 2008	1,624,605,370	32,492

The total authorized number of ordinary shares is 5,000 million shares (30th June 2008: 5,000 million shares) with a par value of HK\$0.02 per share (30th June 2008: HK\$0.02 per share). All shares issued are fully paid.

9. 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").

On 21st August 2007, the Company granted 143,460,537 share options to the certain employees of the Group at the subscription price of HK\$0.264 per share option which were vested immediately and exercisable for a two-year period between 21st August 2007 and 20th August 2009 (both days inclusive). Each share option gives the holder the right to subscribe for one ordinary share of the Company.

The fair value of the share options granted during the period at the measurement date at 21st August 2007 of HK\$18,553,608 was determined under the Black-Scholes Option Pricing Model and based on the following assumptions:-

Risk-free interest rate	4.012%
Expected life of the share options	2 years
Expected volatility	102.83%

The Black-Scholes Option Pricing Model requires input of highly subjective assumptions, including the risk-free interest rate and the expected stock price volatility. Because changes in the subjective input assumptions can materially affect the fair value estimate, the Black-Scholes Option Pricing Model does not necessarily provide a reliable measure of the fair value of the share options.

9. SHARE OPTIONS *(Continued)*

On 16th July 2008, all outstanding share options were surrendered by the relevant holders and then cancelled. The corresponding share-based compensation was not reversed to the consolidated income statement, and the share-based compensation reserve was directly transferred to the retained earnings of the Group. None of the share options has been exercised or cancelled prior to 16th July 2008.

10. OTHER LONG-TERM LIABILITIES

	Unaudited As at 31st December 2008 HK\$'000	Audited As at 30th June 2008 HK\$'000
Obligations under finance leases	276	261
Current portion of long-term liabilities	(80)	(78)
	196	183

10. OTHER LONG-TERM LIABILITIES *(Continued)*

As at 31st December 2008, the Group's obligations under finance leases were repayable as follows:

	Unaudited As at 31st December 2008 HK\$'000	Audited As at 30th June 2008 HK\$'000
Within one year	80	78
In the second year	80	69
In the third to fifth year	116	114
	276	261
Future finance charges on obligations under finance leases	—	—
Present value of obligations under finance leases	276	261
The present value of obligations under finance leases was as follows:		
Within one year	80	78
In the second year	80	69
In the third to fifth year	116	114
	196	183
	276	261

11. EMPLOYEE BENEFITS EXPENSES

On 1st December 2000, a Mandatory Provident Fund scheme (the “MPF scheme”) was 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	
	2008	2007
	HK\$'000	HK\$'000
Wages and salaries	7,508	9,272
Provision for unutilized annual leave	21	81
Provision for long service payment	66	42
Staff welfare	1,420	1,650
Pension costs — defined contribution plan	190	218
Share-based compensation		
— selling expenses (Note 9)	—	1,282
— administrative expenses (Note 9)	—	17,272
Total including directors’ emoluments	9,205	29,817

12. ACCOUNTS PAYABLE

As at 31st December 2008, the ageing analysis of the accounts payable was as follows:

	Unaudited As at 31st December 2008 HK\$'000	Audited As at 30th June 2008 HK\$'000
Current to 90 days	1,262	2,450
91 days to 180 days	5	213
Over 180 days	4,256	3,251
	5,523	5,914

13. EXPENSES BY NATURE

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

	Unaudited For the six months ended 31st December 2008 HK\$'000	2007 HK\$'000
Amortization of film rights (Note 5)	14,924	49,703
Amortization of leasehold land (Note 5)	151	143
Depreciation of owned assets (Note 5)	769	802
Depreciation of leased assets (Note 5)	36	47
(Gain)/loss on disposal of plant and equipment	(2)	12
Write-off of inventories	14	7
Employee benefits expenses (Note 11)	9,205	29,817
Cost of inventories sold	3,133	5,380

14. INCOME TAX CREDIT

No provision for Hong Kong profits tax has been provided for the six months ended 31st December 2008 as the Group has accumulated tax losses brought forward from prior years to set off current period's assessable profit. Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the six months ended 31st December 2007.

The amount of income tax credit credited to the unaudited condensed consolidated income statement represents:

	Unaudited	
	For the six months ended	
	31st December	
	2008	2007
	HK\$'000	HK\$'000
Hong Kong profits tax	—	338
Deferred income tax relating to the origination and reversal of temporary differences	(96)	(1,103)
	(96)	(765)

15. LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the period attributable to equity holders of the Company of HK\$89,000 (2007: HK\$18,756,000) and the weighted average of 1,624,605,370 (2007: 1,624,605,370) ordinary shares in issue during the period.

