



UNIVERSE INTERNATIONAL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30TH JUNE 2001

RESULT

The Board of Directors of Universe International Holdings Limited (the "Company") is pleased to present the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 30th June 2001, together with comparative figures for the year ended 30th June 2000 as follows:

	Note	2001 HK\$'000	2000 HK\$'000
Turnover	1	306,576	282,820
Cost of sales		(214,551)	(183,601)
Gross profit		92,025	99,219
Other revenue		1,170	2,117
Other operating income		2,195	3,842
Selling expenses		(3,690)	(7,709)
Administrative expenses		(30,392)	(24,184)
Other operating expenses		(4,796)	(2,799)
Operating profit		56,512	70,486
Finance costs		(6,573)	(2,767)
Profit before taxation		49,939	67,719
Taxation	2	(9,751)	(6,656)
Profit attributable to shareholders		40,188	61,063
Dividends	3	(2,859)	(5,670)
Profit for the year retained		37,329	55,393
Basic earnings per share	4(a)	HK4.24 cents	HK6.80 cents
Fully diluted earnings per share	4(b)	HK3.87 cents	N/A

Notes:

1. Turnover and segment information

The Group is principally engaged in the video distribution, film distribution, sub-licensing of film rights, production of films and programmes, film exhibition, and provision of optical disc replication service. An analysis of the Group's turnover and contribution to operating profit after finance costs for the year by principal activities and geographical areas is as follows:

	Turnover Year ended 30th June		Operating profit after finance costs Year ended 30th June	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
By principal activities:				
Sale of goods	220,814	208,549	46,229	47,584
Film distribution, sub-licensing of film rights and film exhibition	76,788	69,645	7,069	19,873
Replication of optical discs	8,974	4,626	2,044	912
	<u>306,576</u>	<u>282,820</u>	<u>55,342</u>	<u>68,369</u>
Add: other revenue			1,170	2,117
Less: finance costs			(6,573)	(2,767)
			<u>49,939</u>	<u>67,719</u>
By geographical areas:				
Hong Kong and Macau	278,937	263,647	48,178	63,665
Asia (other than Hong Kong and Macau)	25,159	17,420	6,604	4,311
North America	2,081	1,568	451	341
Australia & New Zealand	380	185	106	52
Eastern Europe	19	—	3	—
	<u>306,576</u>	<u>282,820</u>	<u>55,342</u>	<u>68,369</u>
Add: other revenue			1,170	2,117
Less: finance costs			(6,573)	(2,767)
			<u>49,939</u>	<u>67,719</u>

2. Taxation

	Year ended 30th June	
	2001 HK\$'000	2000 HK\$'000
Hong Kong profits tax	6,706	6,216
Deferred taxation	3,045	440
	<u>9,751</u>	<u>6,656</u>

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profit for the year.

The deferred tax effect arising from timing difference is recognized in the accounts to the extent it is probable that a liability will crystallize in the foreseeable future.

3. Dividends

	Year ended 30th June	
	2001 HK\$'000	2000 HK\$'000
Final proposed dividend - HK0.3 cent (2000: HK0.6 cent*) per ordinary share	2,859	5,670

* For consistent presentation purpose, the final proposed dividend per ordinary share for the year ended 30th June 2000 has been adjusted from HK3 cents to HK0.6 cent following the sub-division of 1 share of HK\$0.1 each into 5 shares of HK\$0.02 each during the year.

4. Earnings per share

- (a) The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of approximately HK\$40,188,000 (2000: HK\$61,063,000) and on the weighted average of 948,802,551 ordinary shares in issue (2000: 898,204,920 ordinary shares) during the year on the assumption that the sub-division of 1 share of HK\$0.1 each into 5 shares of HK\$0.02 each had been completed on 1st July 1999.
- (b) The calculation of diluted earnings per share is based on the Group's profit attributable to shareholders of approximately HK\$40,188,000 plus interest after taxation on convertible notes of approximately HK\$843,000 and on 1,059,394,887 ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average of 110,592,336 ordinary shares deemed to be issued at no consideration if all outstanding options and convertible notes had been exercised (2000: No diluted earnings per share was presented as no dilution effect arising from the share options granted and there was no convertible notes issued by the Company in the year ended 30th June, 2000).

