



UNIVERSE INTERNATIONAL

寰宇國際控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1046)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30th JUNE 2005

RESULTS

The board of directors (the "Directors") of Universe International Holdings Limited (the "Company") (the "Board") hereby announces the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 30th June 2005, together with comparative figures for the year ended 30th June 2004 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	Year ended 30th June	
		2005 HK\$'000	2004 HK\$'000
Turnover	2	175,951	227,605
Cost of sales		(143,542)	(222,016)
Gross profit		32,409	5,589
Other revenue		788	226
Other operating income		3,517	7,320
Selling expenses		(3,316)	(4,573)
Administrative expenses		(21,923)	(23,517)
Other operating expenses		(7,151)	(8,008)
Operating profit/(loss)	3	4,324	(22,963)
Finance costs		(345)	(675)
Increase in fair value of investment properties		8,600	—
Share of loss of an associated company		(725)	(6)
Profit/(loss) before taxation		11,854	(23,644)
Taxation	4	(2,016)	4,126
Profit/(loss) attributable to shareholders		9,838	(19,518)
Dividends	5	—	—
Basic earnings/(loss) per share (HK cents)	6	0.61	(1.32)
Fully diluted earnings/(loss) per share (HK cents)	6	N/A	N/A

CONSOLIDATED BALANCE SHEET

	As at 30th June	
	2005 HK\$'000	2004 HK\$'000 (restated)
Non-current assets		
Fixed assets	72,033	73,255
Film rights and films in progress	77,356	89,672
Interest in an associated company	1,294	1,632
Deferred tax assets	5,270	5,763
Long-term bank deposit	7,800	7,800
	163,753	178,122
Current assets		
Film deposits	17,018	30,625
Inventories	17,358	16,342
Accounts receivable	32,219	36,258
Deposits paid and prepayments	5,065	5,552
Trading securities	—	545
Tax recoverable	—	61
Pledged bank deposits	4,000	4,000
Bank balances and cash	82,087	75,543
	157,747	168,926
Current liabilities		
Accounts payable	7,545	16,411
Other payables and accrued charges	5,708	6,682
Deposits received	15,098	24,952
Due to ultimate holding company	86	83
Obligations under finance leases	77	165
Taxation payable	8	—
Secured bank loans	—	6,487
	28,522	54,780
Net current assets	129,225	114,146
Total assets less current liabilities	292,978	292,268
Financed by:		
Share capital	32,492	32,492
Reserves	256,449	245,391
Total capital and reserves	288,941	277,883
Other long-term liabilities	102	12,232
Deferred tax liabilities	3,935	2,153

UNIVERSE

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INTERNATIONAL HOLDINGS LIMITED 寰宇控股有限公司*

(In Bermuda with limited liability)

(Stock Code: 1046)

STATEMENT FOR THE YEAR ENDED 30TH JUNE 2005

3. Operating profit/(loss)

Operating profit/(loss) is stated after charging the following:

	Year ended 30th June	
	2005	2004
	HK\$'000	HK\$'000
Amortisation of film rights	95,048	135,345
Impairment losses of film rights	5,115	4,622
Cost of inventories sold	29,534	37,820
Staff costs (including directors' emoluments)	17,793	20,030
Depreciation on owned fixed assets	9,052	19,326
Depreciation on fixed assets held under finance leases	38	160

4. Taxation

	Year ended 30th June	
	2005	2004
	HK\$'000	HK\$'000
Hong Kong profits tax	—	11
Deferred taxation	2,016	(4,137)
Taxation charge/(credit)	2,016	(4,126)

Hong Kong profits tax and deferred taxation has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit of the Group for the year. Deferred taxation mainly represented the net temporary differences in respect of accelerated depreciation allowances and tax losses.

5. Dividends

The Directors do not recommend the payment of a final dividend for the year ended 30th June 2005 (2004: Nil).

6. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the Group's profit attributable to shareholders of approximately HK\$9,838,000 (2004: loss attributable to shareholders of approximately HK\$19,518,000) and the weighted average number of 1,624,605,370 ordinary shares in issue (2004: 1,477,349,894 ordinary shares, as adjusted to reflect the right issue during last year) during the year.

