



UNIVERSE INTERNATIONAL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31ST DECEMBER 2001

The Board of Directors of Universe International Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 31st December 2001, together with comparative figures for the corresponding period in the previous year, were as follows:—

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	For the 6 months ended 31st December	
		2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Turnover	2	160,440	141,026
Cost of sales		(114,716)	(93,183)
Gross profit		45,724	47,843
Other revenue		594	712
Other operating income		1,107	4,141
Selling expenses		(2,098)	(3,477)
Administrative expenses		(13,094)	(16,126)
Other operating expenses		(1,470)	(1,251)
Operating profit	3	30,763	31,842
Finance costs		(1,685)	(3,577)
Profit before taxation		29,078	28,265
Taxation	4	(4,619)	(4,240)
Profit attributable to shareholders		24,459	24,025
Dividends	5	2,859	5,670
Basic earnings per share (HK cents)	6	2.57	2.54
Fully diluted earnings per share (HK cents)	6	2.33	2.32

Notes:

1. Basis of preparation and principal accounting policies

These unaudited condensed consolidated interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants.

These condensed interim accounts should be read in conjunction with the 2001 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 30th June 2001 except that the Group has changed certain of its accounting policies following its adoption of the following Statements of Standard Accounting Practice (SSAPs) issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2001 including the following:

SSAP 9 (revised):	Events after balance sheet date
SSAP 26:	Segment reporting
SSAP 29:	Intangible assets

The changes to the Group's accounting policies and the effect of adopting these new policies are set out below:

(a) SSAP 9 (revised) Events after balance sheet date

In accordance with the revised SSAP 9, the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

Opening retained earnings at 1st July 2000 have increased by HK\$5,670,000 which is the reversal of the provision for the 2000 proposed final dividend previously recorded as a liability as at 30th June 2000 although not declared until after balance sheet date. Opening retained earnings at 1st July 2001 have increased by HK\$2,859,000 which is the reversal of the provision for 2001 proposed final dividend previously recorded as a liability as at 30th June 2001 although not declared until after the balance sheet date.

This adjustment has resulted in a decrease in current liabilities at 30th June 2001 by HK\$2,859,000 for provision for proposed dividends that is no longer required.

Changes to headings used in the previously reported 30th June 2001 balance sheet and profit and loss account relating to dividends and profit for the year retained have also been made to reflect the changes resulting from SSAP 9 (revised).

(b) SSAP 26: Segment Reporting

In Note 2 to these condensed interim accounts the Group has disclosed segment revenue and results as defined under SSAP 26. In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format. Comparative information has been given.

(c) SSAP 29: Intangibles

Film rights and films in progress

Film rights and films in progress comprise fees paid in advance and/or instalments during the production of films under agreements for the reproduction and distribution of films in various formats, film exhibition, licensing and sub-licensing of film titles. These fees are capitalized and amortized on a systematic basis.

The adoption of SSAP 29 has meant that these film rights and films in progress that have been classified as current assets as at 31st December 2001 meet the recognition and measurement criteria prescribed in the new standard and as a result are reclassified as a non-current asset in the balance sheet. In accordance with the transitional provisions of SSAP 29, this reclassification has been applied retrospectively so that the comparatives presented have been restated to conform to the reclassification.

This reclassification has resulted in an increase in non-current assets by HK\$100,504,000 (as at 30th June 2001: an increase by HK\$115,790,000) and a decrease in current assets by the same amount as at 31st December 2001 and 30th June 2001 respectively.

2. Segment information

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

An analysis of the Group's turnover and profit before taxation for the period by business and geographical segments is as follows:—

	Turnover For the 6 months ended 31st December		Profit before taxation For the 6 months ended 31st December	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Analysis by business segments				
Sales of goods	113,053	106,285	21,247	27,306
Film exhibition, film licensing and sub-licensing	44,563	31,764	8,022	3,274
Replication of optical discs	2,824	2,977	900	550
	<u>160,440</u>	<u>141,026</u>	<u>30,169</u>	<u>31,130</u>
Other revenue			594	712
Finance costs			(1,685)	(3,577)
Profit before taxation			<u>29,078</u>	<u>28,265</u>
Analysis by geographical segments				
Hong Kong and Macau	143,837	128,757	26,590	28,478
Asia (other than Hong Kong and Macau)	8,568	11,182	2,434	2,520
North America	7,930	867	1,087	65
Others	105	220	58	67
	<u>160,440</u>	<u>141,026</u>	<u>30,169</u>	<u>31,130</u>
Other revenue			594	712
Finance costs			(1,685)	(3,577)
Profit before taxation			<u>29,078</u>	<u>28,265</u>

