



MILKYWAY IMAGE

Milkyway Image Holdings Limited

銀河映像控股有限公司

(incorporated in the Cayman Islands with limited liability)

Interim Report 2003

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This report, for which the directors of Milkyway Image Holdings Limited (the “Directors”) 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 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. The turnover of the Group during the six months ended 30 September 2003 was approximately HK\$21,966,000, representing an increase of approximately 18% as compared with the corresponding period in 2002.
2. Net loss of the Group for the six months ended 30 September 2003 was approximately HK\$7,150,000 as against a net profit of approximately HK\$1,075,000 for the corresponding period in 2002.
3. Loss per share of the Group was approximately HK1.14 cents for the six months ended 30 September 2003 (2002: earnings per share of HK0.22 cents).
4. The Board does not recommend the payment of any dividend for the six months ended 30 September 2003 (2002: HK\$ Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

Turnover and net profit

For the six months ended 30 September 2003, Milkyway Image Holdings Limited (the "Company") and its subsidiaries (together the "Group") recorded a turnover of approximately HK\$21,966,000 as compared with approximately HK\$18,575,000 for the corresponding period in 2002, representing an increase of approximately 18%. The Group has completed and produced one film project for the six months ended 30 September 2003 which was the same with corresponding period in 2002. The gross profit, however, has decreased by approximately 96%. The sharp decrease in gross profit was mainly attributable to unexpected increase in film production cost as a result of delay in film shooting schedules due to the outbreak of severe acute respiratory syndrome ("SARS") epidemic in March 2003.

For the six months ended 30 September 2003, the administration expenses exhibited similar pattern as compared with the corresponding period in 2002 except for the increased operating charges for premises and electricity expenses subsequent to moving to a larger working space.

Higher depreciation charges associated with the establishment of in-house editing and sound mixing studio and acquisition of filming equipment together with additional compliance fee after listing of the Company's shares on the Stock Exchange resulted in abrupt increase in other operating expenses during the period under review as compared with the corresponding period in 2002.

For the six months ended 30 September 2003, the Group reported a net loss attributable to shareholders of approximately HK\$7,150,000 as against a net profit attributable to shareholders of approximately HK\$1,075,000 over the same period in 2002. The significant change was primarily due to increase in film production cost and other operating expenses as disclosed above.

Liquidity, financial resources and capital structure

As at 30 September 2003, the shareholders' funds of the Group amounted to approximately HK\$13.9 million. Current assets amounted to approximately HK\$16.5 million, of which approximately HK\$3.4 million was cash and bank balances deposited in local banks. Current liabilities were approximately HK\$21.4 million which was mainly comprised advanced receipts from film companies and trade payables.

The Group does not have any bank borrowings and facilities except for certain finance leases payables. All bank deposits were denominated in Hong Kong Dollars and thus the Group does not expose to any foreign exchange risks.

Material acquisition, disposal and significant investments

During the period ended 30 September 2003, the Group made capital investment in the acquisition of camera and lighting equipment in May 2003 which was funded from internal resources of the Group.

Other than those mentioned above, the Group made no material investments or acquisition or disposal of subsidiaries for the six months ended 30 September 2003.

Employee information

As at 30 September 2003, the Group had 19 full time employees, an increase by 8 from 11 as at 31 March 2003. During the six months ended 30 September 2003, staff costs including Directors' remuneration were approximately HK\$3,125,000 (six months ended 30 September 2002: HK\$3,104,000). The Group's employment and remuneration policies remained the same as disclosed in the annual report of the Company for the year ended 31 March 2003.

Charge on Group assets

As at 30 September 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 30 September 2003, the Group has finance lease payables of approximately HK\$191,000 and thus the gearing ratio, expressed as a percentage of total debts under finance leases over total equity, was 1.4% (31 March 2003: 1.3%).

Contingent liabilities

The Group did not have any material contingent liabilities as at 30 September 2003.

Business review*Sales and marketing*

The Group continues to participate in different film festivals in order to promote and market the films produced by the Group. During the period under review, the film entitled "PTU" produced by the Group participated in Seattle Film Festival, Melbourne Film Festival and Toronto Film Festival and attained the best Asian film in Seattle Film Festival.

