



**MILKYWAY IMAGE**

**Milkyway Image Holdings Limited**  
**銀河映像控股有限公司**  
(incorporated in the Cayman Islands with limited liability)

Annual Report 2003

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

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*This report, for which the directors of Milkyway Image Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Milkyway Image Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: 1. The information contained in this report is accurate and complete in all material respects and not misleading; 2. There are no other matters the omission of which would make any statement in this report misleading; and 3. All opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

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# Corporate Information

## Executive Directors

Mr. To Kei Fung (Chairman)  
Ms. Chan Dao Ho  
Mr. Ng Hung Keung

## Independent Non-Executive Directors

Ms. Ho Mei Yee  
Mr. Tam Kwok Fai, Jasper

## Qualified Accountant

Mr. Siu Yun Tang

## Company Secretary

Mr. Siu Yun Tang

## Authorised Representatives

Mr. Ng Hung Keung  
Ms. Chan Dao Ho

## Compliance Officer

Ms. Chan Dao Ho

## Audit Committee

Ms. Ho Mei Yee  
Mr. Tam Kwok Fai, Jasper

## Registered Office

Century Yard  
Cricket Square  
Hutchins Drive  
P.O. Box 2681GT  
George Town  
Grand Cayman  
British West Indies

## Head Office and Principal Place of Business

1st Floor, 77 Hung To Road  
Kwun Tong  
Kowloon  
Hong Kong

## Company Website

<http://www.milkywayimage.com>

*Note: Information contained in this website does not form part of this annual report*

## Stock Code

8130

## Sponsor

Hantec Capital Limited  
45th Floor, COSCO Tower  
183 Queen's Road Central  
Hong Kong

## Principal Banker

Hang Seng Bank  
No. 83 Des Voeux Road Central  
Hong Kong

## Principal Share Registrar and Transfer Office

Bank of Bermuda (Cayman) Limited  
36C Bermuda House  
British American Centre  
Dr. Roy's Drive  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

## Hong Kong Branch Share Registrar and Transfer Office

Secretaries Limited  
Ground Floor, BEA Harbour View Centre  
56 Gloucester Road  
Wanchai  
Hong Kong

## Auditors

Moores Rowland  
34th Floor, The Lee Gardens  
33 Hysan Avenue  
Causeway Bay  
Hong Kong

## Legal Advisers to the Company

*as to Hong Kong Law*  
Tsun & Partners  
Suite 1002, 10th Floor, Aon China Building  
29 Queen's Road Central  
Hong Kong

*as to the Cayman Islands Law*  
Conyers Dill & Pearman, Cayman  
Century Yard  
Cricket Square  
Hutchins Drive  
George Town  
Grand Cayman  
British West Indies

## Chairman's Statement

On behalf of the board (the "Board") of the directors (the "Directors") of Milkyway Image Holdings Limited (the "Company"), I have pleasure to present to the shareholders of the Company (the "Shareholders") the first annual report of the Company and its subsidiaries (the "Group") for the year ended 31 March 2003.

It gives me great honor to report that the Group has successfully listed on The Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 26 August 2002. This represented a major milestone for the Group to expand its business into a well-established film production company.

In respect of film production, the Group has entered into agreements with various successful film companies to produce quality films. The films produced and delivered by the Group such as "Love For All Seasons" 「百年好合」 and "PTU" have earned praise and encouraging box office receipt in local market. In addition, the Group also received awards and acclaims from international film festivals for the films produced by the Group. In addition, the Group has signed a film production agreement with Warner Bros. to co-produce a film "Turn Left Turn Right" 「向左走 • 向右走」. The film is the first Chinese language film that Warner Bros. invested in and has been completed. We believe the production of the film with Warner Bros. will open up new possibilities for the Group to penetrate into the global market.

Looking ahead, the Group will continue to produce high quality films to meet the preferences of different audience. Apart from film production business, the Group will also identify possible opportunities of other film related businesses so as to achieve more public awareness and broaden Group's revenue as well.

Finally, I would like to take this opportunity to express our gratitude to the management and staff for their commitment and dedication to the Group. I would also like to extend my sincere appreciation to our shareholders, business partners, customers and suppliers for their continuous support.

**To Kei Fung**

*Chairman*

Hong Kong

24 June 2003

# Management Discussion and Analysis

## FINANCIAL REVIEW

### Turnover and net profit

The Group's turnover for the year ended 31 March 2003 was approximately HK\$55.7 million, representing a decrease of 42% when compared to that of previous financial year. The decrease in turnover was primarily due to reduced number of films produced by the Group as a result of stringent cost control measures of film companies. The total number of films produced by the Group during the year under review was four compared with eight in last year. However the Group had generated a revenue of approximately HK\$15.1 million from the production of six TV movies which represented a new business segment of the Group.

The total administration and operating expenses for the year ended 31 March 2003 increased approximately 129% as compared with the same period last year. The increase was primarily due to additional fee in compliance with the GEM Listing Rules after listing of the Company's shares on the GEM, increased operating lease charges for premises as a result of removal to a larger working area, increased depreciation charges associated with the establishment of in-house editing and sound mixing studio, other capital expenditure and reallocation of expenses during the year under review.

For the year ended 31 March 2003, the Group reported a net profit of approximately HK\$2.5 million, representing a decrease of approximately 67% over that of the previous financial year.

### Liquidity, financial resources and capital structure

As at 31 March 2003, the shareholders' funds of the Group amounted to approximately HK\$20.9 million. Current assets amounted to approximately HK\$46.7 million, of which approximately HK\$11.4 million were cash and bank deposits. Current liabilities amounted to approximately HK\$36.3 million mainly comprised advanced receipts from film companies and trade and other payables.

As the Group continued to have inflow of advanced receipts from the film companies, the Directors believed that the Group has been in good financial position and did not anticipate any liquidity problem as at the report date.

The Group generally finances its operation and investing activities with internally generated cash flow and a portion of the net proceeds from the Share Offer. The Group had applied the proceeds in the manner as stated in the Prospectus. Surplus funding not immediately applied was maintained with banks in Hong Kong and will be applied in the manner as stated in the Prospectus. As the Group's business transaction for the year ended 31 March 2003 was denominated in Hong Kong Dollars and the bank deposits were also made in Hong Kong Dollars, the Group did not expose to any foreign exchange risks.

# Management Discussion and Analysis

## Material acquisition, disposal and significant investments

For the year ended 31 March 2003, the Group had made an investment in editing and sound mixing equipment to establish its own in-house studio with manner as disclosed in the Prospectus. Besides, the Group has entered into a co-investment agreement with a PRC film company for one film production project.

The Group also made an investment in the acquisition of camera and lighting equipment in May 2003 from internal resources of the Group. The Directors believed that the acquisition would reduce reliance on third parties in provision of filming equipment, enhance the shooting schedules and reduce the operating cost of the Group.

For the year ended 31 March 2003, the Group made no material acquisitions or disposals of subsidiaries.

## Employees and remuneration policies

As at 31 March 2003, the Group employed a total of 11 employees, including the Directors. In order to cope with the changing operating environment, the Group continued to streamline the workforce and maintain a cost effective remuneration scheme. The salary and benefit levels of the Group's employees was in line with the prevailing market practice and was determined on the basis of the performance and experience. For the year ended 31 March 2003, staff costs including Directors' remuneration was approximately HK\$6.6 million. The Group has also adopted an employee share option scheme pursuant to which the Group may grant options to employees to subscribe for shares of the Company. As at 31 March 2003, no such option has yet been granted.

## Charges on Group assets

As at 31 March 2003, the Group did not pledge any of its assets to banks and financial institutions to secure any general credit facilities.

## Gearing ratio

As at 31 March 2003, the gearing ratio, expressed as a percentage of total debts over total equity, was 1.3% (2002: 30.5%).

## Contingent liabilities

As at 31 March 2003, the Group did not have any material contingent liabilities.

# Management Discussion and Analysis

## **BUSINESS REVIEW**

### **Segment information**

The Group mainly focused on the production of film service whereas the Group would also explore other film related business opportunities so as to broaden the revenue base. For the year ended 31 March 2003, the turnover from the production of TV movies was approximately HK\$15.1 million, being 27% to the total turnover of the Group. The Directors believe that the demand for TV movies in the PRC market is increasing and the Group will benefit from penetrating into PRC market of this new business segment without additional investment.

### **Sales and Marketing**

With the aim of raising public awareness and enhancing the sales potential of the films produced by the Group, the Directors believed that actively promote and market its films by participating in both local and international film festivals would serve this purpose and became an integral part of the Group's marketing strategy.