The computation of diluted loss per share for the six months ended 31st December 2007 and 2008 did not assume the exercise of the Company's outstanding share options during the period respectively since the exercise price of the outstanding share options were higher than the average market price of the shares of the Company and their exercise would have an anti-dilutive effect on loss per share.

As at 31st December 2008, the Company does not have dilutive potential shares since all outstanding share options of the Company were cancelled on 16th July 2008.

16. PENDING LITIGATIONS

- (a) A court action was commenced in the Court of First Instance of the Hong Kong Special Administrative Region 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 alleges that a sum of US\$935,871.65 (equivalent to HK\$7,299,798.84) was payable by UEL to Star as its share of the revenue of the movie entitled “Shaolin Soccer” (the “Movie”).

Pursuant to an Order (the “Order”) made by the High Court on 21st February 2003, the Company was ordered and had 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”), 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 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 to the Group.

16. PENDING LITIGATIONS *(Continued)*

- (b) On 1st September 2008, Koninklijke Philips Electronics N.V. (“KPE”) issued a Writ of Summons against among other persons, the Company, ULV and Mr Lam Shiu Ming, Daneil, (a director of the Company), three of the defendants, in respect of damages arising from infringement of the patents owned by KPE.

In the opinion of legal counsel, it is premature to predict the outcome of the claim against the Company, ULV and Mr Lam Shiu Ming, Daneil. The Board is of the opinion that the outflow of economic benefits cannot be reliably estimated and accordingly no provision for any liability that may result has been made in the unaudited condensed consolidated interim financial statements.

Save as disclosed above, as at 31st December 2008, no litigation or claim of material importance is known to the directors to be pending against either the Company or any of its subsidiaries.

17. COMMITMENTS

(a) Operating leases

As at 31st December 2008, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Unaudited As at 31st December 2008 HK\$'000	Audited As at 30th June 2008 HK\$'000
Land and buildings		
Not later than one year	680	1,200

17. COMMITMENTS *(Continued)*

(b) Others

As at 31st December 2008, the Group had commitments contracted but not provided for in these unaudited condensed consolidated interim financial statements as follows:

	Unaudited As at 31st December 2008 HK\$'000	Audited As at 30th June 2008 HK\$'000
Purchase of film rights and production of films	22,612	18,622

Note: As at 31st December 2008, the Group had no any commitment in respect of jointly controlled assets (30th June 2008: nil).

18. RELATED PARTY TRANSACTIONS

- (a) On 19th December 2006, ULV entered into a tenancy agreement with Rainbow Nice Limited ("RNL") whereby ULV agreed to lease a premises (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, the directors of the Company for residential purpose. The monthly rental payable by ULV is HK\$200,000 which is inclusive of furniture, fixtures and home electronic appliances but excluding government rent, rates, taxes and all other outgoings. The entire issued share capital of RNL, the landlord of the Premises, is beneficially owned by Ms Chiu Suet Ying. On 26th August 2008, ULV entered into a supplemental agreement with RNL whereby both parties mutually agreed to reduce the monthly rental of the Premises from HK\$200,000 to HK\$100,000 for the remaining term commencing from 1st September 2008 to 31st December 2009.

During the six months ended 31st December 2008, ULV had paid rental on the Premises of HK\$800,000 (2007: HK\$1,200,000) to RNL.

18. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Details of key management compensation

	Unaudited For the six months ended 31st December	
	2008 HK\$'000	2007 HK\$'000
Salaries and other short-term employee benefits	4,100	5,203
Employer's contribution to retirement scheme	30	30
Share-based compensation (Note 9 & 11)	—	10,505
	4,130	15,738

Save as disclosed above and elsewhere in these 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 carried out after negotiations between the Group and the related parties in the ordinary course of business.