Film production

The film shooting schedules have been adversely affected by the outbreak of SARS. The Group has produced one film "Running On Karma" 「大隻佬」 for the period under review and the film was screened in September 2003 with satisfactory box office receipt. To give chase to the delayed film production schedule, the Group has commenced production of another film production project. In addition, the Group was under negotiation for two more film production projects.

Film investment

The outburst of SARS in Hong Kong and China has brought adverse effect on the performance of many industries and the effect of SARS to the economy has not been fully reflected. The Directors believed that investment in film production projects would entail certain degree of potential risk to the Group under current market situation. As such, the Group has terminated two film co-investment projects in September 2003 previously signed by the Group. The termination of these two film co-investment projects will allow the Group to concentrate more on its film production projects.

The Group will, however, continue to monitor the impact of SARS to the Group and review its film investment strategy accordingly.

Purchase of filming equipment

For the period under review, the Group has made capital investment of HK\$9.5 million in the acquisition of camera and lighting equipment with internal resources of funds. The camera and lighting equipment has been put into use for the production of film projects.

Prospects

Over the years, the Group has established its track record for producing films which both earned praises and encouraging box office receipts in local market and received awards and acclaims from international film festivals. In coming future, the Group will continue to review the market preference and produce high quality films while maintaining effective cost management.

Pursuant to the sale and purchase agreement entered into between the former substantial shareholder of the Company and Right Opportune Limited dated 28 August 2003 which was completed on 18 September 2003, Right Opportune Limited has become the substantial shareholder of the Company as disclosed in the composite offer and response document dated 9 October 2003. The Group will continue its existing business and implementing the business objectives as set out in the prospectus dated 13 August 2002 ("Prospectus"). With the appointment of new Directors together with existing management team, the Directors believe that such collocation will strengthen overall business development and strategic planning of the Group.

COMPARISON OF BUSINESS OBJECTIVE WITH ACTUAL BUSINESS PROGRESS

For the six-month period from 1 April 2003 to 30 September 2003

Business objectives as stipulated in the Prospectus

Actual business progress

Purchase of filming equipment and establish editing and mixing studio

- Continue to upgrade the editing and mixing studio

- Implemented as planned

Film production

- Five films are scheduled to deliver
- Schedule to engage one film with overseas film company targeting at the US market

- One film was delivered
Owing to the influence of SARS, overall production and shooting schedules were postponed.
- Not yet implemented
Owing to the influence of SARS, overall production and shooting schedules were postponed.

Film investment

- Invest in one local film project

- Not yet implemented
Due to the outbreak of SARS and the slowdown of the economy, the Group had terminated two film co-investment projects previously signed and concentrates on its own film production projects.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares at the time of listing on the GEM in August 2002, after deduction of related issue expenses, amounted to approximately HK\$17 million. Of this amount, approximately HK\$12 million had been utilised up to 30 September 2003 and approximately HK\$200,000 has been applied during the period under review in accordance with the proposed application set out in the Prospectus. Details of the application of the proceeds during the period under review are set out as follows:

	Planned usage for the period from 1 April 2003 to 30 September 2003 <i>HK\$ in million</i>	Actual usage for the period from 1 April 2003 to 30 September 2003 <i>HK\$ in million</i>	Variance <i>HK\$ in million</i>	Remarks
Film production	0.2	–	(0.2)	The planned usage of HK\$6 million as stipulated in the Prospectus has been utilised as disclosed in the annual report for the year ended 31 March 2003.
Film investment	2.0	–	(2.0)	Due to the outbreak of SARS and the slowdown of the economy, the Group had terminated two film co-investment projects previously signed and concentrates on its own film production projects.
Purchase of filming equipment and establish editing and mixing studio	0.1	–	(0.1)	The planned usage of HK\$5 million as stipulated in the Prospectus has been utilised as disclosed in the annual report for the year ended 31 March 2003.
Working capital	0.2	0.2	–	
Grand total	2.5	0.2	(2.3)	

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.

