



**MILKYWAY IMAGE**

**Milkyway Image Holdings Limited**

**銀河映像控股有限公司**

(incorporated in the Cayman Islands with limited liability)

Third Quarterly Report 2003

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, they may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies on GEM are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at [www.hkgem.com](http://www.hkgem.com) in order to obtain up-to-date information on GEM-listed issuers.**

*The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

*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.*

**CONTENTS**

	<i>Pages</i>
Highlights	3
Financial and Business Review	4
Prospects	4
Unaudited Third Quarterly Results	5
Other Information	8

## HIGHLIGHTS

- Turnover of the Group for the nine months ended 31 December 2003 was approximately HK\$22.7 million, representing a decrease of approximately 31% as compared with the corresponding period in 2002.
- Net loss of the Group for the nine months ended 31 December 2003 was approximately HK\$8.9 million as against a net profit of approximately HK\$2.1 million for the corresponding period in 2002.
- Loss per share of the Group was approximately HK 1.40cents for the nine months ended 31 December 2003 (2002: earnings per share of HK 0.39 cent).
- The Board does not recommend the payment of any dividend for the nine months ended 31 December 2003 (2002: HK\$ Nil).

## FINANCIAL AND BUSINESS REVIEW

For the nine months ended 31 December 2003, Milkyway Image Holdings Limited (“the Company”) and its subsidiaries (together the “Group”) recorded a turnover of approximately HK\$22.7 million (2002: HK\$33.1 million) and a net loss attributable to shareholders of approximately HK\$8.9 million (2002: a net profit attributable to shareholders of approximately HK\$2.1 million).

The decrease in turnover from film production was mainly due to the delayed production of films by the Group. The outbreak of the Severe Acute Respiratory Syndrome (“SARS”) epidemic in 2003 had severely affected business activities and had unavoidably caused the Group to delay its film shooting schedule. As a result, the Group had only produced one film project for the nine months ended 31 December 2003 as against three film projects for the corresponding period in 2002.

The rise in net loss attributable to shareholders for the nine months ended 31 December 2003 was partly due to drop in turnover and partly due to increase in other operating expenses. The increase in other operating expenses was mainly attributed to higher depreciation charges on filming equipment, editing and mixing studio and additional mandatory expenses after listing of the Company's shares on the Stock Exchange.

The exceptional increase in other income was due to a forfeited deposit, net of production cost, relating to an aborted film production project.

Regarding the film production, the Group had completed the production of one film entitled “Running On Karma” which was screened in September 2003 and achieved an encouraging box office record. In addition, the Group has commenced the production of two film projects which are both targeted to be completed in the first quarter of 2004. Apart from film production, the Group had also produced one music TV and two short movies during the period under review.

## PROSPECTS

With the signing of Closer Economic Partnership Arrangement (“CEPA”) and the supportive measures taken by the Mainland authority to boost Hong Kong economy, it is apparent that strong signs of initial recovery in consumption are observed. Together with the abolition of quota for Hong Kong films and the relaxation of investment in PRC cinemas, many film investors rebuild the confidence in investment in film production business. Supported by the Group's sophisticated film production facilities and its standing on the market, the Group will strive to capture every opportunity arising from these measures introduced by both local and Mainland authorities.

Regarding the film projects signed with One Hundred Years of Films Company Limited, the Group has commenced negotiation for two film production projects. In addition, the Group has also signed film production agreements with a local film production company to participate in film projects.

Looking to the future, the Group will continue its endeavour to monitor the production cost while ensuring high quality film titles. The Directors are confident that the Group will benefit from the ongoing film production projects and capitalize on the recovery of economy in the near future.

## UNAUDITED THIRD QUARTERLY RESULTS

The unaudited consolidated results of the Group for the three months and nine months ended 31 December 2003, together with the unaudited consolidated results for the corresponding periods in 2002, are as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Notes	Unaudited			
		For the three months ended 31 December		For the nine months ended 31 December	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
<b>Turnover</b>	2	<b>730</b>	14,500	<b>22,696</b>	33,075
Film production costs		<b>161</b>	(10,439)	<b>(21,585)</b>	(23,183)
Gross profit		<b>891</b>	4,061	<b>1,111</b>	9,892
Other income		<b>1,774</b>	135	<b>2,152</b>	557
Administrative expenses		<b>(2,773)</b>	(2,231)	<b>(7,503)</b>	(6,536)
Other operating expenses		<b>(1,629)</b>	(915)	<b>(4,629)</b>	(1,788)
<b>Profit/(Loss) from operations</b>		<b>(1,737)</b>	1,050	<b>(8,869)</b>	2,125
Finance costs		<b>(9)</b>	–	<b>(27)</b>	–
<b>Profit/(Loss) before taxation</b>		<b>(1,746)</b>	1,050	<b>(8,896)</b>	2,125
Taxation	3	–	–	–	–
<b>Net profit/(loss) attributable to shareholders</b>		<b>(1,746)</b>	1,050	<b>(8,896)</b>	2,125
<b>Dividend</b>	4	–	–	–	–
<b>Earnings/(Loss) per share (HK cents)</b>					
Basic	5	<b>(0.27)</b>	0.17	<b>(1.40)</b>	0.39
Diluted		<b>N/A</b>	0.16	<b>N/A</b>	0.38