The diluted earnings/(loss) per share are not presented as there was no dilutive potential ordinary shares outstanding during the years ended 30th June 2005 and 2004.

OPERATING RESULTS

For the year ended 30th June 2005, the Group recorded consolidated turnover of approximately HK\$176.0 million, representing a decrease of 22.7% over the same period last year. Profit attributable to shareholders was approximately HK\$9.8 million with the early adoption of the HKAS 40 and HK(SIC)-Int 21, compared with losses of approximately HK\$19.5 million in the previous year. If the effects arising from revaluation of investment properties were not to be taken into account, the profit after taxation amounted to approximately HK\$2.7 million.

The decrease in consolidated turnover was mainly due to continued contraction of the Hong Kong video distribution market. Notwithstanding, the management is pleased to report that the film licensing business recorded encouraging growth in turnover and profit. Couple with the fact that a series of stringent cost control measures was effectively implemented, such positive developments mitigated the disappointing performance of local video distribution business, and consequently, the Group's operations reported a profit.

BUSINESS REVIEW

Video distribution

The video distribution segment recorded a decline in turnover of 42.6% from last year's HK\$124.8 million to the current year's HK\$71.6 million. This business segment contributed 40.7% (2004: 54.8%) of the Group's consolidated turnover. Such decrease was mainly due to (a) fewer numbers of new titles available for video distribution; and (b) the continued sluggish video distribution market in Hong Kong.

The year under review was full of challenges for the video distribution business. Despite improvement in the local economy and retail sector as boosted by the relaxed individual visit scheme for the tourists of the People's Republic of China (the "PRC"), these have not directly benefited the Group's video distribution business. Meanwhile, challenges for this business segment remain as competition in local market intensified. In addition to the severe competition within this industry, the operating environment was adversely affected by illegal distribution of copyrighted films on the internet through peer-to-peer file-sharing activities.

These unfavorable factors inevitably impacted the results of the business segment. Consequently, during the year under review, gross profit of this segment declined by HK\$19.7 million to HK\$3.1 million, compared with HK\$22.8 million recorded in the same period last year.

In response to the difficulties of this business segment, the Group implemented a series of stringent cost control measures with a view to streamlining its operations and adopted a more pragmatic approach when acquiring new titles for video distribution.

Film exhibition, film licensing and film sub-licensing

During the year under review, turnover derived from film exhibition, film licensing and sub-licensing increased marginally by 0.2% to HK\$96.8 million from HK\$96.6 million in the previous year. This business segment contributed 55.0% (2004: 42.4%) of the Group's consolidated turnover.

Turnover from film exhibition was HK\$8.0 million, representing a decrease of approximately 67.6% compared to the previous year. Apart from the continued contraction of the film exhibition market in Hong Kong, such decrease in turnover was also due to fewer films being produced as the Group adopted a prudent approach in investment in film production while focusing its efforts on investing in television series production. Through management's disciplined efforts in controlling production and promotional costs, losses of this business segment narrowed from HK\$23.5 million in the previous year to HK\$9.8 million.

The financial year 2005 was an encouraging year for the Group's film licensing business. During the year, this business segment benefited from the success of the diversification strategy of investing in television series production. Our first television series titled "Kung Fu Soccer" (功夫足球) provided remarkable contributions to the Group, demonstrating our ability of identifying and capturing business opportunities by anticipating shifts in market demands. Benefiting from this success, the turnover and gross profit from this business segment were HK\$88.8 million and HK\$36.3 million respectively, representing a substantial increase of 23.7% and 165.0% over the previous year.

While implementing such multi-faceted content production strategy, the Group also strived to reduce its reliance on the Hong Kong market as the management believes geographical diversification is beneficial to the long term development of the Group. During the year under review, the turnover generated from overseas markets increased from HK\$49.8 million to HK\$59.8 million, contributing 34.0% (2004: 21.9%) to the Group's consolidated turnover. For the year ended 30th June 2005, we are particularly encouraged by the development of the PRC market where it accounted for approximately 17.0% (2004: 11.0%) of the total turnover of the Group. We anticipate that the PRC market will become a major source of growth for the Group in the future.