UNAUDITED INTERIM RESULTS

The unaudited consolidated results of the Group for the three months and six months ended 30 September 2003, together with the comparative unaudited figures for the corresponding periods in 2002 are set out as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Notes	For the three months ended 30 September		For the six months ended 30 September	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	2	21,966	18,200	21,966	18,575
Film production costs		(21,746)	(12,711)	(21,746)	(12,744)
Gross profit		220	5,489	220	5,831
Other income		230	305	378	422
Administrative expenses		(2,474)	(2,259)	(4,731)	(4,304)
Other operating expenses		(1,540)	(820)	(2,999)	(874)
Profit/(Loss) from operations		(3,564)	2,715	(7,132)	1,075
Finance costs		(9)	(6)	(18)	–
Profit/(Loss) before taxation	4	(3,573)	2,709	(7,150)	1,075
Taxation	5	–	–	–	–
Net profit/(loss) attributable to shareholders		(3,573)	2,709	(7,150)	1,075
Dividend	6	–	–	–	–
Earnings/(Loss) per share (HK cents)	7				
Basic		(0.57)	0.52	(1.14)	0.22
Diluted		N/A	0.49	N/A	0.21

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	As at 30 September 2003 HK\$'000 (Unaudited)	As at 31 March 2003 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment		19,705	11,472
Current assets			
Production in progress		4,483	5,414
Film in progress		–	2,000
Trade receivables	8	2,271	8,599
Prepayments, deposits and other receivables		6,355	19,278
Bank balances and cash		3,392	11,364
		16,501	46,655
Current liabilities			
Advanced receipts		17,783	27,703
Trade payables	9	3,372	5,957
Other payables		138	2,156
Current portion of obligations under finance leases		88	107
Provision for taxation		–	344
		21,381	36,267
Net current assets/(liabilities)		(4,880)	10,388
Total assets less current liabilities		14,825	21,860
Non-current liabilities			
Long-term portion of obligations under finance leases		(103)	(156)
Deferred taxation		(790)	(790)
		(893)	(946)
Total net assets		13,932	20,914
Capital and reserves			
Share capital	10	6,440	6,272
Reserves	11	7,492	14,642
		13,932	20,914

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(UNAUDITED)**

	Share capital	Share premium	Retained earnings/ (Accumulated losses)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2002	–	–	724	724
Capitalisation issue of shares	4,760	(4,760)	–	–
Shares issued upon initial public offering	840	24,360	–	25,200
Shares issue expenses	–	(8,213)	–	(8,213)
Exercise of Pre-IPO share options	672	–	–	672
Profit for the six months ended 30 September 2002	–	–	1,075	1,075
At 30 September 2002	6,272	11,387	1,799	19,458
At 1 April 2003	6,272	11,387	3,255	20,914
Exercise of Pre-IPO share options	168	–	–	168
Loss for the six months ended 30 September 2003	–	–	(7,150)	(7,150)
At 30 September 2003	6,440	11,387	(3,895)	13,932

CONDENSED CONSOLIDATED CASH FLOW STATEMENTS (UNAUDITED)

	Six months ended 30 September 2003 HK\$'000	Six months ended 30 September 2002 HK\$'000
Net cash generated from (used in) operating activities	1,886	(3,975)
Net cash used in investing activities	(9,936)	(6,692)
Net cash generated from financing activities	78	17,408
Net (decrease) increase in cash and cash equivalents	(7,972)	6,741
Cash and cash equivalents at beginning of the period	11,364	6,917
Cash and cash equivalents at end of the period	3,392	13,658
Cash and cash equivalents at 30 September, represented by bank balances and cash	3,392	13,658

NOTES

1. Basis of preparation and consolidation

The measurement basis used in the preparation of the condensed 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.

The unaudited consolidated financial statements have been prepared in accordance with the Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the requirements of the Rules governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

During the six months ended 30 September 2003, the Group adopted SSAP 12 (revised) "Income Taxes" for the first time in the preparation of the unaudited consolidated financial statements.

SSAP 12 (revised) prescribes the basis for accounting and disclosure requirements for deferred tax. In prior years, deferred tax is provided using the income statement liability method on all significant timing differences to the extent it is probable that the liability will crystallize in the foreseeable future. SSAP 12 (revised) requires the deferred tax to be provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The adoption of SSAP 12 (revised) had no material effect on the results for the current or prior accounting periods.

