



MILKYWAY IMAGE

Milkyway Image Holdings Limited

銀河映像控股有限公司

(incorporated in the Cayman Islands with limited liability)

First Quarterly Report 2003

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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 GEM of the Stock Exchange 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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HIGHLIGHTS

1. No turnover was recorded for the Group during the three months ended 30 June 2003 as compared with approximately HK\$375,000 for the corresponding period in 2002.
2. Net loss of the Group for the three months ended 30 June 2003 was approximately HK\$3.6 million as compared to a net loss of approximately HK\$1.6 million for the corresponding period in 2002.
3. Loss per share of the Group was approximately HK0.57 cents for the three months ended 30 June 2003 (2002: HK0.34 cents).
4. The Board does not recommend the payment of any dividend for the three months ended 30 June 2003 (2002: Nil).

FINANCIAL REVIEW

Turnover and gross profit

No turnover was recorded by Milkyway Image Holdings Limited (the “Company”) and its subsidiaries (together the “Group”) for the three months ended 30 June 2003 as compared with approximately HK\$375,000 for the corresponding period in 2002. The reason was mainly due to a film not yet completed at this quarter whereas the Group had completed one film project for the corresponding period in 2002. Accordingly, the Group has not recorded gross profit for the three months ended 30 June 2003 (2002: HK\$342,000).

Other operating expenses

Other operating expenses increased by approximately 78% to approximately HK\$3.7 million for the three months ended 30 June 2003 (2002: HK\$2.1 million). The increase was mainly attributable to significant increase in depreciation charges subsequent to the acquisition of filming equipment and the establishment of in-house editing and sound mixing studio, increased operating lease expenses as a result of moving to a larger office area and additional compliance fee incurred during the period.

Net loss from ordinary activities attributable to shareholders

For the three months ended 30 June 2003, the Group incurred a net loss attributable to shareholders of approximately HK\$3.6 million as compared to a net loss of approximately HK\$1.6 million for the corresponding period in 2002.

BUSINESS REVIEW

Film production

The Group has already commenced the production of a film “Running On Karma” [大隻佬和尚]. The film is expected to be completed in the third quarter of 2003 and scheduled to be screened in the fourth quarter of 2003. Three more film projects had been in advanced discussion and the Group would commence the production in the third quarter of 2003.

Film investment

The Group has entered into a co-investment agreement with a local film company and has contributed HK\$1 million, being approximately 30% of the total investment cost of HK\$3.4 million. It is expected the film will be completed by the end of the year 2003.

Purchase of filming equipment

For the three months ended 30 June 2003, the Group has made capital investment of HK\$9.5 million in the acquisition of camera and lighting equipment with the use of internally generated resources. The directors believed that such acquisition of filming equipment would enhance the film production process and reduce the production cost of the Group.

PROSPECTS

The performance of the Hong Kong theatrical market remained weak over the last quarter as a result of the outbreak of severe acute respiratory syndrome ("SARS") across the region, particularly in Asia Pacific. The Group's film shooting schedules had also inevitably been delayed under the influence of SARS. However the directors have been reviewing the Group's overall performance and will monitor the situation and react accordingly.

In respect of film production, the Group will continue to produce high quality films to sustain the Group's standing in local Chinese film market. The co-production of a Chinese film with a prestigious US film production company over the last quarter represented a strategic move of the Group to penetrate into the global film market. The Group will continue to pursue possible film co-production opportunities with overseas film companies so as to expose the Group's awareness to the overseas market.

Looking forward, the Group is expected to expand its businesses both locally and internationally. Apart from film production business, the Group will look for other possible film related business opportunities in order to diversify the scope of the Group's businesses and to generate stable cashflows.

UNAUDITED FIRST QUARTERLY RESULTS

The board of directors (the "Board") announces the unaudited consolidated results of the Group for the three months ended 30 June 2003 together with the unaudited consolidated results for the corresponding period in 2002 as follows:

		(Unaudited)	
		For the three months	
		ended 30 June	
	Notes	2003	2002
		HK\$'000	HK\$'000
Turnover	2	–	375
Film production costs		–	(33)
Gross profit		–	342
Other income		148	117
Other operating expenses		(3,716)	(2,093)
Loss from operations		(3,568)	(1,634)
Finance costs		(9)	–
Loss before taxation		(3,577)	(1,634)
Taxation	3	–	–
Net loss attributable to shareholders		(3,577)	(1,634)
Dividend	4	–	–
Basic loss per share	5	HK0.57 cents	HK0.34 cents
Diluted loss per share	5	HK0.56 cents	N/A

Notes

1. Basis of preparation and consolidation

The measurement basis used in the preparation of the financial statements is historical cost. The unaudited consolidated financial statements of the Group have been prepared on the basis of merger accounting. Under this basis, the Company has been treated as the holding company of its subsidiaries for the financial periods presented rather than from the date of acquisition of the subsidiaries.