DIVIDENDS

The directors recommend the payment of a final dividend of HK0.3 cent per ordinary share which will take the form of scrip dividend in respect of the year ended 30th June 2001. The Shareholders may elect to receive such dividend (or part thereof) in cash in lieu of such allotment (the "Scrip Dividend Scheme"). The Scrip Dividend Scheme is subject to the approval of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting the listing of and permission to deal in the new shares.

CLOSURE OF THE REGISTER OF MEMBERS

The Register of Members will be closed from 22nd November 2001 to 26th November 2001, both days inclusive, during which period no transfer of shares can be registered.

REVIEW OF OPERATIONS

During the year under review, the management has employed a mix of business strategies to expand the Group's operations, spurred on by its pledge of transforming the Group into an all-round entertainment content provider. The Group has enlarged its film production capacity, expanded stock titles in its content library and established alliances with famous studios overseas for international theatrical release of films and film distribution. At the same time, the Group has been equally dedicated to strengthening its core business in video distribution, film distribution and sub-licensing.

Turnover

During the financial year ended 30 June 2001, despite intense market competition, the Group recorded a turnover of HK\$307 million, representing an increase of 8.4% over the same period last year. The Group's profit attributable to shareholders nevertheless experienced a decrease of 34.2% to HK\$40 million. This was due to our increased investment in film production, which requires up front deployment of financial resources to cover promotion and theatrical release costs. However, the full commercial value and return of films produced during this year will be reflected in the results of coming years via different streams of revenue such as video distribution and film distribution.

Finance costs

Finance costs rose by more than 137.6% compared with the same period last year as the Group expanded its scale of operations and increased its content investment.

ANALYSIS BY GEOGRAPHICAL AREA

As the Group is based in Hong Kong, the local market is a dominant source of revenue for our operations, accounting for approximately 91% of the total revenue in financial year 2001. As a result of our efforts to expand our sales and distribution network as well as the ability of producing and acquiring content targeted at local audience, income from Hong Kong and Macau generated during the year under review reached HK\$279 million, representing an increase of 5.8% when compared to HK\$264 million recorded in financial year 2000.

In recent years, the overseas market has increasingly taken up a larger portion of the Group's turnover as a result of the management's determination to expand its sales and distribution network abroad. During the year under review, overseas sales amounted to approximately HK\$28 million, or about 9% of the Group's total turnover representing a growth rate of 44.2% over the previous year. The management's decision to venture into film production has given the Group greater autonomy and freedom in overseas distribution and film distribution thus pushing sales from Australia, Indonesia, Malaysia, Thailand and Japan to triple-digit growth, while turnover from Korea and Singapore soared 40 times and 125 times respectively.

ANALYSIS BY BUSINESS OPERATIONS

Video Distribution

As the Group's mainstay, video distribution contributed 71% of the total turnover. Sales from VCD and DVD formats totaled HK\$218 million, representing an increase of 8.6% over the last financial year. This growth is attributable to the success of our film production strategy and ability to acquire famous local and foreign entertainment programmes (the "Titles").

Given the saturated growth of VCD players in recent years and the increasing popularity of DVDs which offer better visual quality, sales of VCDs experienced a modest growth of 2.5% to HK\$185 million. On the other hand, sales of DVDs fared extremely well in year 2001 to HK\$33 million, up 62.9% compared to the last financial year, which is in line with the management's expectations.

During the year under review, the Group distributed over 400 new local and foreign Titles.

Film Distribution and Sub-licensing

During financial year 2001, film distribution and sub-licensing business, accounting for 21.7% of the total turnover, increased by 8.8% to HK\$67 million, due to the contribution of our extensive collection of Titles.