While adopting a prudent approach in investment in film production, the Group always aims to produce high quality films. In this respect, the film "One Nite in Mongkok" (旺角黑夜) had been awarded the Best Director and the Best Screenplay at the 24th Hong Kong Film Awards Presentation Ceremony, the Best Director at the 10th Golden Bauhinia Awards Presentation Ceremony and the Best Director and Films of Merit at the 11th Hong Kong Film Critics Society Awards Presentation Ceremony.

Leasing of investment properties and machinery for replication of optical discs

Turnover from leasing of investment properties increased to HK\$3.8 million from HK\$2.9 million in the previous year. In view of the buoyant property market, the Group had allocated certain properties for rental purposes with a view to securing stable rental income.

Meanwhile, the turnover from leasing of machinery for replication of optical discs has progressively decreased to HK\$0.8 million, compared with HK\$2.0 million in the same period last year. This business segment had unsatisfactory performance in the past due to the poor local video distribution market and keen price

Financed by:		
Share capital	32,492	32,492
Reserves	256,449	245,391
Total capital and reserves	288,941	277,883
Other long-term liabilities	102	12,232
Deferred tax liabilities	3,935	2,153
	<u>292,978</u>	<u>292,268</u>

Notes:

1. Change of accounting policies

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (collectively, "new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005. The Group has early adopted Hong Kong Accounting Standard 40 "Investment Property" ("HKAS 40") and Hong Kong (SIC) Interpretation 21 "Income Taxes - Recovery of Revalued Non-Depreciable Assets" ("HK(SIC)-Int 21") in the preparation of the accounts for the year ended 30th June 2005.

The adoption of HKAS 40 has resulted in a change in the accounting policy relating to valuation of investment properties of which the changes in fair values are recorded in the profit and loss account. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the profit and loss account.

The adoption of HK(SIC)-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

Changes in accounting policy in accordance with HKAS 40 has been made in accordance with its transition provision. Since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information, any adjustment should be made to the retained earnings as at 1st July 2004, including the reclassification of any amount held in revaluation reserve for investment properties.

Changes in accounting policy in accordance with HK(SIC) - Int 21 has been applied retrospectively. The 2004 comparatives have been restated to be comparable on a consistent basis of accounting.

As a result of the adoption of HKAS 40 and HK(SIC) - Int 21, the Group's profit attributable to shareholders has increased by approximately HK\$7,095,000 (2004: Nil) and the net assets decreased by approximately HK\$1,764,000 (2004: decreased by approximately HK\$517,000).

The Group will be continuing with the assessment of the impact of the other new HKFRSs and other significant changes may be identified as a result.

2. Turnover and segment information

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

An analysis of the Group's turnover and profit/(loss) attributable to shareholders for the year by business segments is as follows:

	Year ended 30th June 2005					
	Sale of goods HK\$'000	Licensing and sub-licensing of film rights and film exhibition HK\$'000	Leasing of investment properties and machinery for replication of optical discs HK\$'000	Others HK\$'000	Elimination HK\$'000	Group HK\$'000
Turnover						
External sales	71,585	96,802	4,599	2,965	—	175,951
Inter-segment sales	—	14,933	—	579	(15,512)	—
	<u>71,585</u>	<u>111,735</u>	<u>4,599</u>	<u>3,544</u>	<u>(15,512)</u>	<u>175,951</u>
Segment results before impairment losses	(1,179)	7,746	(294)	2,378	—	8,651
Impairment losses of film rights	(470)	(4,645)	—	—	—	(5,115)
Segment results	(1,649)	3,101	(294)	2,378	—	3,536
Other revenue						788
Operating profit						4,324
Finance costs						(345)
						3,979
Increase in fair value of investment properties	—	—	8,600	—	—	8,600
Share of loss of an associated company						(725)
Profit before taxation						11,854
Taxation						(2,016)
Profit attributable to shareholders						<u>9,838</u>