## Management Discussion and Analysis

The Group has not only earned praises and achieved encouraging box office receipts in local market for the films produced by the Group, but has also proven its competitiveness in international film market. For the year ended 31 March 2003, the films produced by the Group received awards and acclaims were shown as follows:

Name of Films	Film Festivals	Awards and acclaims
My Left Eye Sees Ghosts 「我左眼見到鬼」	2002 Taipei Golden Horse Award	Best Actress Nomination – Sammi Cheng
Fat Choi Spirit 「嚟咕嚟咕新年財」	2002 Udineincontri Cinema Far East Film	Official Selection
Running Out of Time 2 「暗戰 2」	2002 Seattle International Film Festival 2002 Philadelphia Festival of World Cinema 2002 Taipei Golden Horse Award	Official Selection – U.S. Premier “Danger After Dark” Official Selection – International Premier Best Visual Effects Nomination Best Cinematography Nomination Best Action Choreography Nomination Best Sound Nomination Best Editing
Fulltime Killer 「全職殺手」	2002 New York Asian International Film Festival 2002 San Francisco Film Festival 2003 SXSW Film Festival	Official Selection (HK Kickoff Night) Official Selection Official Selection
Love on a diet 「瘦身男女」	2002 Udineincontri Cinema Far East Film	Official Selection
The Mission 「鎗火」	2002 Croatia Motovun Film Festival 2002 Barcelona Asian Film Festival	Official Selection Official Selection
PTU	2003 Berlin Film Festival 2003 Udine Far East Film Festival 2003 Hong Kong International Film Festival	Official Selection Closing Film Opening Film

# Management Discussion and Analysis

## Film production

Regarding the film projects signed with One Hundred Years of Films Company Limited (“OHY”), Golden Harvest Film Productions Limited (“Golden Harvest”) and Teamwork Motion Pictures Limited (“Teamwork MP”), the Group has completed the production of two films *“My Left Eye Sees Ghosts”* [我左眼見到鬼] and *“Love For All Seasons”* [百年好合] for the year under review and had been screened in July 2002 and February 2003 respectively with satisfactory box office receipt. In addition, the Group has signed with OHY to produce one film *“Running On Karma”* [大隻佬和尚] which has been put into production. Apart from the aforesaid film companies, the Group has produced a film *“PTU”* for another local film company and the film had been screened in the second quarter of 2003.

During the year under review, the Group has signed another film production agreement with Warner Bros., a leading American film production company, to produce a film *“Turn Left Turn Right”* [向左走 • 向右走] which has been completed. The Directors believed that the production of this film with Warner Bros. would reinvigorate the Chinese film market and open up new possibilities for the Group to penetrate into the global market. Nevertheless, the Group will continue to identify possible film production opportunities with overseas film companies in order to expose the Group’s awareness to the overseas market.

## Film investment

In order to take advantage of the partial copyright ownership to generate recurring licensing income, the Group has entered into a co-investment agreement with a film production company and has contributed HK\$2 million, being 50% of the total investment cost of HK\$4 million. Pursuant to the co-investment agreement, the Group will then own 50% of the film rights and share 50% of the profit from all kinds of income arising from the film. It is expected that the Group will complete the film at the end of the year of 2003.

## Establishment of studios

In order to improve the quality of the films produced by the Group and enhance the efficiency of the film production, the Group has established its own in-house editing and sound mixing studio as disclosed in the Prospectus which had been put into operation in the fourth quarter for the year 2002.

## Future plans for material investments

Other than those disclosed under the section headed “Statement of Business Objectives” in the Prospectus, the Group does not have any future plans for material investments.

# Management Discussion and Analysis

## Prospects

The outbreak of Severe Acute Respiratory Syndrome (“SARS”), especially in Asia Pacific caused a negative impact to the business operation of many industries. In Hong Kong, the threat of SARS has significant impact to the performance of the theatrical market. However, with the disease slowly coming under control in Hong Kong and the encouraging activities launched by the government and the commercial enterprises, it is expected that the economy will slowly recover.

The Group will continue to produce quality films to meet preference of different audience under the film production agreements signed with local famous film companies, namely, OHY, Golden Harvest and Teamwork MP. Besides the Group will also identify possible film co-production opportunities with other film companies, especially internationally in order to expose the Group’s awareness to the overseas market.

Apart from the film production, the Group will identify possible film related business opportunities in order to broaden the Group’s revenue base. By leveraging on its management and production personnel expertise in film production industry, the Group has laid down a solid foundation to prepare for exciting future. The Group intends to establish its own in-house script library by acquiring, from time to time, quality screenplay with different titles from external freelance script writers apart from those developed by the Group. The Directors believe that the establishment of the script library will further improve the quality of films produced by the Group and enhance the efficiency of the Group’s film production process when the Group is approached by other film companies.

## Comparison of Business Objectives with Actual Business Progress

The following is a summary of the actual progress made in comparison with the business objectives as set out in the Company's prospectus dated 13 August 2002 (the "Prospectus") for the period from the Company's latest practicable date being 6 August 2002 ("Latest Practical Date") to 31 March, 2003:

For the period from the Latest Practicable Date to 30 September 2002

Business objectives as set out in the Prospectus	Actual business progress
<i>Purchase of filming equipment and establish editing and mixing studio</i>	
<ul style="list-style-type: none"> <li>• Acquisition of hardware and software for establishing own editing and sound mixing studio to enhance the quality and efficiency of film production</li> </ul>	Implemented as planned
<ul style="list-style-type: none"> <li>• Employ one personnel for operating the studio</li> </ul>	No new staff was employed
<ul style="list-style-type: none"> <li>• Acquisition of camera and lighting equipment</li> </ul>	Not yet implemented
<i>Film production</i>	
<ul style="list-style-type: none"> <li>• Schedule to deliver two films</li> </ul>	One film was delivered
<ul style="list-style-type: none"> <li>• Schedule to enter into contracts with script writers, film directors and producers</li> </ul>	Two script writers, one film director and one artist were engaged
<ul style="list-style-type: none"> <li>• Employ two persons responsible for assisting daily film production and administrative work</li> </ul>	No full-time staff was employed
<i>Film investment</i>	
<ul style="list-style-type: none"> <li>• Make investment in one film project with other film producers or companies</li> </ul>	Implemented as planned

## Comparison of Business Objectives with Actual Business Progress

For the six-month period from 1 October 2002 to 31 March 2003

Business objectives as set out in the Prospectus

Actual business progress

*Purchase of filming equipment and establish editing and mixing studio*

- Commence to upgrade the editing and mixing studio

The studio had been put into operation in the fourth quarter of the year 2002

*Film production*

- Schedule to deliver six films
- Continue to engage production personnel and artists to secure the Group's production capacity
- Identify possible business opportunities to co-produce films with the US film production companies to expose the Group's awareness to other overseas market

Three films were delivered and six TV movie had been produced

One film director and two artists were engaged

One film had been co-produced with a US film production company

*Film investment*

- Continue to identify possible film investment opportunities with overseas film companies

One film had been co-invested with a PRC film company and expected to complete the film at the end of the year 2003

## Comparison of Business Objectives with Actual Business Progress

### Use of proceeds from the Company's initial public offering

The Group raised, after deducting related expenses, net proceeds of approximately HK\$17 million upon listing of the Company's shares on the GEM of the Stock Exchange. For the year ended 31 March 2003, the Group had applied approximately HK\$13.8 million in accordance with the proposed applications set out in the Prospectus as follows:

	Planned amount up to 31 March 2003 <i>HK\$ in million</i>	Actual amount up to 31 March 2003 <i>HK\$ in million</i>	Variance <i>HK\$ in million</i>	Remarks
Film production	5.2	6.0	0.8	The Group has engaged the film directors, script writers and popular artistes to secure sufficient number of production personnel for fulfilling the obligations contemplated under the production agreements entered into with major film companies.
Film investment	3.0	2.0	(1.0)	The Group has entered into a co-investment agreement with a PRC film company for one film project with lower cost of investment than expected.
Purchase of filming equipment and establish editing and mixing studio	4.6	5.0	0.4	No material variance.
Working capital	0.4	0.8	0.4	No material variance.
Grand total	<u>13.2</u>	<u>13.8</u>	<u>0.6</u>	

There were no material deviations from the intended use of the net proceeds for the year ended 31 March 2003 as disclosed in the Prospectus. The Directors presently do not anticipate any material deviation from the intended use of the net proceeds as disclosed in the Prospectus. To the extent that the net proceeds are not immediately applied for the above purposes, it is the present intention of the Directors to maintain such net proceeds as short term deposits with banks in Hong Kong until such time when they are required.

# Profiles of Directors and Senior Management

## DIRECTORS

### Executive Directors

**Mr. To Kei Fung**, aged 48, is the founder, chairman and managing Director of the Group responsible for overall strategic planning and policy making. He also acts as film director, producer and consultants of the Group's particular film projects. Mr. To has over 20 years experience in the Hong Kong television and film industries as a producer and director. Prior to establishing the Group in May 1996, Mr. To had worked as a producer for Television Broadcasts Limited for approximately 15 years. He had also held the position of Chief Operational Officer of China Star Laser Disc Co. Ltd. He had produced and/ or directed 25 local films, of which two of them, namely, *"Eight Happiness"* [八星報喜] and *"Justice, My Foot"* [審死官] achieved the highest box office in the years 1988 and 1992 respectively. In 2000, Mr. To produced and directed *"Needing you..."* [孤男寡女] which attained the highest box office of the relevant year.

**Ms. Chan Dao Ho**, aged 39, is the production executive and executive Director of the Group. Ms. Chan is responsible for overseeing and supervising the administration and film production project of the Group. Prior to joining the Group in May 1996, Ms. Chan worked as an assistant director for Film Workshop Limited and then joined DLO Productions Limited as a production manager. Ms. Chan has over 15 years experience in the Hong Kong film industry.