Our content library boasts one of Hong Kong's most entertaining and diverse mix of Titles. Each year we add some notable Titles, such as "Shaolin Soccer", "Everyday is Valentine", "Hit Team" and "For Bad Boy Only", which enhance our unmatched collection of entertainment classics and whose worth will only increase.

During the year, we also continued our energetic efforts to extend the reach of our distribution network, which now covers Hong Kong, the People's Republic of China (the "PRC"), Taiwan, Macau, Thailand, Malaysia, Singapore, Japan, Indonesia, Australia, New Zealand, Canada, the US and Eastern Europe.

Optical Disc Replication

The optical disc replication operation is an important step in realizing our strategy of business diversification. A revenue of HK\$9 million was generated in financial year 2001, representing an increase of 94% over that of last year.

The growth in the optical disc replication service is due to the Group's ability to attract new orders from magazine publishers and multimedia production houses by the provision of "one-stop" service.

Film Production and Film Exhibition

Prior to 2000, expansion of the Group's content library had been achieved mainly through acquisition of content with limited rights and license period. Since then, the management has adopted new strategy to produce and acquire Titles with perpetual rights and all rights which enable the Group to distribute and sub-license them in various territories and formats for an unlimited time period. Film production is considered vital to expand the distribution and sub-licensing business to help fuel the long-term growth of the Group.

During the course of planning, the management carefully selected appropriate themes and content for our own productions in line with the tastes and preferences of the audience in different territories in order to maximize return and minimize risk.

Since film production is tied to the development of video distribution and film distribution, especially for overseas expansion, many of the films produced during the year were distributed to overseas licenses via our strengthened distribution network. As a result, turnover from most of our overseas markets has grown tremendously.

The Group, though, continues to keep a very watchful eye on cost and content control, following a carefully-formulated set of budget guidelines. Keeping in mind the various viewing tastes of both local and international audiences, the Group is able to produce movies targeted at specific market segments. This strategy will remain fundamental to the Group's future plans for film production.

The Group's dedication to film production has brought about a revenue of HK\$10 million in the form of film exhibition during the year under review, representing an increase of 20.4% compared to last year. Apart from in-house productions, the Group also exhibited an array of foreign films in current financial year.

Notwithstanding, the benefits of film production, a key characteristic of such investment is that the resulting contribution to sales and profit in the first year of theatrical release is comparatively lower and does not reflect the full commercial return from such investment. This is due to promotion and other costs relating to theatrical release being incurred up front while revenue as well as profit from the films will only be fully realized upon subsequent distribution and sub-licensing over the next few years.

During the year under review, the Group has produced more than 30 films which is increased by nearly 2 times as compared with previous year. As explained above, however, the financial impact has resulted in a decline in the Group's operating margin.

In assessing the profitability of film production investment, the Group typically aims to recoup the full cost of investment, including all costs relating to theatrical release, within one and a half to three years. As the amount of film production investment is expected to stabilize in the coming years, the operating margins for film production and exhibition should improve where the adverse impact is more than offset by the benefits.

PROSPECTS

Outlook

We are confident that the Group is well positioned to maintain our industry-leading position in video distribution, film distribution as well as sub-licensing by exploring new market opportunities and expanding the content library.

Video distribution

For video distribution, we expect DVD sales to post impressive growth over the next few years since this video format has become the premium medium to provide viewers with quality images at an affordable price. The widespread popularity of DVD players will provide an additional boost to our sales of DVDs. The management also believes, sales of VCDs will remain stable, since this format has been widely viewed as a highly cost-effective and useful medium to disseminate information similar to that of magazines and books with the added advantage of more graphics and enhanced visual presentation. VCDs are now not just limited to film entertainment, but also infotainment. Accordingly, we are confident that there will still be a continuous growth of this format in the future. To capitalize on this trend, the Group will continue the efforts on the production of more infotainment content for VCD distribution.