3. Operating profit

Operating profit is stated after crediting and charging the following:

	For the 6 months ended 31st December	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Crediting		
Interest income	594	712
Charging		
Cost of inventories sold	37,915	34,977
Amortisation of film rights	70,623	52,609
Depreciation:		
— owned fixed assets	6,452	6,675
— leased fixed assets	6,037	6,379

4. Taxation

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

5. Dividends

	For the 6 months ended 31st December	
	2001 HK\$'000	2000 HK\$'000
Final dividend, declared, of HK0.3 cent per ordinary share (2000: final dividend, declared of HK0.6 cent per ordinary share)	2,859	5,670

The previously recorded final dividends proposed and declared after the balance sheet date but accrued in the accounts for the year ended 30th June 2000 and 2001 were HK\$5,670,000 and HK\$2,859,000 respectively. Under the Group's new accounting policy as described in Note 1(a), these have been written back against opening reserves as at 1st July 2000 and 2001 are now charged in the period in which they were proposed.

6. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of approximately HK\$24,459,000 (2000: HK\$24,025,000) and on the weighted average of 952,976,616 ordinary shares in issue (2000: 945,000,000 ordinary shares) during the period.

The calculation of diluted earnings per share is based on the Group's profit attributable to shareholders of approximately HK\$24,459,000 (2000: HK\$24,025,000) plus interest after taxation on convertible notes of approximately HK\$462,000 (2000: HK\$391,000) and on 1,068,543,849 (2000: 1,053,231,711) ordinary shares, which is the weighted average number of ordinary shares in issue during the period plus the weighted average of 115,567,233 (2000: 108,231,711) ordinary shares deemed to be issued at no consideration if all outstanding options and convertible notes had been exercised.

INTERIM DIVIDEND

The Board of Directors does not recommend the payment of an interim dividend in respect of the six months ended 31st December 2001 (2000: Nil).

REVIEW OF OPERATIONS

I. Overall review

Despite the current economic slowdown in Hong Kong, the directors are delighted to see that the Group's business has grown in the first half of the current financial year. The Group's unaudited consolidated turnover for the six months ended 31st December, 2001 was approximately HK\$106.4 million, an increase of 13.8% over the comparative period last year. Profit attributable to shareholders was HK\$24.5 million, representing an increase of 1.8% compared with the same period last year.

During the period under review, the Group recorded a satisfactory growth in turnover despite a sluggish retail market and keen competition in the industry. Under this operating environment, the Group experienced a decline in gross profit margin. However, by adopting tighter cost and inventory controls, the Group achieved a 18.8% reduction in overheads and improvement in inventory turnover from 93 days to 85 days.

II. Business review

An analysis of the Group's revenue for the six months ended 31st December 2000 and 2001 by business segment is as follows:—

	2001 HK\$'000	2000 HK\$'000	% Increase/ (Decrease)
Sale of goods	113,053	106,285	6.4%
Film exhibition, film licensing and sub-licensing	44,563	31,764	40.3%
Replication of optical discs	2,824	2,977	(5.1%)
Total	<u>160,440</u>	<u>141,026</u>	<u>13.8%</u>

Video distribution

The results for the video distribution for the period under review is encouraging despite the depressed economic situation in Hong Kong as revenue from video distribution increased by 6.4% as compared with the same period last year.

Like most of our counterparts in the industry, the Group has been facing an adverse retail environment. In response to the lack of consumer confidence and contracted consumer spending at the time of economic recession and high unemployment, the Group has adopted an aggressive pricing strategy in order to stay competitive and maintain our market share. This has resulted in a reduction of operating profit from video distribution to HK\$6.1 million for the six month period ended 31st December 2001 as compared to HK\$27.3 million for the same period last year.

Product diversification was another main strategy adopted by the Group. Apart from the distribution of motion pictures, the Group had also strengthened the distribution of local concerts of a number of the top artists in the music industry. "Andy Lau in Concert 2001" ("劉德華夏日Fiesta演唱會 2001") was our first VCD and DVD product of local live concerts distributed during the period under review which is quite welcomed by the public due to the setting of a more attractive price of the VCD and DVD products at the retail level.