**Mr. Ng Hung Keung**, aged 37, is the treasurer and executive Director of the Group. Mr. Ng is responsible for treasury of the Group. Prior to joining the Group in May 1996, Mr. Ng worked as an accountant for Oriental Harbour Chinese Restaurant. Mr. Ng has over 10 years experience in the accounting field. He holds the Higher Certificate of Accountancy of Hong Kong Technical Colleges.

### Independent Non-Executive Directors

**Ms. Ho Mei Yee**, aged 39, joined Television Broadcasts Limited in 1987 and was later promoted to the Administration Officer position of the drama division. Prior to joining the Group, Ms. Ho was working as the production services controller at China Star I-Content Limited. Ms. Ho was appointed by the Group in November 2001 and has accumulated over 14 years of experience in the entertainment industry.

**Mr. Tam Kwok Fai, Jasper**, aged 51, graduated from McGill University with a bachelor degree in commerce. Mr. Tam had worked as a professor at Vanier College in Montreal, Canada for over 10 years. Mr. Tam was appointed by the Group in December 2001 and worked as an investment manager for China Enterprise Investment Fund Management Limited for the last 5 years.

# Profiles of Directors and Senior Management

## SENIOR MANAGEMENT

Mr. Ding Yuin-Shan, aged 28, is the Associate Director-Business of the Group and is in charge of the Group's business development and promotion. He received a master degree in film theory from New York University. Prior to joining the Group in November 2001, he worked for China Star Entertainment Group as film coordinator and was responsible for overseeing film festival activities.

Mr. Siu Yun Tang, aged 36, is the Financial Controller and Company Secretary of the Group. Prior to joining the Group in December 2002, he has over 10 years experience in the auditing and accounting fields. He received a master degree in business administration from the University of Strathclyde. He is also a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants.



# Report of the Directors

The Directors have pleasure in submitting their report and the audited financial statements of the Company and the Group for the year ended 31 March 2003.

## **GROUP REORGANISATION**

The Company was incorporated in the Cayman Islands under the Companies Law of Cayman Islands as an exempted company with limited liability on 9 November 2001. Pursuant to a group reorganisation (the "Reorganisation") to rationalise the Group structure in connection with the listing of the Company's shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the ultimate holding company of the companies now comprising the Group.

Further details of the Reorganisation are set out in note 1 to the financial statements.

## **PRINCIPAL ACTIVITIES**

The principal activities of the Company are investment holding. The Group is principally engaged in the provision of film production services and production of TV movies. Details of the principal activities of its principal subsidiaries are set out in note 15 to the financial statements.

There have been no changes in the nature of the Group's principal activities during the year.

## **RESULTS AND APPROPRIATIONS**

The results of the Group for the year ended 31 March 2003 are set out in the consolidated income statement on page 25.

The Directors do not recommend the payment of a dividend.

## **USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING**

The proceeds from the Company's issue of new shares at the time of its listing on the GEM in August 2002, after deduction of related issue expenses, amounted to approximately HK\$17 million. Of this amount, approximately HK\$13.8 million has been utilised up to 31 March 2003, the details of which are set out on page 12.

# Report of the Directors

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options for the period from 9 November 2001 (date of incorporation) to 31 March 2003 are set out in notes 20 and 21 to the financial statements respectively.

## RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in note 22 to the financial statements.

## DISTRIBUTABLE RESERVES

In accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the Company's share premium and contributed surplus are distributable to the shareholders of the Company subject to the Company's articles of association and provided that immediately following the distribution of dividends, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

## DIRECTORS

The Directors during the financial year and up to the date of this report were:

### Executive directors

To Kei Fung ( <i>Chairman</i> )	(Appointed on 26 August 2002)
Ng Hung Keung	(Appointed on 26 August 2002)
Chan Dao Ho	(Appointed on 26 August 2002)

# Report of the Directors

## **DIRECTORS (CONTINUED)**

### **Independent non-executive directors**

Tam Kwok Fai, Jasper	(Appointed on 26 August 2002)
Ho Mei Yee	(Appointed on 26 August 2002)

In accordance with Articles 87 of the Company's articles of association Ms. Ho Mei Yee retires at the forthcoming annual general meeting and, being eligible, offer herself for re-election.

## **DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES**

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 13 to 14.

## **DIRECTORS' SERVICE CONTRACTS**

Each of Mr. To Kei Fung ("Mr. To"), Mr. Ng Hung Keung and Ms. Chan Dao Ho has entered into a director's service agreement dated 22 April 2002 with the Company under which they have been appointed to act as executive Directors for an initial term of three years commencing on 26 August 2002. Mr. To is also entitled to (i) an annual housing allowance; and (ii) a performance bonus to be determined by the Board of Directors ("Board") at its absolute discretion provided that Mr. To shall abstain from voting and not be counted in the quorum in respect of the determination of the Board in relation to the performance bonus. The annual salaries and housing provisions received by the executive Directors are subject to annual increment at such rate as the Board in its absolute discretion provided that a Director shall abstain from voting and not be counted in the quorum in respect of the resolution regarding the increase of his/her own salary or benefit.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company on 22 April 2002, and for an initial term of one year commencing on 26 August 2002 and will continue thereafter unless and until terminated by either the Company or the relevant non-executive Director and such appointment is subject at all times to the articles of association of the Company.

## **DIRECTORS' INTEREST IN CONTRACTS**

No contracts of significance (as defined in rule 18.25 of the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")) to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

# Report of the Directors

## SHARE OPTION SCHEME

Detailed disclosures relating to the Company's share option schemes are included in note 21 to the financial statements.

The Directors do not consider it appropriate to disclose a theoretical value of the options granted on the ground that a number of variables which are crucial for the valuation of the option value cannot be reasonably determined.

## DIRECTORS' INTEREST IN EQUITY SECURITIES

As at 31 March 2003, the interests of the Directors and their associates in the equity of the Company and any associated corporations as recorded in the register maintained by the Company under section 29 of the Securities (Disclosure of interests) Ordinance ("SDI Ordinance") are as follows:

### Shares

Director	Number of shares				Total
	Personal interest	Family interest	Corporate interest	Other interest	
To Kei Fung	–	–	–	285,600,000 <i>(note)</i>	285,600,000

Note: The shares are held by Pearl Rider Overseas Limited which is wholly owned by Sliver Seal Finance Limited as trustee for and on behalf of The To Kei Fung Family Unit Trust, all units of which are beneficially owned as to 99.99% by The To Kei Fung Family Unit Trust and 0.01 % by Ms. Wong Po Ling, Pauline, the spouse of Mr. To. Mr. To is the sole discretionary object of The To Kei Fung Family Unit Trust for the 12 months period from the listing of the Shares on GEM.

Save as disclosed above, none of the other Directors or their associates had, as at 31 March 2003, any interests in the equity of the Company and any associated corporations as recorded in the register maintained under Section 29 of the SDI Ordinance which are required to be notified to the Company and the Stock Exchange.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Directors' interest in equity securities" above and in the share option scheme disclosures in note 21 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2003, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Name of shareholders	Number of shares held	Percentage of holding
Pearl Rider Overseas Limited	285,600,000 <i>(note)</i>	45.5

Note: The shares are held by Pearl Rider Overseas Limited which is wholly owned by Sliver Seal Finance Limited as trustee for and on behalf of The To Kei Fung Family Unit Trust, all units of which are beneficially owned as to 99.99% by The To Kei Fung Family Unit Trust and 0.01 % by Ms. Wong Po Ling, Pauline, the spouse of Mr. To. Mr. To is the sole discretionary object of The To Kei Fung Family Unit Trust for the 12 months period from the listing of the Shares on GEM.

## MAJOR CUSTOMERS AND SUPPLIERS

### Major customers

The Directors are of the view that the film industry in Hong Kong is largely dominated by a few major film companies. The Group's five largest customers accounted for 100% (2002: 100%) of the Group's turnover. The largest customer accounted for approximately 41% (2002: 77.67%) of the Group's turnover.

### Major suppliers

The only raw material required by the Group's operations is film negatives supplied by a number of film manufacturers in Hong Kong.

Total purchases of the Group amounted to approximately HK\$0.88 million (2002: HK\$2.28 million) representing approximately 2.1% (2002: 2.7%) of the Group's cost of production.

Purchases from the three (2002: three) largest suppliers accounted for 100% (2002: 100%) of the Group's purchases. Purchases from the largest supplier accounted for approximately 51% (2002: 90.7%) of the Group's purchase.

At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had an interest in the Group's five largest customers or three largest suppliers during the year.

# Report of the Directors

## **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Company's articles of association, or the Companies Laws, Cap. 22 (Law 3 of 1961, as consolidated and revised) of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

During the year ended 31 March 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **COMPLIANCE WITH THE GEM LISTING RULES**

During the year ended 31 March 2003, the Company has complied with Board Practices and Procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules.

## **AUDIT COMMITTEE**

The Company has established an audit committee on 2 August 2002 with written terms of reference in compliance with the GEM listing Rules. The primary duties, of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee comprises two independent non-executive directors. The Group's annual report, half-year report and quarterly reports had been reviewed by the audit committee.