19. COMPARATIVE FIGURES

Certain comparative figures in the unaudited condensed consolidated cash flow statement have been reclassified to conform with the current period's presentation. This reclassification had no impact on the Group's loss for the period ended 31st December 2007 or the total equity as at 31st December 2007.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend in respect of the six months ended 31st December 2008 (2007: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Group results

The Group's unaudited consolidated turnover for the six months ended 31st December 2008 decreased by 57.4% over the same period last year to HK\$34.0 million. Meanwhile, the loss attributable to equity holders of the Company narrowed by 99.5% from HK\$18.8 million to HK\$89,000. Loss per share for the period under review was HK0.01 cent (2007: HK1.15 cents). The significant improvement in the Group's results was mainly attributed to share-based compensation of approximately HK\$18.6 million recorded in the same period last year, as the share options of the Company were granted to the Group's certain employees. Excluding the effect arising from share-based compensation during the previous financial period, loss after income tax for the period ended 31st December 2007 would have narrowed to approximately HK\$200,000. With loss after income tax of approximately HK\$89,000 for the period under review, the Group has maintained a similar level of loss after income tax as compared to the same period last year.

Owing to the global economic downturn, the operating environment of the film industry has been increasingly challenging. Given the above, the Group has been alert and cautious in utilising its resources for the production of new films and television series, resulting in fewer releases and consequently lower turnover during the period. Nevertheless, the above was mitigated by an increase in gross profit margin for the business segment of film exhibition, licensing and sub-licensing of film rights for the period under review.

Video distribution

During the period under review, turnover from video distribution business declined by 37.1% over the same period last year to HK\$9.2 million. The video distribution business accounted for 26.9% (2007: 18.2%) of the Group's total turnover.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Video distribution *(Continued)*

The operating environment for this business segment continued to be difficult as a result of the illegal distribution of copyrighted film on the internet through peer to peer file sharing activities. Lower consumer confidence also has reduced market demand for video products which in turn adversely affected the turnover from video distribution business.

Film exhibition, licensing and sub-licensing of film rights

Turnover from this business segment during the six months ended 31st December 2008 was HK\$23.5 million, representing a substantial decrease of 62.9% over the same period last year. It contributed 69.1% (2007: 79.3%) of the Group's total turnover. The decline in turnover of this business segment was mainly attributable to fewer self-produced films and television series completed and released for the period under review. In view of the increasingly challenging operating environment for film industry, the Group has continued to adopt a prudent approach in the production of new films and television series.

Turnover from film exhibition business was HK\$4.3 million, representing a decrease of HK\$5.1 million over the same period last year. Despite the decrease in turnover from film exhibition, the operating loss of this business segment has improved from HK\$2.1 million to HK\$340,000 compared to the same period last year. This was mainly due to the Group's effort in controlling film production and promotional cost incidental to the film releases.

Turnover from licensing and sub-licensing of film rights was HK\$19.3 million, representing a decrease of 64.3% over the same period last year. During the period under review, the Group only completed a new film for distribution, which led to such lower turnover for this business segment. Despite the decrease in turnover from this business segment, the gross profit rose by 11.3% to HK\$8.0 million, it was primarily attributable to the higher contribution from non-newly released films for the period under review. The gross profit margin for such non-newly released films was higher because their costs had been fully amortized in previous years.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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

As at 31st December 2008, there were five various-scale films and two television series, all of which were at various stages of production.

In terms of geographical distribution, contribution of overseas markets has maintained at a level of 30.6% (2007: 47.1%) of the Group's total turnover during the period under review.

Leasing of investment properties

During the period under review, turnover from leasing of investment properties slightly decreased by HK\$100,000 to HK\$500,000 as one tenancy agreement expired in November 2008. The relevant property is currently vacant and the Group is in the progress of looking for a new tenant.

OUTLOOK

We expect the remainder of the year to be challenging for the Group in view of the severity and extent of this global economic crisis. With this in mind, the Group will continue to integrate its resources as well as more prudent in cost management and investment in the production of films and television series so as to achieve a higher degree of cost-efficiency.

Going forward, the Group will continue to explore new opportunities with the view to bringing positive results for the shareholders. Capitalizing on our experience, we are confident that the Group can overcome the challenges in the future.

FINANCIAL RESOURCES/LIQUIDITY AND CAPITAL STRUCTURE

As at 31st December 2008, the Group had cash balances of HK\$139.3 million (30th June 2008: HK\$147.2 million) and unutilized banking facilities amounted to HK\$20.0 million (30th June 2008: HK\$20.0 million) respectively.

As at 31st December 2008, the Group had total assets of approximately HK\$357.5 million, representing a slight increase of HK\$4.0 million over that of 30th June 2008.