Film exhibition, film licensing and sub-licensing

During the period under review, the revenue from film exhibition, film licensing and sub-licensing increased significantly by 40.3% to HK\$44.6 million compared with same period last year. Revenue generated from overseas has also rose to approximately HK\$16.6 million, representing an increase of 35.3% compared with same period last year. Such growth was evident of the success of the Group's effort in implementing the strategy of investing in film production, which began last year. One of the major sources of revenue from film exhibition, film licensing and sub-licensing was contributed by the box office hits "Shaolin Soccer", which posted a record-breaking gross box office taking in Hong Kong of over HK\$60 million. The Group also realized satisfactory returns through the distribution of the entertainment programmes to various regions of the world.

Replication of optical discs

Revenue from the optical disc replication service declined slightly due to price cuts in the highly competitive business environment for this industry.

PROSPECTS

Although the local economic outlook has remained uncertain in the second half of the financial year, with the Group's well-defined diversification strategies in both geographical distribution and products, the management is confident that the Group will be able to overcome the challenges ahead and maintain its leading position in the industry. In order to implement these strategies, the Group will continue its role as a content provider and expand the content library through investing in film production, such as "Tiramisu" ("戀愛行星") starring Nicholas Tse and Karena Lam, "Saving Family" ("慳錢家族") starring Do Do Cheng, Eric Tsang, Eason Chan and Miriam Yeung and sourcing a variety of music titles, such as "Miriam Music is Live 2001" ("楊千嬅拉濶音樂會2001"), "Jenny in concert 2001" ("甄妮有你 2001 演唱會") and "Leon Live is Live 2001" ("黎明Leon Live is Live 演唱會2001").

The co-operation with Miramax Films Corporation in the theatrical release and distribution of "Shaolin Soccer" in the United States and other regions of the world was a major milestone in the development of overseas markets for the Group. Such co-operation will provide the opportunities for Universe products to penetrate all around the world and broaden the Group's distribution channels. The Group will explore opportunities to develop more overseas markets and form alliances with producers and distributors in the west.

The management is optimistic about the future development and business opportunities in the mainland China. In view of the PRC Government's recent reformation of its laws allowing foreign enterprises to participate directly in the video distribution industry in the PRC, the Group plans to set up a joint venture company in the PRC. The management believes that China's entry into the World Trade Organization will lead to further deregulation of its entertainment industry. Capitalizing a well-established network with publishing houses in the PRC over the past years and valuable experience gained from the co-operation with production company during the shooting of "Shaolin Soccer" in the PRC, the directors believe the Group is well equipped to take advantage arising from further deregulation. The management expects spectacular growth prospects to be underpinned by business opportunities in this huge market.

FINANCIAL RESOURCES/LIQUIDITY AND CAPITAL STRUCTURE

As at 31st December 2001, the Group had cash balances and unutilized banking facilities of approximately HK\$88 million and HK\$67 million respectively.

As at 31st December 2001, the Group had total assets of approximately HK\$408 million, representing an increase of HK\$16 million over that of 30th June 2001. Such increase was attributable mainly to the Group's cash position.

The Group's gearing ratio as at 31st December 2001 was approximately 37% (30th June 2001: 44%), which was calculated on the basis of the Group's long term bank borrowings of approximately HK\$43 million and convertible notes of approximately HK\$54 million, and on the shareholders fund of approximately HK\$262 million.

Finance costs have been decreased by 53%, mainly due to a drop in interest expenses as a result of the Group's reduced borrowings and lowered interest rates.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December 2001, the Group had 201 employees. Remuneration is reviewed annually and certain staffs are entitled to commission. In addition to basic salaries, staff benefits include discretionary bonus, medical insurance scheme and mandatory provident fund.

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

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

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 31st December 2001 with the management.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

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 the Listing Rules of The Stock Exchange of Hong Kong for the six months ended 31st December 2001.

DETAILED INTERIM RESULTS ANNOUNCEMENT

A detailed interim results announcement containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Rule Governing the Listing of Securities on the Stock Exchange will be subsequently published on the Stock Exchange's website (<http://www.hkex.com.hk>) in due course.

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