## **COMPETING INTERESTS**

The Directors aim at strengthening the relationship between Teamwork Corporation Limited ("Teamwork") and its subsidiaries ("Teamwork Group") and the Group by having Mr. Lau Tak Wah, Andy ("Mr. Lau"), being one of the shareholders of Teamwork, to become the strategic investor of the Group in order to further expand the Group's film production and investment businesses. The Directors believe that competition may exist between the Group and Teamwork in the realm of the businesses of film production, investment and distribution. As at 31 March 2003, Mr. Lau held effectively 9.5% of shareholdings in the Company after taking into account of the exercise of options for 67,200,000 shares of the Company under the Pre-IPO Share Option Scheme. Regardless of the foregoing, Mr. Lau is a passive investor and is not a controlling shareholder and has not participated and will not actively participate in the daily operations of the Group. Therefore, the Directors believe the following mechanisms and undertakings given by Mr. Lau would sufficiently safeguard the interests of the Shareholders and the Company as a whole.

# Report of the Directors

## **COMPETING INTERESTS (CONTINUED)**

### **Film investment**

The Directors are of the view that the film investment business of Teamwork Group will not compete directly with the Group's film investment business but rather they are complementary to each other. Whilst any film projects invested by Teamwork Group can provide an opportunity for the Group to invest and vice versa. However, in respect of any business opportunity for film investment available to or received by Teamwork and any of its subsidiaries initiated by third parties, it would not be appropriate for Teamwork to invite the Group to engage in such opportunity.

### **Film production**

In respect of any business opportunity for film production available to or received by Teamwork and any of its subsidiaries initiated by third parties, it would not be appropriate for Teamwork to invite the Group to engage in such business opportunity.

### **Film distribution**

The Directors envisage that the Group will not distribute any film titles that are not invested by it or co-invested with other film companies. As such, the Directors consider that the Group will not compete with Teamwork in the business of film distribution as Teamwork would be one of its partners to co-invest in particular film projects and share income generated from distribution of these film projects.

### **Significance of relationship with Teamwork Group**

The Directors believe that the relationship with Teamwork Group would enhance the Group's public awareness and access to additional business opportunities in film production as well as film investment. The Directors also believe that such relationship gives the Group access to opportunities, exposures and relationships that it might not otherwise have.

In addition, the Group and Teamwork Motion Pictures Limited ("Teamwork MP") have entered into a Master Production Agreement pursuant to which the Group has been engaged by Teamwork MP to produce films. Such transaction constitutes ongoing connected transactions for the Company subsequent to the listing of the Shares on GEM and the Company has applied for and obtained a waiver from the Stock Exchange.

Save as disclosed above and as far as the Directors are aware, none of the Shareholders or Directors has any interest in any business that is in competition with that of the Group.

# Report of the Directors

## **COMPETING INTERESTS (CONTINUED)**

### **Non-competition undertaking**

Mr. To has unconditionally and irrevocably undertaken to the Company that he will not at any time during which the Company is listed on the GEM and as long as he and/or his associates hold, whether individually or altogether, 10% or more direct or indirect interest of the Company, or he is a Director, directly or indirectly carry on, participate in or be engaged, concerned or interested in any business which competes or may compete with the business of the Group from time to time including in the provision of film director, producer and/or consultant services to companies whose business shall compete, or may compete, from time to time with any members of the Group.

Save as disclosed above, none of the Directors or chief executives of the Group, the management shareholders or the substantial shareholders (as defined in the GEM Listing Rules) of the Company or their respective associates had any interests in any business which cause or may cause any significant competition with the business of the Group.

## **ONGOING CONNECTED TRANSACTIONS**

The Group has entered into a Master Production Agreement with Teamwork MP on 8 February 2002, pursuant to which Teamwork MP has engaged the Group to produce a total of six films, all of which have to be directed and/or produced by Mr. To. The Group has to commence the production of at least three films by the end of 31 March 2003 and the remaining three films by the end of 31 March 2004. However, there is no film production carried out by the Group with Teamwork MP for the year ended 31 March 2003.

The Directors consider that the transactions set out above are entered into on normal commercial terms and in the usual and ordinary course of business of the Group and are fair and reasonable and in the interests of the Shareholders are concerned as a whole. The Sponsor is of the opinion that such connected transactions are conducted in the ordinary course of business of the Group on normal commercial terms, and are fair and reasonable and in the interests of the Shareholders are concerned as a whole.



# Report of the Directors

## **ONGOING CONNECTED TRANSACTIONS (CONTINUED)**

Such transactions are normally subject to the reporting and announcement requirements set out in Rules 20.34 and 20.35 of the GEM Listing Rules and the shareholders' approval requirements set out in Rule 20.36 of the GEM Listing Rules. As the transactions set out above will be conducted in the normal course of business of the Group, the Directors consider that strict compliance with the requirements of the GEM Listing Rules in respect of such transactions to be entered into in the future would be impracticable. Accordingly, the Company has applied for and the Stock Exchange has granted a waiver from the requirements under Rule 20.35 and 20.36 of the GEM Listing Rules for the period commencing from the date of listing of the Shares on the GEM to the financial year ending 31 March 2004 from strict compliance of the GEM Listing Rules on conditions as set out in the section headed "Waiver from strict compliance with the GEM Listing Rules" in this prospectus.

## **SPONSOR'S INTERESTS IN THE COMPANY**

Pursuant to a sponsor's agreement dated 12 August 2002 between the Company and Hantec Capital Limited ("Hantec"), Hantec has agreed, for a fee, to act as the continuing sponsor of the Company as required under the GEM Listing Rules for the period from 26 August 2002 to 31 March 2005.

As notified to the Company by the Sponsor, as at 31 March 2003, neither Hantec, its directors, employees nor their associates (as referred to in Note 3 of Rule 6.35 of the GEM Listing Rules) had any interests in any class of securities (including options or rights to subscribe for such securities) of the Company or any other companies of the Group.

## **SUMMARY OF FINANCIAL INFORMATION**

A summary of the results and the assets and liabilities of the Group for the past three financial years is set out on page 53.

## **AUDITORS**

A resolution will be submitted to the annual general meeting of the Company to re-appoint, Messrs. Moores Rowland, as auditors of the Company.

*On behalf of the Board*

**To Kei Fung**

*Chairman*

Hong Kong

24 June 2003

# Report of the Auditors



To the members of

**Milkyway Image Holdings Limited**

*(incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 25 to 52 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## **Respective responsibilities of directors and auditors**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

## **Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Moore's Rowland**

*Chartered Accountants*

*Certified Public Accountants*

Hong Kong

24 June 2003

# Consolidated Income Statement

Year ended 31 March 2003

	Note	2003 HK\$'000	2002 HK\$'000
<b>Turnover</b>	3	<b>55,743</b>	96,109
Film production costs		<b>(40,355)</b>	(83,911)
Gross profit		<b>15,388</b>	12,198
Other net income	4	<b>790</b>	1,642
Other operating expenses		<b>(12,835)</b>	(5,611)
<b>Profit from operations</b>		<b>3,343</b>	8,229
Finance costs	5	<b>(22)</b>	(43)
<b>Profit from ordinary activities before taxation</b>	5	<b>3,321</b>	8,186
Taxation	6	<b>(790)</b>	(530)
<b>Profit attributable to shareholders</b>	9	<b>2,531</b>	7,656
<b>Dividends</b>	10	–	2,208
<b>Basic earnings per share</b>	11	<b>HK0.45 cents</b>	HK1.61 cents
<b>Diluted earnings per share</b>	11	<b>HK0.44 cents</b>	N/A

## Consolidated Statement of Changes in Equity

Year ended 31 March 2003

	2003 HK\$'000	2002 HK\$'000
Shareholders' equity as at 1 April	724	(4,724)
Issue of shares	25,200	–
Share issue expenses	(8,213)	–
Issue of Pre-IPO share options	672	–
Net profit for the year	2,531	7,656
Dividends paid	–	(2,208)
<b>Shareholders' equity as at 31 March</b>	<b>20,914</b>	<b>724</b>

# Consolidated Balance Sheet

At 31 March 2003

	Note	2003 HK\$'000	2002 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	11,472	813
<b>Current assets</b>			
Production in progress		5,414	5,089
Film in progress		2,000	–
Trade and other receivables	16	27,877	11,870
Bank balances and cash		11,364	6,917
		<b>46,655</b>	23,876
<b>Current liabilities</b>			
Advanced receipts		27,703	19,163
Trade and other payables	17	8,113	4,051
Current portion of obligations under finance leases	18	107	90
Provision for taxation		344	530
		<b>36,267</b>	23,834
<b>Net current assets</b>		<b>10,388</b>	42
<b>Total assets less current liabilities</b>		<b>21,860</b>	855
<b>Non-current liabilities</b>			
Long-term portion of obligations under finance leases	18	(156)	(131)
Deferred taxation	19	(790)	–
		<b>(946)</b>	(131)
<b>NET ASSETS</b>		<b>20,914</b>	724
<b>CAPITAL AND RESERVES</b>			
Issued capital	20	6,272	–
Reserves	22	14,642	724
		<b>20,914</b>	724

