



UNIVERSE INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30TH JUNE, 1999

Consolidated Profit and Loss Account

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, 1999, together with the comparative figures for the year ended 30th June, 1998 as follows:

	Notes	1999 HK\$'000	1998 HK\$'000
Turnover	2	<u>205,506</u>	<u>156,528</u>
Operating profit before taxation		<u>47,698</u>	<u>30,437</u>
Taxation	3	<u>(6,495)</u>	<u>(5,115)</u>
Profit attributable to shareholders		<u>41,203</u>	<u>25,322</u>
Dividends	4	<u>20,000</u>	<u>57,810</u>
Earnings per share	5	<u>36.33 cents</u>	<u>22.33 cents</u>

Notes:

1. Group reorganisation and basis of preparation

- The company was incorporated in Bermuda on 26th March, 1999 as an exempted company with limited liability under the Companies Act 1981 Bermuda (as amended).
- On 28th June, 1999, pursuant to a group reorganisation to rationalise the group structure in preparation for the public listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group. The Company's shares were successfully listed on the Stock Exchange on 20th July, 1999.
- The group reorganisation referred to above has been reflected in the accounts by regarding the Group, which comprises the Company and its subsidiaries, as a continuing entity. Accordingly, the group accounts have been prepared on the basis as if the Company had been the holding company throughout the accounting periods presented. In the opinion of the directors, the consolidated accounts prepared on the above basis present more fairly the results and the state of affairs of the Group as a whole.

2. Turnover

Turnover represents income from sub-licensing and sale at invoiced value to customers outside the Group, net of discounts.

3. Taxation

	1999 HK\$'000	1998 HK\$'000
Hong Kong profits tax	<u>5,210</u>	<u>5,015</u>
Deferred taxation	<u>1,285</u>	<u>100</u>
	<u>6,495</u>	<u>5,115</u>

Hong Kong profits tax is provided at the rate of 16% (1998: 16%) on the estimated assessable profits for the current year.

The deferred tax effect arising from timing differences is recognised in the accounts to the extent it is probable a liability will crystallise in the foreseeable future.

4. Dividends

As stated in the Company's prospectus dated 6th July, 1999, an interim dividend of HK\$20 million and HK\$57.81 million were paid by the subsidiaries of the Company to its then shareholders for 1999 and 1998 respectively.

5. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to the shareholders of HK\$41,203,000 (1998: HK\$25,322,000) and the 113,400,000 shares deemed to be in issue throughout each of the respective period on the assumption that the reorganisation of the Group had been completed on 1st July, 1997.

6. Reserve movement

The contributed surplus of HK\$51.9 million of the Company is arisen from acquisition of its subsidiaries under the group reorganisation on 28th June, 1999.

MARKET OVERVIEW

During the financial year under review, the home video entertainment market showed increasing popularity. Due to changes in consumer behaviour, home video entertainment has gained rising popularity as it is more economical than cinema going. In addition, viewers can control the viewing time and the flow of programmes without commercial breaks.

As home entertainment equipment become more sophisticated and yet even more affordable, the penetration rate continued to rise. In 1998, 71% and 15% of Hong Kong families owned VCD and DVD players respectively. The penetration rate of DVD players has more than doubled from 1997 to 1998. As a result of more affordable prices on VCD, consumers' preferences have shifted from LD and VHS. Whilst those who preferred renting LD and VHS previously, now prefer to purchase VCD. This creates a soaring demand for VCD and its peripheral products.

Due to its superior output quality as well as compact in size, DVD has also begun to establish itself as a new video format in the home video entertainment industry. With the various special features, such as hidden and multiple language subtitles, AC-3 sound enhancement, making-of, incomparable audio and visual and affordable price, the popularity of DVD no doubt will increase in the future.

Consumers' taste in video content has also evolved. Although motion picture titles continued to be the largest category in home video entertainment to date, VCD are now used for more than just a medium for motion pictures. Education, travelogues, cooking, health and infotainment programmes are but a few popular streams of VCD categories. VCD are also widely used in cross-media promotions, for example, VCD as part of the bonus pack when purchasing consumers' products.