Film distribution and sub-licensing

In addition, the management expects film distribution and sub-licensing business to register promising growth over the next few years, due to the expected launch of a few Pay TV channels in Hong Kong in 2002. Deals for the broadcast of Titles owned by the Group are well underway. The creation of satellite TV channels targeting overseas Chinese in recent years has also increased the demand for Chinese-language content. The Group thus aims to extend its overseas sub-licensing network further by working closely with them to meet the changing tastes of their target audiences, helping them to extend their reach.

Film production

In future, the Group will continue with the strategy to expand its content library through investment in film production to generate its multiple streams of revenue including video distribution, film distribution, sub-licensing and film exhibition. It is planned that about 40 Chinese language films and about 100 hours of video programmes will be produced in the next financial year.

Opportunities in the PRC

As the PRC is expected to enter the World Trade Organization (the "WTO") very soon, all eyes around the world are focusing on this huge potential market. With the well-established network built up with publishing houses in the PRC over the past years, together with the experience gained from the co-operation with production company during the shooting of "Shaolin Soccer" in the PRC, the Group has laid a solid foundation to step up its operations in the PRC once the barriers to enter and operate in the market have been lifted. "Shaolin Soccer", the Group's biggest-ever hit in Hong Kong, will be shown to cinema audiences across the PRC soon. Given the Hong Kong audience's overwhelming response to this mega production, the management expects the movie to gross huge box office taking in the PRC. After the PRC's accession to the WTO, the deregulation of the media and entertainment industry in the PRC will definitely attract international media corporations trying their best to take a share in such a gigantic market. This situation will create great opportunities for the Group's film distribution and sub-licensing business. The PRC's huge potential market is expected to lure many big Hollywood studios to invest substantially in joint productions with Hong Kong and PRC film-makers, tailoring movies for Chinese audience. The increasing popularity of Chinese-language films has also made it easier for Chinese language films financed by Hollywood studios to find their way to the West. This has undoubtedly increased

international interest in investing in Chinese films which will benefit the Group in the future. Thus, the Group will look for opportunities to enter into joint production with renowned studios from Hollywood, Japan, Korea and the PRC.

Internationalization

"Shaolin Soccer" will not only generate substantial income for film exhibition, but also will boost video distribution and film distribution in both local and overseas markets over the next few years. The Group will also be able to use the film as a stepping stone to achieve a greater international presence since it will be shown on big screens in the US and to a worldwide audience next year, assisted by Miramax Films Corporation, Hollywood's film distribution powerhouse.

Conclusion

Looking ahead, we are confident that the Group's exceptional expertise and leading position in the entertainment industry will enable us to meet challenges ahead and continue to grow in the coming years.

FINANCIAL RESOURCES / LIQUIDITY AND CAPITAL STRUCTURE

As at 30th June 2001, the Group had cash balances of HK\$58 million and unutilized banking facilities amounted to approximately HK\$36 million.

During the year, the Group issued US\$7 million unsecured convertible notes (the "Note") to Multimedia Group Limited, a company wholly-owned by a fund under the management of HSBC Private Equity (Asia) Limited, providing funding for content library expansion. Consequently, gearing ratio after the issuance of the Note increased to 44% (2000: 33%). The gearing ratio would have dropped to 17% (2000: Nil) if the Notes had been fully converted into the Company's shares on or before 30th June 2001.

As at 30th June 2001, the Group had net current asset value of approximately HK\$190 million, representing an increase of HK\$84 million over the previous year. The calculation of gearing ratio is based on the sum of the Group's long term bank borrowings of approximately HK\$51 million and convertible notes of approximately HK\$54 million, and on the shareholders fund of approximately HK\$237 million.