Approved and authorised for issue by the Board of Directors on 24 June 2003

**To Kei Fung**  
Director

**Ng Hung Keung**  
Director

# Balance Sheet

At 31 March 2003

	Note	2003 HK\$'000	2002 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Interest in subsidiaries	15	16,489	(72)
<b>Current assets</b>			
Deposits, prepayment and other debtors		112	–
Bank balances and cash		35	–
		147	–
<b>Current liabilities</b>			
Accrued charges and other creditors		137	–
<b>Net current assets</b>		10	–
<b>NET ASSETS (LIABILITIES)</b>		<b>16,499</b>	<b>(72)</b>
<b>CAPITAL AND RESERVES</b>			
Issued capital	20	6,272	–
Reserves	22	10,227	(72)
		<b>16,499</b>	<b>(72)</b>

Approved and authorised for issue by the Board of Directors on 24 June 2003

**To Kei Fung**  
Director

**Ng Hung Keung**  
Director

# Consolidated Cash Flow Statement

Year ended 31 March 2003

	Note	2003 HK\$'000	2002 HK\$'000
<b>OPERATING ACTIVITIES</b>			
Cash outflow from operations	23	(1,041)	(8,697)
Profits tax paid		(186)	–
<b>Net cash used in operating activities</b>		<b>(1,227)</b>	<b>(8,697)</b>
<b>Investing activities</b>			
Interest received		6	81
Purchase of property, plant and equipment		(12,037)	(550)
Proceeds from disposal of property, plant and equipment		326	200
<b>Net cash used in investing activities</b>		<b>(11,705)</b>	<b>(269)</b>
<b>Financing activities</b>			
Interest paid on obligations under finance leases		(22)	(43)
Dividends paid		–	(2,208)
Proceeds from issue of shares		25,200	–
Shares issue expenses		(8,213)	–
Proceeds from issue of Pre-IPO share options		672	–
Repayment of obligations under finance leases		(258)	(175)
<b>Net cash generated from (used in) financing activities</b>		<b>17,379</b>	<b>(2,426)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>4,447</b>	<b>(11,392)</b>
<b>Cash and cash equivalents at 1 April</b>		<b>6,917</b>	<b>18,309</b>
<b>Cash and cash equivalents at 31 March, represented by bank balances and cash</b>		<b>11,364</b>	<b>6,917</b>

# Notes to the Financial Statements

Year ended 31 March 2003

## 1. GROUP REORGANISATION

The Company was incorporated in the Cayman Islands under the Companies Law of Cayman Islands as an exempted company with limited liability on 9 November 2001. Pursuant to a group reorganisation (the "Reorganisation") to rationalise the Group structure in connection with the listing of the Company's shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the ultimate holding company of the companies now comprising the Group. This was accomplished by acquiring the entire issued share capital of Galaxy Image (BVI) Limited ("Galaxy"), the then holding company of the principal subsidiaries listed in note 15 to the financial statements, in consideration for the allotment and issue of shares of the Company to the then shareholders of Galaxy on 22 April 2002 and the Company became the ultimate holding company of the Group. Further details of the Reorganisation are set out in the Company's prospectus dated 13 August 2002 (the "Prospectus"). The shares of the Company were listed on GEM of the Stock Exchange on 26 August 2002.

## 2. PRINCIPAL ACCOUNTING POLICIES

### Statement of compliance

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice (the "SSAP") and Interpretations issued by the Hong Kong Society of Accountants (the "HKSA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules governing the Listing of Securities on the GEM of the Stock Exchange. A summary of the principal accounting policies adopted by the Group is set out below.

### Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost.

### Basis of consolidation

The consolidated financial statements have been prepared using the merger basis of accounting as a result of the Group reorganisation. Under this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented rather than from the date of acquisition of the subsidiaries. Except for the Group Reorganisation as described above, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The comparative consolidated balance sheet as at 31 March 2002 has been prepared on the basis that the existing Group had been in place at that date.



# Notes to the Financial Statements

Year ended 31 March 2003

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results and the state of affairs of the Group taken as a whole.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Major costs incurred in restoring assets to their normal working conditions are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the estimated net sales proceeds and the carrying amount of the assets and is recognised as an income or expense in the income statement.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment over their estimated useful lives from the date on which they become fully operational and after taking into account of their estimated residual values, using the straight-line method, at the following rates per annum:

Leasehold improvement	20%
Furniture and fixtures	20%
Office equipment	20%
Motor vehicles	20%
Machinery and equipment	10% to 20%

Property, plant and equipment held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the leases.

# Notes to the Financial Statements

Year ended 31 March 2003

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### Subsidiaries

A subsidiary, is an enterprise, in which the Company, directly or indirectly, holds more than half of the voting power or issued share capital, or controls the composition of the board of directors or equivalent governing body. Investments in subsidiaries are stated at cost less impairment losses. The carrying amount of the investment is reduced to its recoverable amount on an individual basis.

### Impairment loss

At each balance sheet date, the Group reviews internal and external sources of information to determine whether the carrying amounts of its tangible assets have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its net selling price and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment losses is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment losses is recognised as income immediately.

### Production in progress

Production in progress represents films under production and is stated at production costs incurred to date, less foreseeable losses. Such production costs are carried forward as production in progress and are transferred to film production costs upon completion.

Where a provision is made for foreseeable loss when a film production is substantially completed, the proportion of revenue and expenses related to the foreseeable loss is recognised immediately in the income statement.

# Notes to the Financial Statements

Year ended 31 March 2003

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### Film in progress

Film in progress represents investment in films and television drama series under production and is stated at cost less impairment losses. Costs are transferred to film rights upon completion of production.

### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably.

Income from the production of films and TV movies is recognised when the production is completed, which is usually upon delivery of the film negatives to the customers. Amounts received before the completion of production process are included in the consolidated balance sheet, as a liability, under advanced receipts.

### Foreign currencies

The Group maintains its accounting records in Hong Kong dollars and transactions involving foreign currencies are translated at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates of exchange ruling at that date. Translation differences are included in the income statement.

### Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

### Leasing

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

# Notes to the Financial Statements

Year ended 31 March 2003

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### Leasing (continued)

Assets held under finance leases are recognised as assets of the Group at the lower of the fair values of the leased asset and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as finance lease obligations. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the consolidated income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to consolidated income statement on a straight-line basis over the term of the relevant lease.

### Cash equivalents

For the purpose of consolidated cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash which are subject of an insignificant risk of change in value, net of bank overdrafts.

### Provisions

Provision are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

### Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa. Parties are also considered to be related if they are subject to common control or common significant influence.

# Notes to the Financial Statements

Year ended 31 March 2003

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### Employee benefits

Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the consolidated income statement as incurred.

When the Group grants employees options to acquire shares of the Company at nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

### Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

# Notes to the Financial Statements

Year ended 31 March 2003

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### Segment reporting (continued)

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, corporate and financing expenses and minority interests.

## 3. TURNOVER AND REVENUE

The principal activities of the Group is the provision of film production and TV movies production services.

Turnover and revenue recognised by category are as follows:

	2003 HK\$'000	2002 HK\$'000
Film production	40,643	96,109
TV movies production	15,100	–
	<b>55,743</b>	<b>96,109</b>

## 4. OTHER NET INCOME

	2003 HK\$'000	2002 HK\$'000
Bank interest income	11	81
Film distribution income	–	650
Forfeited deposits relating to aborted film production net of production costs	117	–
Sundry income	662	911
	<b>790</b>	<b>1,642</b>

# Notes to the Financial Statements

Year ended 31 March 2003

## 5. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

	2003 HK\$'000	2002 HK\$'000
This is stated after charging:		
<b>(a) Finance costs</b>		
Finance charges on obligations under finance leases	22	43
<b>(b) Other items</b>		
Auditors' remuneration	229	196
Staff costs including directors' emoluments (note 7)	6,606	2,286
Contributions to retirement scheme	81	64
Depreciation of property, plant and equipment	1,227	217
Loss on disposal/write off of property, plant and equipment	125	14
Operating lease charges for premises	1,310	683

## 6. TAXATION

	2003 HK\$'000	2002 HK\$'000
The charge comprises:		
Hong Kong Profits Tax	–	530
Deferred taxation (note 19)	790	–
	790	530

Hong Kong Profits Tax has not been provided in the financial statements as the Company and its subsidiaries operating in Hong Kong incurred a loss for taxation purposes for the year.

The Group has no significant unprovided deferred tax liabilities for the year.

# Notes to the Financial Statements

Year ended 31 March 2003

## 7. DIRECTORS' EMOLUMENTS

	2003 HK\$'000	2002 HK\$'000
Fees:		
Executive directors	–	–
Independent non-executive directors	48	–
Other emoluments:		
Salaries and other emoluments	4,164	1,156
Discretionary bonuses	375	–
Contributions to retirement schemes	36	27
	<b>4,623</b>	<b>1,183</b>

The three executive directors of the Company received individual emoluments for the year ended 31 March 2003 of approximately HK\$3,507,000 (2002: HK\$303,000), HK\$336,000 (2002: HK\$294,000), and HK\$732,000 (2002: HK\$586,000) respectively.