It is a well known fact that piracy severely affected the motion picture industry in Hong Kong and has posed a major threat to the home video entertainment industry. The HKSAR Government has passed a legislation to combat the alarming trend of pirated optical discs in Hong Kong. The Piracy Ordinance came into full effect on 29th August, 1998. The Company believes that such Ordinance is beneficial to the Group business.

BUSINESS REVIEW

Video

During the financial year under review, the turnover from distribution of various formats reached HK\$181 million, representing an increase of 26.7%. Turnover from distribution of VCD and DVD format have increased by 31.5% and 402.9% over the previous year respectively, while turnover from distribution of LD and VHS has declined by 53.2%. VCD continued to be the major audio visual product, constituting 75.8% of annual turnover. Despite the adverse operating environment faced by the Group during the year, the Group still managed to achieve remarkable growth rates which can be attributed to the aggressive and effective sales and marketing efforts.

With a view to broadening the range of home video entertainment programme(s) (the "Titles"), the Group has diversified its variety and range of entertainment products, including motion picture, documentary, animated series, stage performance, recorded live concert, karaoke, TV series, infotainment programme, educational programme, health programmes and adult feature. The wider range of Titles is beneficial for the Group to cater for different market needs. During the year under review, the Group has newly distributed 365 local and foreign Titles (1998: 225 Titles).

The retail price of Titles in VCD formats has become more attractive as such formats became more common to the general public. The Group's sale of VCD during the year increased significantly. Thanks to the government's commitment in combating piracy and competitive pricing of legitimate VCD, viewers' preference have shifted from pirate VCD to legitimate VCD as they can enjoy a much better audio and visual quality. In order to capture more opportunities to enhance its market share, the Group strengthened its customer base by expanding its distribution network to include convenience chain stores, supermarket chains and department stores. The Group has also enhanced its production capacity by adding new VCD replication lines during the year. The enhanced capacity will save replication cost, shorten lead-time and improve control on quality.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of the Company will be held at Victoria Room, 4th Floor, Furama Hotel, Hong Kong, 1 Connaught Road Central, Hong Kong on 29th November, 1999 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, 1999.
- 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 per cent. 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)."

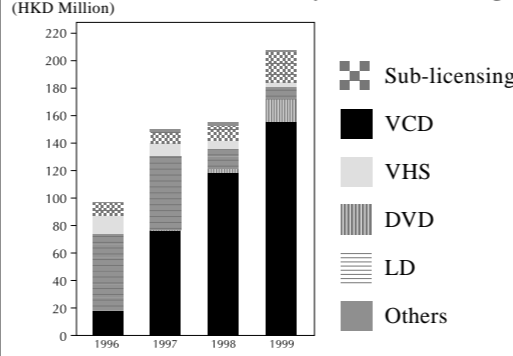
B "THAT"

- 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 unconditionally approved;

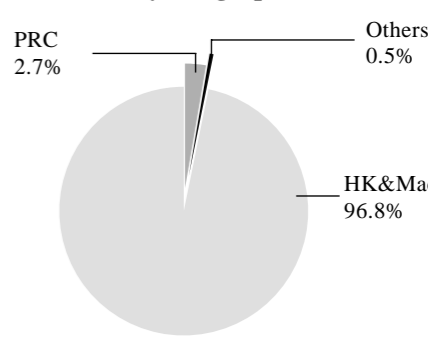
Financial Highlights

- Net Profit: HK\$41.2 million, increased by 62.7%
- Net profit margin: 20.1%, (1998: 16.2%)
- Bank balances and cash: HK\$12.6 million
- Net assets: HK\$61.1 million, increased by 57.4%

Turnover by Product Categories



Turnover by Geographical Area



While the Group's sale of VCD market was growing significantly, the sale of DVD was growing in leaps and bounds. During the year under review, the Group distributed 128 local and foreign Title in DVD format (1998: 26 Titles), with DVD sales increased by over 400% compared to that of last year. Turnover from distribution of DVD format has rapidly increased from HK\$3 million to HK\$15.08 million, constituting 7.3% of the annual turnover. The Directors believe that DVD will continue to grow substantially due to consumers' higher expectations of visual and audio quality. The DVD replication facilities that have been installed and are expected to commence production by the end of 1999. The Group believes revenue for DVD products will increase due to the successful penetration and popularity of DVD products in the home video entertainment market.