EMPLOYEES

As at 30th June 2001, the Group employed 234 staffs. Remuneration is reviewed annually and certain staff are entitled to commission. In addition to the basic salaries, staff benefits include discretionary bonus, medical insurance scheme and mandatory provident fund.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board of the Directors and the Group's auditors in matters coming within the scope of the Group's audit. It also reviews the effectiveness of the external audit, internal controls and risk evaluation. The Audit Committee comprises three non-executive directors, namely Messrs. NG Kwok Tung, CHIU Shin Koi and TANG Yiu Wing. Two meetings were held during the current financial year.

CODE OF BEST PRACTICE

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 of in the Listing Rules of the Stock Exchange for the year ended 30th June 2001.

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

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year.

DETAILED RESULTS ANNOUNCEMENT

A detailed results announcement containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be subsequently published on the Stock Exchange's website (<http://www.hkex.com.hk>) in due course.

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

Hong Kong, 22nd October 2001

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of the Company will be held at 18th Floor, Wyler Centre Phase II, 192-200 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong on 26th November 2001 at 10:00 a.m. for the following purposes:

- to receive and consider the audited consolidated financial statements of accounts and the reports of the Directors and Auditors for the year ended 30th June 2001.
- to declare a final dividend for the year ended 30th June 2001.
- to re-elect retiring Directors and authorise the board to fix the Directors' remuneration.
- to re-appoint Auditors and authorise the board to fix their remuneration.
- as Special Business to consider and, if thought fit, pass the following resolutions as Ordinary Resolutions:—

A. "THAT:

- subject to sub-paragraph (c) of this Resolution, the exercise by the directors of the Company (the "Directors") during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- the approval in sub-paragraph (a) of this Resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise), by the Directors pursuant to the approval in sub-paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as defined below); or (ii) the exercise of any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company, shall not exceed 20 percent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of this Resolution and the said approval shall be limited accordingly; and
- for the purposes of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

- the conclusion of the next annual general meeting of the Company;
- the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; and
- the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting.

"Rights Issue" means an offer of shares or other securities of the Company open for a period fixed by the Directors to holders of shares of the Company or any class thereof on the register on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside the Hong Kong Special Administrative Region of the People's Republic of China)."

B. "THAT:

- subject to sub-paragraph (b), the exercise by the Directors during the Relevant Period of all the powers of the Company to purchase shares in the capital of the Company be and is hereby generally and unconditional approved;
- the aggregate nominal amount of share capital of the Company to be purchased or agreed conditionally or unconditionally to be purchased by the Company pursuant to the approval in sub-paragraph (a) during the relevant period shall not exceed 10 percent. of the aggregate nominal amount of the share capital of the Company in issue on the date of this Resolution and the said approval shall be limited accordingly; and
- for the purposes of this Resolution:
"Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:
 - the conclusion of the next annual general meeting of the Company;
 - the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; and
 - the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting."

- "THAT conditional upon Resolution 5A and Resolution 5B set out in the notice convening this meeting of which this Resolution forms part being passed, the aggregate nominal amount of the shares of the Company which are purchased by the Company after the date of the passing of this Resolution (up to a maximum of 10 percent. of the aggregate nominal amount of the share capital of the Company as stated in Resolution 5B set out in the notice convening this meeting of which this Resolution forms part) shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to Resolution 5A set out in the notice convening this meeting of which this Resolution forms part."

By Order of the Board
Chan Hau Chuen
Company Secretary

Hong Kong, 22th October, 2001

Notes:

- The Register of Members of the Company will be closed from 22nd November, 2001 to 26th November, 2001, both days inclusive, during which period no transfer of Shares can be registered.
- Any member entitled to attend and vote at the Meeting shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the Meeting. A proxy need not be a member of the Company.
- In order to be valid, the form of proxy completed in accordance with the instructions set out therein, together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy of that power or authority) must be deposited at the principal place of business of the Company in Hong Kong situated at 18th Floor, Wyler Centre Phase II, 192-200 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.
- An explanatory statement regarding the general mandate for the purchase of shares sought in the Ordinary Resolution set out in 5B above will be circulated with the 2001 Annual Report and Accounts to be sent to shareholders.