The Group's gearing ratio as at 31st December 2008 was approximately 0.1% (30th June 2008: 0.1%), which was calculated on the basis of the Group's long term borrowings of approximately HK\$276,000 (of which HK\$80,000, HK\$80,000 and HK\$116,000 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\$305.2 million.

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 2008, a bank deposit of HK\$2.0 million of the Group (30th June 2008: HK\$2.0 million) was pledged to secure banking facilities granted to subsidiaries.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December 2008, the Group had 50 employees (30th June 2008: 53). 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 2008, the interests which are all long positions of each of the Directors 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:

(1) Interests in issued shares

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

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

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

(2) Interests in underlying shares

Certain Directors have been granted share options under the Company's share option scheme, detail of which are set in the section headed "SHARE OPTION SCHEME" below.

All interests in the shares and underlying shares of the Company are long position.

Other than disclosed above, as at 31st December 2008, none of the Directors or their associates had any interests (including 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 2008, 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.

SHARE OPTION SCHEME (Continued)

The Company may grant share options to the participants, including Directors and employees, to subscribe for shares of the Company as incentives and/or rewards for their contributions and support to the Group and any entity in which the Group holds any equity interests. On 21st August 2007, the Company granted 143,460,537 share options, which represented 8.83% of the issued share capital of the Company as at the date of grant, to the certain employees of the Group at the subscription price of HK\$0.264 per share option which were vested immediately and exercisable for two-year period commencing from 21st August 2007 to 20th August 2009 (both days inclusive). Each share option gives the holder the right to subscribe for one ordinary share of the Company. On 16th July 2008, all share options outstanding as at 1st July 2008 were surrendered by the relevant holders and then cancelled. Particulars of movement in the share options during the period are as follows:

Participants	Date of grant	Period during which share options are exercisable	Price per share on exercise of share options HK\$	Number of share options outstanding at the beginning of the period	Number of share options granted during the period	Number of share options exercised during the period	Number of share options cancelled during the period	Number of share options outstanding at the end of the period
Executive Directors								
Mr Lam Shiu Ming, Daneil	21/8/2007	21/8/2007-20/8/2009	0.264	16,245,000	—	—	16,245,000	—
Ms Chiu Suet Ying	21/8/2007	21/8/2007-20/8/2009	0.264	16,245,000	—	—	16,245,000	—
Mr Yeung Kim Piu	21/8/2007	21/8/2007-20/8/2009	0.264	16,245,000	—	—	16,245,000	—
Eligible employees working under employment contracts	21/8/2007	21/8/2007-20/8/2009	0.264	94,725,537	—	—	94,725,537	—
				143,460,537	—	—	143,460,537	—

Pursuant to a resolution in respect of the refreshment of the 10% limit on grant of options under the Share Option Scheme passed in the annual general meeting held on 23rd November 2007 (the "2007 AGM"), the Company may grant options entitling holders to subscribe for a total of 162,460,537 shares (representing approximately 10% of the total shares in issue of the Company as at the date of the 2007 AGM approving such refreshment). There was no share options granted between the date of the 2007 AGM and 31st December 2008.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed in the section headed "DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES" above, the following substantial shareholders were recorded in the register kept by the Company under Section 336 of the SFO as holding 5% or more of the issued share capital of the Company as at 31st December 2008:

Name of shareholders	Number of the Company's share held	Percentage of shareholding
Globalcrest Enterprises Limited (Note)	872,406,705	53.70%
Central Core Resources Limited (Note)	872,406,705	53.70%

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.

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

Save as disclosed above, as at 31st December 2008, no other person has any interests or short position in the shares, underlying shares and debentures of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

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 2008, complied with the code provisions contained in the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Listing Rules except for the code provision A.2.1 of the Code 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 the 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 Group's strategies.

AUDIT COMMITTEE

The Audit Committee was established in 1999. Its current members include three Independent Non-executive Directors, namely Mr Ng Kwok Tung (chairman), Dr Leung Shiu Ki, Albert and Mr Ma Chun Fung, Horace.

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 2008 with the management.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company has not redeemed any of its shares during the six months ended 31st December 2008. 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 2008, the Company has adopted the Model Code as the code for dealing in securities of the Company by Directors. Having made specific enquiry, all Directors of the Company confirmed that they have complied with the required standard set out in the Model Code throughout the period.

By Order of the Board
Lam Shiu Ming, Daneil
Chairman

Hong Kong, 19th March 2009



Universe International Holdings Limited
寰宇國際控股有限公司