## NOTES TO THE UNAUDITED THIRD QUARTERLY RESULTS

### 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 accounting policies generally accepted in Hong Kong and the applicable disclosure requirements of the GEM Listing Rules.

During the nine months ended 31 December 2003, the Group adopted the Hong Kong Statement of Standard Accounting Practice ("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 movies production services.

### 3. Taxation

No provision for Hong Kong profits tax has been made for the three months and nine months ended 31 December 2003 (three months and nine months ended 31 December 2002: Nil) as the Group had no estimated assessable profits.

### 4. Dividend

The Directors do not recommend the payment of any dividend for the nine months ended 31 December 2003 (2002: Nil).

## 5. 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 31 December		For the nine months ended 31 December	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
<b>Profit/(loss) for the period</b>				
Profit/(loss) for calculating basic and diluted earnings/(loss) per share	<b>(1,746)</b>	1,050	<b>(8,896)</b>	2,125
<b>Number of shares</b>				
Weighted average number of ordinary shares used in the calculation of basic earnings/(loss) per share	<b>644,000,000</b>	627,200,000	<b>633,736,727</b>	542,466,909
Effect of dilutive potential ordinary shares	–	16,800,000	<b>8,857,900</b>	14,173,091
Weighted average number of ordinary shares used in the calculation of diluted earnings/(loss) per share	<b>644,000,000</b>	644,000,000	<b>642,594,627</b>	556,640,000

No diluted loss per share for the three months and nine months ended 31 December 2003 were presented as the share options exercised during the period under review would result in a decrease in net loss per share.



## 6. Movement of 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 nine months ended 31 December 2002	–	–	2,125	2,125
<b>At 31 December 2002</b>	<b>11,387</b>	<b>10</b>	<b>2,839</b>	<b>14,236</b>
At 1 April 2003	11,387	10	3,245	14,642
Loss for the nine months ended 31 December 2003	–	–	(8,896)	(8,896)
<b>At 31 December 2003</b>	<b>11,387</b>	<b>10</b>	<b>(5,651)</b>	<b>5,746</b>

## OTHER INFORMATION

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

As at 31 December 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 (Notes a & b)	-	-	-	-	-	-
Mr. Law Sau Yiu Dennis	-	-	285,600,000 (Notes a & b)	-	285,600,000	44.35

Notes:

- (a) 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.
- (b) 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, 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 31 December 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.

## 2. SHARE OPTIONS SCHEMES

The Company adopted two share option schemes on 2 August 2002, namely, the pre-IPO share option scheme ("Pre-IPO Share Option Scheme") and the share option scheme ("Share Option Scheme"). 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 had been 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 31 December 2003	Exercise price HK\$
Ding Yui-shan	02/08/2002	16,800,000	16,800,000	-	0.01

### *Share Option Scheme*

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

## 3. SUBSTANTIAL SHAREHOLDERS

So far as is known to any Directors or chief executives of the Company, as at 31 December 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 was 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: Please refer to notes a and b disclosed above in respect of Directors and chief executive's interests or short positions in shares.

Save as disclosed above, as at 31 December 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.

#### **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 31 December 2003.

#### **5. COMPETING INTERESTS**

As disclosed in the prospectus of the Company dated 13 August 2002 ("Prospectus"), 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 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.

Such non-competition undertaking given by Mr. To Kei Fung in favour of the Company will remain in force after the completion of the sale and purchase agreement dated 28 August 2003 entered into among Pearl Rider Overseas Limited, Mr. To Kei Fung and Right Opportune Limited in relation to the sale and purchase of shares in the Company which took place on 18 September 2003 so long as the Company is listed on GEM and/or Mr. To Kei Fung remains a Director.

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. 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 nine months period.

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

During the nine months ended 31 December 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

**8. AUDIT COMMITTEE**

The Company 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 consolidated results for the nine months ended 31 December 2003.

By order of the Board  
**Milkyway Image Holdings Limited**  
**Law Sau Yiu Dennis**  
*Chairman*

Hong Kong, 11 February 2004