	Year ended 30th June 2004					
	Sale of goods HK\$'000	Licensing and sub-licensing of film rights and film exhibition HK\$'000	Leasing of investment properties and machinery for replication of optical discs HK\$'000	Others HK\$'000	Elimination HK\$'000	Group HK\$'000
Turnover						
External sales	124,821	96,556	4,850	1,378	—	227,605
Inter-segment sales	—	52,561	—	386	(52,947)	—
	<u>124,821</u>	<u>149,117</u>	<u>4,850</u>	<u>1,764</u>	<u>(52,947)</u>	<u>227,605</u>
Segment results before impairment losses	5,376	(17,150)	(7,090)	297	—	(18,567)
Impairment losses of film rights	(1,195)	(3,427)	—	—	—	(4,622)
Segment results	4,181	(20,577)	(7,090)	297	—	(23,189)
Other revenue						226
Operating loss						(22,963)
Finance costs						(675)
						(23,638)
Share of loss of an associated company						(6)
Loss before taxation						(23,644)
Taxation						4,126
Loss attributable to shareholders						<u>(19,518)</u>

An analysis of the Group's turnover and segment results for the year by geographical segment is as follows:

	Turnover		Segment results	
	Year ended 30th June		Year ended 30th June	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Hong Kong and Macau	116,126	177,825	(77)	(27,124)
Asia (other than Hong Kong and Macau)	55,280	48,321	3,236	3,016
North America	1,814	1,303	126	899
Australia and New Zealand	338	153	31	19
Europe	2,370	3	217	1
Others	23	—	3	—
	<u>175,951</u>	<u>227,605</u>	<u>3,536</u>	<u>(23,189)</u>
Other revenue			788	226
Operating profit/(loss)			<u>4,324</u>	<u>(22,963)</u>

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Leasing of investment properties and machinery for replication of optical discs

Turnover from leasing of investment properties increased to HK\$3.8 million from HK\$2.9 million in the previous year. In view of the buoyant property market, the Group had allocated certain properties for rental purposes with a view to securing stable rental income.

Meanwhile, the turnover from leasing of machinery for replication of optical discs has progressively decreased to HK\$0.8 million, compared with HK\$2.0 million in the same period last year. This business segment had unsatisfactory performance in the past due to the poor local video distribution market and keen price competition within the industry. The decrease in turnover was due to the Group's decision to wind up this business segment where the Group has disposed of all machinery for replication of optical discs to an independent third party at gain of approximately HK\$0.9 million in January 2005. The management has reallocated the resources of this business segment to more profitable businesses.

OUTLOOK

In view of current market demand, the Group will continue to focus on investments in television series productions through joint-production with various partners in the PRC. The management believes that this will favorably position the Group for stronger growth in the long run. During the year under review, the Group has commenced its production of three television series, namely "Magic Chef" (伙頭智多星), "Legend of Wang Zhao Jun" (昭君出塞) and "The Myth of Ah You" (阿有正傳).

In line with its geographical diversification strategy, the Group aims to produce high quality films which not only target the major markets, but also allow for expansion into other potential overseas markets. During the year under review, the Group has commenced on the production of the film "Recycle" (鬼域), directed by Pang Bros. and the film "The Sparrow" (文雀) directed by Johnny To.

Meanwhile, notwithstanding Hong Kong's economic recovery, the outlook of local video distribution business remains uncertain and the Group expects the unfavorable operating environment to continue in the coming year. To respond to such difficulties, the Group will continue to emphasize on streamlining and rationalizing the operations of this business segment.

The Board believes the Group is making good progress towards achieving its goals. The Board is confident that, leveraging on its expertise and experience, the Group will be able to meet with the challenges ahead and remain cautiously optimistic with its future performance.

FINANCIAL RESOURCES/LIQUIDITY AND CAPITAL STRUCTURE

As at 30th June 2005, the Group had cash balances of HK\$93.9 million and unutilized banking facilities amounted to HK\$55.0 million while the corresponding figures in last year were HK\$87.3 million and HK\$65.0 million respectively.