2. Turnover and revenue

The principal activities of the Group are the provision of film production and TV movies production service.

3. Taxation

No provision for Hong Kong profits tax has been made for the three months ended 30 June 2003 (three month ended 30 June 2002: Nil) as the Group had no estimated assessable profits arising in Hong Kong.

4. Dividend

The Board does not recommend the payment of any dividend for the three months ended 30 June 2003 (three months ended 30 June 2002: Nil).

5. Loss per share

The calculation of basic loss per share for the three months ended 30 June 2003 is based on the unaudited net loss from ordinary activities attributable to shareholders of approximately HK\$3,577,000 (three months ended 30 June 2002: approximately HK\$1,634,000) and on the number of shares of 627,200,000 for the three months ended 30 June 2003 (three months ended 30 June 2002: 476,000,000 ordinary shares).

The diluted loss per share for the three months ended 30 June 2003 is based on 627,200,000 ordinary shares (three months ended 30 June 2002: 476,000,000 ordinary shares) plus the weighted average of 14,868,966 ordinary shares (three months ended 30 June 2002: N/A) deemed to be issued at no consideration if all outstanding share options had been exercised.

6. Movements of reserves

	Share Contributed		Accumulated	Total
	premium	surplus	profits/ (losses)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2002	–	10	714	724
Loss for the three months ended 30 June 2002	–	–	(1,634)	(1,634)
At 30 June 2002		10	(920)	(910)
At 1 April 2003	11,387	10	3,245	14,642
Loss for the three months ended 30 June 2003	–	–	(3,577)	(3,577)
At 30 June 2003	11,387	10	(332)	11,065

OTHER INFORMATION

1. Directors' and chief executive's interests or short positions in shares

As at 30 June 2003, the interests or short positions of the directors and the chief executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, were as follows:

Name of Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	%
Mr. To Kei Fung	–	–	–	285,600,000	285,600,000	45.54
				(Note)		

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 Trust and 0.01% by Ms. Wong Po Ling, Pauline, the spouse of Mr. To Kei Fung. Mr. To Kei Fung is the sole discretionary object of The To Kei Fung Family Trust for the 12 months period from the listing of the Shares on GEM.

Save as disclosed above, as at 30 June 2003, none of the directors or chief executives of the Company or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of the Company as referred to in Rules 5.40 to 5.58 of the GEM Listing Rules.

2. Share options schemes

The Company has adopted two share option schemes on 2 August 2002, namely, the Pre-IPO Share Option Scheme and the Share Option Scheme. The principal terms of which are set out in the note 21 to the financial statements as included in the annual report of the Company for the year ended 31 March 2003.

As at 30 June 2003, options to subscribe for an aggregate of 16,800,000 shares of the Company under the Pre-IPO Share Option Scheme had been granted to a senior management. Details of which are as follow:

Name of grantee	Date of grant of share options	As at date of grant	Exercised		Exercise period	Exercise price HK\$
			during the period	As at 30 June 2003		
Ding Yui-Shan	02/08/2002	16,800,000	-	16,800,000	26/08/2002 to 25/08/2007	0.01

3. Substantial shareholders

As at 30 June 2003, the following persons (other than a director or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

Name of shareholder	Number of Shares held	% of the Company's issued share capital
Pearl Rider Overseas Limited (Note)	285,600,000	45.54

Note: Pearl Rider Overseas Limited 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 Trust and 0.01% by Ms. Wong Po Ling, Paulina, the spouse of Mr. To Kei Fung. Sliver Seal Finance Limited is wholly owned by The To Kei Fung Family Trust.

Save as disclosed above, as at 30 June 2003, there was no person (other than a director or chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

4. Sponsor's interest

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 updated and notified by Hantec, neither Hantec nor any of its directors, employees or their associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the share capital of the Company as at 30 June 2003.

5. Competing interests

Pursuant to Rule 11.04 of the GEM Listing Rules, as at 30 June 2003, the interest of each director, substantial shareholders or management shareholders (as defined in the GEM Listing Rules) of the Company or their respective associates that cause or may cause significant competition with the business of the Group are as below:

Management shareholder	Entity that competes or may compete with the business of the Group	Competing business of the entity
Lau Tak Wah Andy	Teamwork Motion Pictures Limited	Principally engaged in the production and distribution of films in Hong Kong

Save as disclosed above, none of the directors, substantial shareholders or the management shareholders (as defined in the GEM Listing Rules) of the Company or their respective associates that cause or may cause significant competition with the business of the Group.

Non-competition undertaking

Mr. To Kei Fung 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.

6. Purchase, sale or redemption of the company's listed shares

During the three months ended 30 June 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

7. 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 the Company's annual report and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the directors. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The audit committee consists of the two independent non-executive directors. The audit committee has reviewed this quarterly result and has provided comments and advice thereon.

By order of the Board
Milkyway Image Holdings Limited
To Kei Fung
Chairman

Hong Kong, 13 August 2003