2. Turnover and revenue

The principal activities of the Group are the provision of film production and TV movie production services.

3. Segment information

All the revenue and income generated by the Group were derived from Hong Kong. The unaudited business segment information for the six months ended 30 September 2003 and the corresponding period in 2002 is as follows:

	Film Production		TV Movie Production		Total	
	Six months ended		Six months ended		Six months ended	
	30 September		30 September		30 September	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	21,966	13,075	-	5,500	21,966	18,575
Film production costs	(21,746)	(10,744)	-	(2,000)	(21,746)	(12,744)
Gross profit	220	2,331	-	3,500	220	5,831
Unallocated operating income and expenses					(7,352)	(4,756)
Profit/(Loss) from operations					(7,132)	1,075
Finance costs					(18)	-
Profit/(Loss) before taxation					(7,150)	1,075
Taxation					-	-
Profit/(Loss) attributable to shareholders					(7,150)	1,075

4. Profit/(Loss) before taxation

	For the three months ended 30 September		For the six months ended 30 September	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
This is stated after charging:				
Finance charges on obligations under finance leases	9	6	18	–
Staff costs including Directors' emoluments	1,614	1,555	3,125	3,104
Contribution to retirement scheme	38	31	65	42
Depreciation of property, plant and equipment	906	144	1,703	204
Loss on disposal of property, plant and equipment	–	–	–	66
Operating lease charges for premises	491	349	985	408

5. Taxation

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

6. Dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2003 (2002: Nil).

7. Earnings/(Loss) per share

The calculation of the basic and diluted earnings/(loss) per share is based on the following data:

	For the three months ended 30 September		For the six months ended 30 September	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Profit/(loss) for the period				
Profit/(loss) for calculating basic and diluted earnings/(loss) per share	(3,573)	2,709	(7,150)	1,075
Number of shares				
Weighted average number of ordinary shares used in the calculation of basic earnings/(loss) per share	629,939,130	523,478,261	628,577,049	499,868,852
Effect of dilutive potential ordinary shares	11,470,090	25,565,217	13,320,740	12,852,459
Weighted average number of ordinary shares used in the calculation of diluted earnings/(loss) per share	641,409,220	549,043,478	641,897,789	512,721,311

No diluted loss per share for the three months and six months ended 30 September 2003 were presented as the share options exercised during the period under review would result in a decrease in net loss per share.

8. Trade receivables

The Group has not granted any credit terms to its customers or dealers. The ageing analysis of the trade receivables as at 30 September 2003 and 31 March 2003 is as follows:

	Unaudited As at 30 September 2003 HK\$'000	Audited As at 31 March 2003 HK\$'000
Current – 30 days	58	8,599
31 – 90 days	–	–
91 days – 180 days	2,213	–
	2,271	8,599

9. Trade payables

The ageing analysis of trade payables as at 30 September 2003 and 31 March 2003 is as follows:

	Unaudited As at 30 September 2003 HK\$'000	Audited As at 31 March 2003 HK\$'000
Within six months	2,145	5,957
From seven to twelve months	–	–
Over one year	1,227	–
	3,372	5,957

10. Share capital

	Number of shares of HK\$0.01 each	Amount HK\$'000
Note		
Authorised	10,000,000,000	100,000
Issued and fully paid		
At 1 April 2003	627,200,000	6,272
Issue of shares pursuant to the exercise of Pre-IPO Share Options	a 16,800,000	168
At 30 September 2003	644,000,000	6,440

Note a: On 16 September 2003, 16,800,000 shares of HK\$0.01 each were issued at HK\$0.01 per share pursuant to the exercise of Pre-IPO Share Options.