The two independent non-executive directors of the Company received directors' fees for the year ended 31 March 2003 of approximately HK\$40,000 (2002: Nil), and HK\$8,000 (2002: Nil) respectively.

## 8. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals include three (2002: three) directors, whose remuneration are set out in note 7 above. The aggregate emoluments of the remaining two (2002: two) individuals are as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and allowances	542	1,491
Contributions to retirement schemes	19	38
	<b>561</b>	<b>1,529</b>

The remuneration of each of these two (2002: two) individuals are less than HK\$1,000,000 in both years.



# Notes to the Financial Statements

Year ended 31 March 2003

## 9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to shareholders of the Company includes a loss of approximately HK\$1,166,000 (2002: HK\$72,000) which has been dealt with in the financial statements of the Company for the year ended 31 March 2003.

## 10. DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Dividends	–	2,208

The Directors do not recommend the payment of a final dividend for the year ended 31 March 2003.

The 2002 dividends of HK\$2,208,000 were paid by Milkyway Image (Hong Kong) Limited, a wholly-owned subsidiary of the Company, to its then shareholders prior to the completion of the Reorganisation on 29 November 2001. Details of the Reorganisation are set out in note 1 to the financial statements and in the Prospectus dated 13 August 2002.

## 11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the consolidated profit attributable to the shareholders for the year of HK\$2,531,000 (2002: HK\$7,656,000) and the weighted average number of 564,050,411 ordinary shares (2002: 476,000,000 ordinary shares) in issue during the year.

The weighted average number of shares used to calculate both the current and prior year's earnings per share includes the issued share capital of the Company, comprising 1 share issued and fully paid on incorporation of the Company, 9,990 shares issued as a consideration for the acquisition of the entire share capital of Galaxy and the capitalisation issue of 475,990,000 shares as set out in note 20. Additionally, the weighted average number of shares used for the current year's earnings per share calculation also includes the 84,000,000 shares issued pursuant to the placing and public offer and 67,200,000 shares issued pursuant to the Pre-IPO share options scheme.

# Notes to the Financial Statements

Year ended 31 March 2003

## 11. EARNINGS PER SHARE (CONTINUED)

The diluted earnings per share is based on 564,050,411 (2002: N/A) ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average of 10,208,030 (2002: N/A) ordinary shares deemed to be issued at no consideration if all outstanding share options had been exercised.

## 12. SEGMENT REPORTING

The Group comprises the following main business segments:

	Film production		TV movies production		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
<b>Turnover</b>						
External sales	40,643	96,109	15,100	–	55,743	96,109
<b>Result</b>						
Segment result	5,288	12,198	10,100	–	15,388	12,198
Unallocated operating income and expenses					(12,045)	(3,969)
Profit from operations					3,343	8,229
Finance costs					(22)	(43)
Taxation					3,321 (790)	8,186 (530)
Profit attributable to shareholders					2,531	7,656
<b>Assets and liabilities</b>						
Segment assets	16,506	6,750	7,515	–	24,021	6,750
Unallocated assets					34,106	17,939
Total assets					58,127	24,689
Segment liabilities	32,910	20,921	750	–	33,660	20,921
Unallocated liabilities					3,553	3,044
Total liabilities					37,213	23,965
<b>Other information</b>						
Unallocated capital expenditure incurred during the year					12,337	845
Unallocated depreciation for the year					1,227	217

All segment revenue and segment assets are derived from and located in Hong Kong.

# Notes to the Financial Statements

Year ended 31 March 2003

## 13. RETIREMENT SCHEMES

Under the Mandatory Provident Fund Schemes Ordinance regulated by the Mandatory Provident Fund Schemes Authority in Hong Kong, with effect from 1 December 2000, the Group participates in a mandatory provident fund scheme (the "MPF scheme") operated by an approved trustee in Hong Kong and makes contributions for its eligible employee. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the scheme vest immediately.

During the year ended 31 March 2003, the aggregate amount of employer's contribution made by the Group is approximately HK\$81,000 (2002: HK\$64,000).

## 14. PROPERTY, PLANT AND EQUIPMENT

### The Group

	Leasehold improvement HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Machinery and equipment HK\$'000	Total HK\$'000
<b>Cost</b>						
At beginning of year	146	56	388	494	–	1,084
Additions	3,127	671	1,116	459	6,964	12,337
Disposals/write off	(68)	(56)	(1)	(494)	–	(619)
<b>At balance sheet date</b>	<b>3,205</b>	<b>671</b>	<b>1,503</b>	<b>459</b>	<b>6,964</b>	<b>12,802</b>
<b>Accumulated depreciation</b>						
At beginning of year	43	17	113	98	–	271
Charge for the year	194	50	151	69	763	1,227
Eliminated on disposals/write off	(41)	(28)	(1)	(98)	–	(168)
<b>At balance sheet date</b>	<b>196</b>	<b>39</b>	<b>263</b>	<b>69</b>	<b>763</b>	<b>1,330</b>
<b>Net book value</b>						
<b>At balance sheet date</b>	<b>3,009</b>	<b>632</b>	<b>1,240</b>	<b>390</b>	<b>6,201</b>	<b>11,472</b>
At beginning of year	103	39	275	396	–	813

The net book value of the Group's property, plant and equipment includes an amount of approximately HK\$417,000 (2002: HK\$432,000) in respect of assets held under finance leases.

# Notes to the Financial Statements

Year ended 31 March 2003

## 15. INTEREST IN SUBSIDIARIES

	The Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	78	–
Due from (to) subsidiaries	16,411	(72)
	<b>16,489</b>	<b>(72)</b>

The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms.

Details of the Company's subsidiaries, which are wholly-owned are as follows:

Name of company	Place of incorporation	Issued and fully paid share capital	Place of operation	Principal activities
Galaxy Image (BVI) Limited ( <i>note</i> )	The British Virgin Islands	US\$10,000 ordinary shares	Hong Kong	Investment holding
Milkyway Image (Hong Kong) Limited	Hong Kong	HK\$10,000 ordinary shares	Hong Kong	Provision of film production and television movies production
Jetway International Limited	Hong Kong	HK\$2 ordinary shares	Hong Kong	Production of television movies

Note:

Galaxy Image (BVI) Limited is directly held by the Company. All other subsidiaries are indirectly held by the Company.

# Notes to the Financial Statements

Year ended 31 March 2003

## 16. TRADE AND OTHER RECEIVABLES

	The Group	
	2003 HK\$'000	2002 HK\$'000
<b>Trade receivables</b> (note 1)	8,599	1,661
<b>Other receivables</b>		
Deposits, prepayment and other debtors	19,278	2,328
Due from a director (note 2)	–	7,881
	<b>27,877</b>	<b>11,870</b>

Note:

- The Group has not granted any credit terms to its customers or dealers. The ageing analysis of the trade receivables as at the balance sheet date is as follows:

	The Group	
	2003 HK\$'000	2002 HK\$'000
Current – 30 days	8,599	1,335
31 – 90 days	–	–
90 days – 180 days	–	326
	<b>8,599</b>	<b>1,661</b>

- The amount due from Mr. To Kei Fung is unsecured, interest-free and has no fixed repayment terms. The maximum amount outstanding during the year was approximately HK\$7,881,000.

## 17. TRADE AND OTHER PAYABLES

	The Group	
	2003 HK\$'000	2002 HK\$'000
<b>Trade payables</b> (note)	5,957	1,758
<b>Other payables</b>		
Accrued charges and other creditors	2,156	2,293
	<b>8,113</b>	<b>4,051</b>

## Notes to the Financial Statements

Year ended 31 March 2003

### 17. TRADE AND OTHER PAYABLES (CONTINUED)

Note: Aging analysis of trade payable is as follows:

	2003 HK\$'000	2002 HK\$'000
Within six months	5,957	1,052
Over one year	–	706
	<b>5,957</b>	<b>1,758</b>

### 18. OBLIGATIONS UNDER FINANCE LEASES

At the balance sheet date, the Group had obligations under finance leases repayable as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Amounts payable under finance leases				
Within one year	123	109	107	90
In the second to fifth years inclusive	167	146	156	131
Less: Future finance charges	290 (27)	255 (34)	263 –	221 –
Present value of lease obligations	<b>263</b>	<b>221</b>	<b>263</b>	<b>221</b>

The average lease term is 4 years and leases are repayable in fixed monthly instalments. A purchase option with a nominal amount is prescribed in a lease agreement. There is no arrangement for contingent rent payments.

### 19. DEFERRED TAXATION

The movement for the year in the Group's net deferred tax position was as follows:

	The Group	
	2003 HK\$'000	2002 HK\$'000
At 1 April	–	–
Charge for the year (note 6)	790	–
At 31 March	<b>790</b>	–

# Notes to the Financial Statements

Year ended 31 March 2003

## 19. DEFERRED TAXATION (CONTINUED)

At the balance sheet date, the major components of the deferred taxation liabilities (assets) of the Group provided and unprovided were as follows:

	Provided		Unprovided	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Excess of tax allowances over depreciation	1,270	–	–	180
Tax losses carried forward	(480)	–	–	–
	<b>790</b>	–	–	180

The Company had no significant deferred taxation at the balance sheet date.