As at 30th June 2005, the Group had total assets of approximately HK\$321.5 million, representing a decrease of HK\$25.5 million over that of 30th June 2004.

The Group's gearing ratio as at 30th June 2005 was approximately 0.1% (2004: 6.8%), which was calculated on the basis of the Group's long term borrowings of approximately HK\$179,000 (of which HK\$77,000, HK\$77,000 and HK\$25,000 are repayable within one year, in the second year and in the third to fifth year respectively) and on the shareholders' fund of approximately HK\$288.9 million. Such significant decrease was wholly due to all properties mortgage loans were repaid during the year.

Finance costs had been reduced by 48.9%, mainly due to a drop in interest expenses as a result of Group's reduced borrowings.

In light of the fact that most of the Group's transactions are denominated in Hong Kong dollars and US dollars, the management considered the exposure to fluctuation in exchange rates is limited and no financial instruments for hedging purposes are used by the Group.

THE PLEDGE OF GROUP ASSETS

As at 30th June 2005, certain assets of the Group with aggregate carrying value of HK\$73.9 million (2004: HK\$65.8 million) were pledged to secure banking facilities utilised by subsidiaries.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June 2005, the Group employed 63 staffs (2004: 120). Remuneration is reviewed annually and certain staffs are entitled to commission. In addition to the basic salaries, staff benefits included discretionary bonus, medical insurance scheme and mandatory provident fund.

AUDIT COMMITTEE

The Audit Committee provides an important link between the Board 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 independent non-executive directors, namely Messrs. Ng Kwok Tung, Chiu Shin Koi and Ma Ting Hung. Two meetings were held during the year under review.

The annual results have been reviewed by the Audit Committee.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the year, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") as the code for dealing in securities of the Company by the Directors. Having made specific enquiry, all the Directors confirmed that all the Directors have complied with the required standard set out in the Model Code throughout the year.

CODE OF BEST PRACTICE AND CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with (a) the Code of Best Practice as set out in the old Appendix 14 of the Listing Rules; and (b) the Code on Corporate Governance Practices as set out in the current Appendix 14 of the Listing Rules (the "New Code") which came into effect on 1st January 2005, throughout the year ended 30th June 2005 except for the following deviations:

1. Code Provision A.4.1

Under the code provision A.4.1 of the New Code, non-executive directors should be appointed for a specific term, subject to re-election. However, all the independent non-executive Directors are not appointed for a specific term but are subject to retirement by rotation and all re-election pursuant to the by-laws of the Company (the "Bye-laws").

2. Code Provision A.4.2

Under the code provision A.4.2 of the New Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to bye-law 87(1) of the Bye-laws, the chairman of the Board and/or the managing director of the Company shall not be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year.

The Company, however, proposes to put forward to its shareholders for approval at the forthcoming annual general meeting a special resolution to amend the Bye-laws to the effect that every Director, including those appointed for a specific term to be subject to retirement by rotation at least once every three years.

3. Code Provision B.1.1

Under the code provision B.1.1 of the New Code, the Company should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. A majority of the members of the remuneration committee should be independent non-executive directors.

A remuneration committee with specific written terms of reference was established by the Company on 15th July 2005. The remuneration committee comprises three independent non-executive Directors and two executive Directors.

4. Code Provision C.3.3

Under the code provision C.3.3 of the New Code, the terms of reference of the audit committee should included at least those duties as set out in that code provision.

The revised terms of reference of the audit committee incorporating all those duties set out in the said code provision was adopted by the Board on 15th July 2005.

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 to the Listing Rules will be subsequently published on the Stock Exchange's website (<http://www.hkex.com.hk>).

By Order of the Board
Lam Shiu Ming, Daneil
Chairman

Hong Kong, 20th October 2005

As at the date of this announcement, the Board comprises Mr. Lam Shiu Ming, Daneil, Ms. Chiu Suet Ying and Mr. Yeung Kim Piu as Executive Directors and Messrs. Ng Kwok Tung, Chiu Shin Koi and Ma Ting Hung as Independent Non-executive Directors.

* For identification purposes only