11. Reserves

	Share premium HK\$'000	Contributed surplus HK\$'000	Retained earnings/ (Accumulated losses) HK\$'000	Total HK\$'000
At 1 April 2002	–	10	714	724
Capitalisation issue of shares	(4,760)	–	–	(4,760)
Shares issued upon initial public offering	24,360	–	–	24,360
Shares issue expenses	(8,213)	–	–	(8,213)
Profit for the six months ended 30 September 2002	–	–	1,075	1,075
At 30 September 2002	11,387	10	1,789	13,186
At 1 April 2003	11,387	10	3,245	14,642
Loss for the six months ended 30 September 2003	–	–	(7,150)	(7,150)
At 30 September 2003	11,387	10	(3,905)	7,492

12. Commitments

Operating leases commitments

As at 30 September 2003, the Group had total future minimum lease payments under non-cancellable operating leases, which are payable as follows:

	Unaudited	Audited
	As at	As at
	30 September 2003	31 March 2003
	HK\$'000	HK\$'000
Within one year	1,810	1,810
In the second to fifth years inclusive	1,500	2,400
	3,310	4,210

Other commitments

As at 30 September 2003, the Group has contracted for production service but not provided for in the financial statements amounting to approximately HK\$16,020,000 (31 March 2003: HK\$24,449,000).

Save as disclosed above, as at 30 September 2003, the Group had no significant capital and other commitments.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN SHARES

As at 30 September 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	–	–	–	–	–	–
					(Note)	

Note: Pursuant to the sale and purchase agreement dated 28 August 2003 entered into between Right Opportune Limited and Pearl Rider Overseas Limited, Right Opportune Limited agreed to acquire and Pearl Rider Overseas Limited agreed to sell all the shares of 285,600,000 held by Pearl Rider Overseas Limited. Completion of the sale and purchase agreement took place on 18 September 2003. Immediately after the completion, Right Opportune Limited has become beneficially interested in approximately 44.35% of the issued share capital of the Company.

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. 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 September 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 as referred to in Rules 5.40 to 5.58 of the GEM Listing Rules.

SHARE OPTIONS SCHEMES

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 principal terms of the two share option schemes have been 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.

Pre-IPO Share Option Scheme

On 16 September 2003, options to subscribe for an aggregate of 16,800,000 shares of the Company under the Pre-IPO Share Option Scheme granted to a senior management were exercised. Details of movement of Pre-IPO Share Option are as follows:

Name of grantee	Date of grant of share options	At date of grant	Exercised during the period	At 30 September 2003	Exercise price HK\$
Ding Yui-Shan	02/08/2002	16,800,000	16,800,000	–	0.01

Share Option Scheme

As at 30 September 2003, no options under the Share Option Scheme had been granted.

SUBSTANTIAL SHAREHOLDERS

So far as is known to any Directors or chief executives of the Company, as at 30 September 2003, the following person (other than the Directors 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
Right Opportune Limited	285,600,000 (Note)	44.35

Note:

- Pursuant to the sale and purchase agreement dated 28 August 2003 entered into between Right Opportune Limited and Pearl Rider Overseas Limited, Right Opportune Limited agreed to acquire and Pearl Rider Overseas Limited agreed to sell all the shares of 285,600,000 held by Pearl Rider Overseas Limited. Completion of the sale and purchase agreement took place on 18 September 2003. Immediately after the completion, Right Opportune Limited has become beneficially interested in approximately 44.35% of the issued share capital of the Company. The entire issued share capital of Right Opportune Limited is wholly and beneficially owned by Mr. Law Sau Yiu Dennis. Accordingly, Mr Law Sau Yiu Dennis is deemed to be interested in the 285,600,000 shares beneficially owned by Right Opportune Limited.

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 September 2003, the Company has not been notified by any persons (other than the Directors or chief executive of the Company) who had interests or short positions 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.

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 September 2003.

COMPETING INTERESTS

Pursuant to Rule 11.04 of the GEM Listing Rules, as at 30 September 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 set out 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 had any interests in any business which 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.

COMPLIANCE WITH THE GEM LISTING RULES

The Company has complied with board practices and procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules throughout the half year period.

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

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

AUDIT COMMITTEE

The Company had 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 two independent non-executive Directors. The audit committee has reviewed the Group's unaudited results for the six months ended 30 September 2003 and has provided comments and advice thereon.

By order of the Board

Milkyway Image Holdings Limited

To Kei Fung

Director

Hong Kong, 12 November 2003