## 20. ISSUED CAPITAL

	Note	Number of shares	Amount HK\$'000
<b>Authorised:</b>			
On incorporation and at 31 March 2002, ordinary of HK\$0.1 each	(a)	3,900,000	390
Subdivision of ordinary shares into HK\$0.01 each	(b)	35,100,000	–
Increase in authorised share capital	(c)	9,961,000,000	99,610
At 31 March 2003		<b>10,000,000,000</b>	<b>100,000</b>
<b>Issued and fully paid:</b>			
Share issued upon incorporation, 20 November 2001	(a)	1	–
At 31 March 2002		1	–
On 22 April 2002, subdivision of shares	(b)	9	–
Share issued upon Reorganisation	(d)	9,990	–
Capitalisation issue	(e)	475,990,000	4,760
Issue of share pursuant to the placing	(f)	69,410,000	694
Issue of share pursuant to public offer	(f)	14,590,000	146
Issue of share pursuant to the exercise of Pre-IPO Share Options	(g)	67,200,000	672
At 31 March 2003		<b>627,200,000</b>	<b>6,272</b>

# Notes to the Financial Statements

Year ended 31 March 2003

## 20. ISSUED CAPITAL (CONTINUED)

The following is the movements in the authorised and issued share capital of the Company during the period from 9 November 2001 (date of incorporation) to 31 March 2003.

- (a) The Company was incorporated on 9 November 2001 with an authorised share capital of HK\$390,000 divided into 3,900,000 shares of HK\$0.1 each, of which 1 share of HK\$0.1 was allotted and issued for cash at par on 20 November 2001.
- (b) Pursuant to a written resolution of the then sole shareholder of the Company passed on 22 April 2002, each issued and unissued share of HK\$0.1 each in the then share capital of the Company was subdivided into 10 shares (the "Subdivision"). Immediately after the Subdivision, the authorised share capital of the Company became HK\$390,000 comprising 39,000,000 shares of HK\$0.01 each.
- (c) Pursuant to a written resolution of all shareholders of the Company passed on 2 August 2002, the authorised share capital of the Company was increased from HK\$390,000 to HK\$100,000,000 by the creation of an additional 9,961,000,000 shares of HK\$0.01 each ranking pari passu with the then existing shares in all respects.
- (d) On 22 April 2002, an aggregate of 9,990 shares were issued and allotted credited as fully paid at HK\$0.01 per share as consideration and in exchange for the acquisition of the entire issued share capital of Galaxy pursuant to the Reorganisation.
- (e) On 2 August 2002, a total of 475,990,000 shares of HK\$0.01 each were allotted as fully paid at par to the holders of the shares on the register of members of the Company in proportion to their respective shareholdings at the close of business on the 2 August 2002 by way of capitalisation of the sum of HK\$4,759,900 standing to the credit of the share premium account of the Company, conditional on the share premium account being credited as a result of the allotment and issue of the shares under the Placing and Public Offer.
- (f) On 19 August 2002, 69,410,000 and 14,590,000 shares of HK\$0.01 each were issued at HK\$0.3 per share pursuant to the Placing and Public Offer respectively.
- (g) On 16 September 2002, 67,200,000 shares of HK\$0.01 each were issued at HK\$0.01 per share pursuant to the exercise of Pre-IPO Share Options.



# Notes to the Financial Statements

Year ended 31 March 2003

## 21. SHARE OPTION SCHEME

Pursuant to the written resolutions of the shareholders of the Company dated 2 August 2002, two share option schemes, namely the pre-IPO share option scheme ("Pre-IPO Share Option Scheme") and the share option scheme ("Share Option Scheme"), were approved and adopted. The summary of the terms of the two share option schemes has been set out in Appendix IV of the Prospectus.

### Share Option Scheme

The major terms of the Share Option Scheme are summarised as follows:

- (a) The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group.
- (b) The participants include:
  - (1) (i) any employee or proposed employee of the Company, any of its subsidiaries or any entity ("Invested Entity") in which the Group holds an equity interest, including any executive director of the Company, any of such subsidiaries or any Invested Entity;
  - (ii) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;
  - (iii) any supplier of goods or services to any member of the Group or any Invested Entity;
  - (iv) any customer of the Group or any Invested Entity;
  - (v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;
  - (vi) any shareholder of any member of the Group or any Invested Entity or any holder or any securities issued by any member of the Group or any Invested Entity; and
  - (vii) any joint venture partner or counter-party to business transactions of the Group.
- (2) any company wholly owned by one or more persons belonging to any of the above classes of participants.

# Notes to the Financial Statements

Year ended 31 March 2003

## 21. SHARE OPTION SCHEME (CONTINUED)

- (c) The exercise price for Shares under the Share Option shall be a price determined by the Directors and shall at least be the higher of:
- (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; and
  - (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.
- (d) Maximum number of Shares:
- (i) The total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the Shares in issue from time to time; and
  - (ii) The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes must not in aggregate, exceed 10% of the Shares in issue at the date of adoption of the Share Option Scheme (the "Limited") provided that options lapsed in accordance with the terms of the Share Option Scheme will not be counted for the purpose of calculating the Limit.
- (e) The total number of Shares issued and to be issued upon the exercise of options granted and to be granted to each participant (including both exercised and outstanding options) in any 12-month period up to and including the date of grant must not exceed 1% of the Shares in issue.
- (f) The exercise period should be determined by the board of directors upon grant of the option but in any event should not exceed 10 years from the date of grant of the option.

As at 31 March 2003, no options under the Share Option Scheme had been granted.

# Notes to the Financial Statements

Year ended 31 March 2003

## 21. SHARE OPTION SCHEME (CONTINUED)

### Pre-IPO Share Option Scheme

The purpose of the Pre-IPO Share Option Scheme is to recognise the contribution of the senior management and independent contractors of the Group to its growth. The principal terms of the Pre-IPO Share Option Scheme conditionally approved by written resolutions of the shareholders of the Company dated 2 August 2002 are substantially the same as the terms of the Share Option Scheme described above except that:

- (a) the subscription price per Share is HK\$0.01 representing a discount of approximately 96.67% (based on an Offer Price of HK\$0.30) to the Offer Price;
- (b) the total number of Shares subject to the Pre-IPO Share Option Scheme is 84,000,000, representing 15% of the total issued share capital of the Company immediately following completion of the Share Offer and the Capitalisation Issue (but before enlargement by the allotment and issue of Shares pursuant to the exercise of the Over-allotment Option and any option granted under the Pre-IPO Share Option Scheme); and
- (c) save for the options which have been granted under the Pre-IPO Share Option Scheme, no further options will be offered or granted under the Pre-IPO Share Option Scheme, as the right to do so will terminate upon the listing of the Shares on GEM.

On 2 August 2002, options to subscribe for an aggregate of 84,000,000 Shares at an exercise price of HK\$0.01 per share were granted by the Company to a senior management and six independent contractors. Each of the grantee to whom options have been granted under the Pre-IPO Share Option Scheme will be entitled to exercise any time after the adoption of the Pre-IPO Share Option Scheme by a resolution of the Company on 2 August 2002 and end on 1 August 2012 (both date inclusive).

Details of the movement of Pre-IPO Share Options are as follows:

Category of grantees	Date of grant of share options	At date of grant HK\$	Exercised during the period HK\$	At 31 March 2003 HK\$	Exercise period	Exercise price HK\$
One senior management	02/08/2002	16,800,000	–	16,800,000	26/08/2002 to 25/08/2007	0.01
Six independent contractors	02/08/2002	67,200,000	(67,200,000)	–	26/08/2002 to 25/08/2007	0.01
		<u>84,000,000</u>	<u>(67,200,000)</u>	<u>16,800,000</u>		

# Notes to the Financial Statements

Year ended 31 March 2003

## 22. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated profits/ (losses) HK\$'000	Total HK\$'000
<b>The Group</b>				
At 1 April 2001	–	10	(4,734)	(4,724)
Net profit for the year	–	–	7,656	7,656
Dividend	–	–	(2,208)	(2,208)
At 31 March 2002	–	10	714	724
Issue of shares	24,360	–	–	24,360
Capitalisation issue of shares	(4,760)	–	–	(4,760)
Share issue expenses	(8,213)	–	–	(8,213)
Net profit for the year	–	–	2,531	2,531
At 31 March 2003	11,387	10	3,245	14,642

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
<b>The Company</b>				
Net loss for the period and at 31 March 2002	–	–	(72)	(72)
Arising on acquisition of subsidiaries	–	78	–	78
Issue of shares	24,360	–	–	24,360
Capitalisation issue of shares	(4,760)	–	–	(4,760)
Share issue expenses	(8,213)	–	–	(8,213)
Net loss for the year	–	–	(1,166)	(1,166)
At 31 March 2003	11,387	78	(1,238)	10,227

# Notes to the Financial Statements

Year ended 31 March 2003

## 22. RESERVES (CONTINUED)

The contributed surplus of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the share issued by the Company as consideration thereof pursuant to the Reorganisation set out in note 1 to the financial statements.