Sub-licensing

During the year under review, the sub-licensing business of the Group showed spectacular growth. The turnover generated from the sub-licensing of Titles was HK\$22.73 million, representing an increase of 108% compared to the previous year. It also accounted for 11.1% of the total turnover for current year.

The Group envisages much market potential in this stream of business with the increasing channels of which it is able to distribute its Titles. The Group had succeeded in tapping the People's Republic of China (the "PRC") market through sub-licensing of Titles to publishing houses in which HK\$5.46 million of turnover was generated from sub-licensing business in the PRC, an increase of over 10 times as compared to HK\$0.39 million last year. With its vast Title library, the Group was able to offer a wide range of Titles to different media including pay and free television operators, video-on-demand operators, airline, cruise ship and hotel.

PROSPECTS

The Group has succeeded in broadening the variety of Titles offered to its customers. Apart from motion pictures, the Group intends to continue to work closely with various production companies in relation to the production of infotainment programmes or acting as the worldwide sole distribution agent to handle the licence of all rights in all formats for such programmes to satisfy different market demands.

The Group will continue to expand its distribution network in Hong Kong to include more department stores, supermarket chains, convenience store chains and other business chains.

The Group intends to commence the replication of optical discs for its customers to broaden its revenue base in the future. In order to cope with the expansion of the business, the Group has set up more production lines for the replication of optical discs. The Group had also acquired an industrial unit to accommodate the expanded capacity of the optical discs replication facilities recently. The directors believe that the Group is well positioned to enhance its profitability from such vertical integration through cost saving and better quality control on products.

The directors also believe that there is still room for expansion in the sub-licensing business in the South East Asia and the PRC. There is a strong sign showing that the economy of this region is recovering gradually from the Asia financial turmoil. The directors believe that South East Asia and the PRC has a promising long-term growth potential.

With the determination of the HKSAR Government to combat piracy and together with the recovery from the Asia financial turmoil, the directors believe that recovery is well on track and are confident that the Group is able to further prosper in the future.

USE OF NET PROCEEDS

The Group was listed on The Stock Exchange of Hong Kong Limited on 20th July, 1999. The proceeds raised from the initial public offer was not received for the year ended 30th June, 1999.

As at 5th October, 1999, out of the net proceeds from the initial public offer of approximately HK \$46.8 million, the Group has applied approximately HK\$14.6 million and HK\$3.4 million for purchasing of Titles to expand its library and the setting up of production lines for the replication of optical disc respectively. The Group has announced to acquire certain DVD replication machines on 28th September, 1999, 20% of contract price (approximately HK\$7 million) will be financed by the proceeds from the new issue of shares in July 1999.

CORPORATE GOVERNANCE

The Company has complied, since the listing of its shares on the Stock Exchange to 11th October, 1999, with those paragraphs of the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange, with which it is required to report compliance. On 11th October, 1999, the Company established an Audit Committee comprised of Messrs. Ng Kwok Tung, Tang Yiu Wing and Chiu Shin Koi. In establishing the terms of reference for this committee, the directors have had regard to the "Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997.

YEAR 2000 ISSUE

The Group is fully aware of the importance of Year 2000 compliance. There could be an adverse impact on the Group if its computer systems do not function properly with respect to date-related data in the Year 2000 and beyond.

The Group has completed assessing the ability of its present management information systems to recognise and process data beyond 31st December, 1999 and has completed the necessary actions to achieve the Year 2000 compliance. Based on the review and actions taken, the Group does not anticipate the Year 2000 issue will have a significant impact on its business and operations.

FINAL DIVIDEND

The directors do not recommend the payment of a final dividend.

PURCHASE, SALE OF REDEMPTION OF SECURITIES

The Company's shares commenced trading on the Stock Exchange on 20th July, 1999. Up to date of this announcement neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

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

Hong Kong, 11th October, 1999

- 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 per cent. 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."

C. "THAT conditional upon Resolution 4A and Resolution 4B set out in the notice convening this meeting of which this Resolution forms part be 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 per cent. of the aggregate nominal amount of the share capital of the Company as stated in Resolution 4B 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 4A 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, 11th October, 1999

Notes:

- 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 Rooms 3503-3505, 35/F Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, 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 4B above will be circulated with the 1999 Annual Report and Accounts to be sent to shareholders.