The contribution surplus of the Company represents the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the share capital of the Company issued in exchange pursuant to the Reorganisation.

The Company's reserves available for distribution represent the share premium and contributed surplus less accumulated losses. At the balance sheet date, the Company had approximately HK\$10,227,000 reserves available for distribution.

## 23. CASH OUTFLOW FROM OPERATIONS

	The Group	
	2003 HK\$'000	2002 HK\$'000
Profit before taxation	3,321	8,186
Depreciation	1,227	217
Interest income	(6)	(81)
Finance lease charges	22	43
Loss on disposal/write off of property, plant and equipment	125	14
<i>Changes in working capital:</i>		
Production in progress	(325)	11,678
Film in progress	(2,000)	–
Trade and other receivables	(16,007)	1,273
Advanced receipts	8,540	(28,529)
Trade and other payables	4,062	(1,498)
Cash outflow from operations	<b>(1,041)</b>	<b>(8,697)</b>

# Notes to the Financial Statements

Year ended 31 March 2003

## 24. COMMITMENTS

### Capital expenditure commitments

	The Group	
	2003 HK\$'000	2002 HK\$'000
Contracted but not provided net of deposit paid in the financial statements	3,627	–

The Company had no significant capital commitments at the balance sheet date.

### Operating leases commitments

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases, which are payable as follows:

	The Group	
	2003 HK\$'000	2002 HK\$'000
Within one year	1,810	40
In the second to fifth years inclusive	2,400	7
	<b>4,210</b>	<b>47</b>

### Other commitments

At the balance sheet date, the Group has contracted for production service but not provided for in the financial statements amounting to approximately HK\$24,449,000 (2002: Nil).

The Company had no significant other commitments at the balance sheet date.

## Summary of Financial Information

Year ended 31 March 2003

The following is a summary of the combined results and combined assets and liabilities of the Group for each of the three years ended 31 March 2003 prepared on the basis set out in the notes below:

### Combined Results

	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000
Turnover	29,260	96,109	<b>55,743</b>
Profit from operations	3,501	8,229	<b>3,343</b>
Finance costs	(19)	(43)	<b>(22)</b>
Profit before taxation	3,482	8,186	<b>3,321</b>
Taxation	–	(530)	<b>(790)</b>
Profit attributable to shareholders	3,482	7,656	<b>2,531</b>
Basic earnings per share	HK0.73 cents	HK1.61 cents	<b>HK0.45 cents</b>
Diluted earnings per share	N/A	N/A	<b>HK0.44 cents</b>
<b>Combined Assets and Liabilities</b>			
Non-current assets	399	813	<b>11,472</b>
Current assets	48,219	23,876	<b>46,655</b>
Current liabilities	53,342	23,834	<b>36,267</b>
Non-current liabilities	–	131	<b>946</b>

Notes:

1. The results of the Group for each of the two years ended 31 March 2001 and 2002 presented above have been extracted from the Company's prospectus dated 13 August 2002 when the listing of the Company's shares was sought on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.
2. The results for the year ended 31 March 2003 have been extracted from the consolidated income statement as set out on page 25 of the financial statements.
3. The financial summary of the Group, which is presented for information only, has been prepared on the basis that the structure and business activities of the Group immediately after the completion of the Group reorganisation had been in existence throughout the three years ended 31 March 2003.

## Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of Milkyway Image Holdings Limited (the "Company") will be held at 1st Floor, No. 77 Hung To Road, Kwun Tong, Kowloon, Hong Kong on 6 August 2003 at 11:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and auditors of the Company for the year ended 31 March 2003.
2. To re-elect directors and to authorise the board of directors (the "Board") to fix all the Directors' remuneration.
3. To re-appoint auditors of the Company and to authorise the Board to fix their remuneration.
4. To consider as special business, and if though fit, pass the following resolutions with or without amendments as ordinary resolutions of the Company:

(A) **"THAT:**

- (i) subject to paragraph (iii) of this resolution and pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant any offers, agreements and options which would or might require the exercise of such powers, be and is hereby generally and unconditionally approved;
- (ii) the approval in paragraph (i) of this resolution shall authorise the directors of the Company during the Relevant Period (as hereinafter defined) to make or grant any offers, agreements and options which would or might require the exercise of such powers after the end of the Relevant Period (as hereinafter defined);



## Notice of Annual General Meeting

(iii) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the directors of the Company pursuant to the approval in paragraph (i) of this resolution, otherwise than pursuant to (a) a Right Issue (as hereinafter defined) or, (b) the grant or exercise of rights of conversion under any securities which are convertible into shares of the Company or, (c) any scrip dividend scheme or similar arrangement providing for the allotments of shares in lieu of the whole or a part of a dividend on shares of the Company pursuant to the Articles of the Association of the Company from time to time, (d) the grant or exercise of any options granted under any option scheme or similar arrangement for the time being adopted by the Company for the grant or issue to the directors, officers and/or employees of the Company and/or any of its subsidiaries of options to subscribe for, or rights to acquire, share of the Company, shall not in aggregate exceed 20 per cents of the aggregate nominal amount of the share capital of the Company in issue at the date of passing of this resolution and the said approval shall be limited accordingly; and

(iv) for the purpose of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the Article of Association of the Company or any applicable laws to be held; and
- (c) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.

## Notice of Annual General Meeting

“Right issue” means the allotment or issue of shares of the Company pursuant to an offer of shares open for a period fixed by the directors of the Company made to holders of shares of the Company or any class thereof whose name appear on the Register of Members of the Company on a fixed record date in proportion to their then holdings of such shares or class therefore (subject to such exclusions 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 Hong Kong).”

(B) **“THAT:**

- (i) subject to paragraph (ii) of this resolution, the exercise by the directors of the Company during the Relevant Period (as defined in resolution 4(A)(iv) set out in the notice of this meeting) of all powers of the Company to repurchase its own issued shares in the capital of the Company on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or on any other stock exchange on which the shares of the Company may be listed and recognised for this purpose by the Securities and Future Commission and the Stock Exchange in accordance with all the applicable laws and the requirements of the GEM Listing Rules (as defined in resolution no. 4(A) set out in the notice of this meeting) or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved; and
- (ii) the aggregate nominal amount of shares of the Company which the Company is authorised to repurchase pursuant to the approval in paragraph (i) of this resolution during the Relevant Period (as defined in resolution no. 4 (A)(iv) set out in the notice of this meeting) shall not exceed 10 per cents of the aggregate nominal amount of share capital of the Company in issue as at the date of passing of this resolution, and the said approval shall be limited accordingly;”

## Notice of Annual General Meeting

- (C) “**THAT** conditional upon the passing of resolution nos. 4(A) and 4(B) (as set out in the notice of this meeting), the unconditional general mandate granted to the directors of the Company and for the time being in force to exercise all the powers of the Company to allot, issue and deal with shares of the Company pursuant to resolution no. 4(A) (as set out in the notice of this meeting) be and is hereby extended by the addition to the aggregate nominal amount of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to such unconditional general mandate of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to resolution no. 4(B) (as set out in the notice of this meeting), provided that such extended amount shall not exceed 10 per cents of the aggregate nominal amount of share capital of the Company in issue at the date of passing this resolution.”
- (D) “**THAT** pursuant to the GEM Listing Rules for the Non-Exempt Ongoing Connected Transactions, the annual aggregate amount of film production income received by the Group in respect of the Master Production Agreement entered into between the Group and Teamwork Motion Pictures Limited on 8 February 2002 does not exceed the sum of HK\$41 million (the “Annual Cap”) for the year ending 31 March 2004 being the maximum aggregate annual value for the Non-Exempt Ongoing Connected Transactions agreed and accepted by the Stock Exchange pursuant to Rule 20.26(2) of the GEM Listing Rules, be and is hereby generally and unconditionally approved.”

By Order of the Board

**Milkyway Image Holdings Limited**

**Siu Yun Tang**

*Company Secretary*

Hong Kong

30 June 2003

# Notice of Annual General Meeting

*Head office and principal place of business:*

1st Floor, 77 Hung To Road  
Kwun Tong  
Kowloon  
Hong Kong

*Registered office:*

Century Yard  
Cricket Square  
Hutchins Drive  
P. O. Box 2681GT  
George Town  
Grand Cayman  
British West Indies

*Notes:*

1. Every member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies (if member who is the holder of two or more shares) to attend and vote in his stead. A proxy need not be a member of the Company.
2. To be valid, the instrument appointing a proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the Company's Branch Share Registrar in Hong Kong, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the appointed time for holding the meeting or any adjournment thereof.
3. Completion and delivery of the form of proxy will not preclude a member from attending and voting in person at the meeting if the member so desires and in such event, the instrument appointing a proxy shall be deemed to be revoked.
4. In relation to proposed resolution 4 (B) above, the directors of the Company wish to state that they will exercise the powers conferred thereby to repurchase shares in circumstances which they deem appropriate for the benefit of the shareholders of the Company. An explanatory statement containing the information necessary to enable the shareholders of the Company to make an informed decision to vote on the proposed resolution as required by the GEM Listing Rules is included in the circular which will be despatched to shareholders of the Company together with the annual report for the year ended 31 March 2003.