



**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 2004

## **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.**

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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 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.*

**CONTENTS**

	<i>Pages</i>
Highlights	3
Management Discussion and Analysis	4
Comparison of Business Objective with Actual Business Progress	8
Use of Proceeds from the Company's Initial Public Offering	9
Condensed Consolidated Income Statement	10
Condensed Consolidated Balance Sheet	11
Condensed Consolidated Statement of Changes in Equity	12
Condensed Consolidated Cash Flow Statement	13
Notes to the Condensed Financial Statements	14
Additional Information Required by the GEM Listing Rules	20

## HIGHLIGHTS

1. Turnover of the Group for the six months ended 30 September 2004 was approximately HK\$34,236,000, representing an increase of approximately 56% as compared to the corresponding period in 2003.
2. Net profit of the Group for the six months ended 30 September 2004 was approximately HK\$479,000 as compared to a net loss of approximately HK\$7,150,000 for the corresponding period in 2003.
3. Earnings per share of the Group was approximately HK0.06 cents for the six months ended 30 September 2004 (2003: loss per share of HK1.14 cents).
4. The Board does not recommend the payment of any dividend for the six months ended 30 September 2004 (2003: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

#### *Financial Performance*

For the six months ended 30 September 2004, Milkyway Image Holdings Limited (the "Company") and its subsidiaries (together, the "Group") recorded a turnover of approximately HK\$34 million as compared with that for the corresponding period in 2003 of approximately HK\$22 million, representing an increase of approximately 56%. Net profit attributable to shareholders amounted to approximately HK\$0.5 million (2003: net loss attributable to shareholders of approximately HK\$7.2 million). The Group completed three film projects in the period under review whereas only one film project was completed in the corresponding period in 2003.

Gross profit increased considerably to approximately HK\$9.2 million for the six months' period under review (2003: HK\$0.2 million). During the corresponding period in 2003, exceptional low 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 epidemic in March 2003. The Group's performance in the current period reflected its production being restored to a normal level.

For the six months' period under review, other operating expenses exhibited similar pattern as compared with the corresponding period in 2003 except for the increased staff costs due to addition of head count of employees.

#### *Liquidity, Financial Resources and Capital Structure*

The shareholders' funds of the Group as at 30 September 2004, amounted to approximately HK\$16 million. Current assets amounted to approximately HK\$14.6 million, of which approximately HK\$2.6 million was bank balances and cash. Current liabilities amounted to approximately HK\$15.5 million mainly comprised advanced receipts from film companies and trade creditors. The Group did not have any bank borrowings as at 30 September 2004 except for certain obligations under finance leases.

During the six months' period under review, the Company issued 161,000,000 shares of HK\$0.01 each of the Company at a subscription price of HK\$0.037 per share. The net proceeds amounted to approximately HK\$5.3 million were used for general working capital of the Group.

#### *Foreign Exchange Exposure*

The Group's business transactions during the six months' period ended 30 September 2004 were denominated in Hong Kong Dollars. Its assets and liabilities were also denominated in Hong Kong Dollars. Accordingly, the Group did not expose to any foreign exchange risks.

#### *Material Acquisition, Disposal and Significant Investments*

During the six months' period under review, the Group made no material investments or acquisition or disposal its subsidiaries.

#### *Employees and Remuneration Policies*

As at 30 September 2004, the Group had 19 full time employees which was the same as that as at 31 March 2004. During the six months' period under review, no share options were granted to any employees including Directors of the Company. Staff costs including Directors' emoluments during the period were approximately HK\$4,627,000 (2003: HK\$3,125,000). 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 2004.

#### *Charge on Group Assets*

As at 30 September 2004, the Group did not have any charges on its assets.

#### *Gearing Ratio*

As at 30 September 2004, the Group has obligations under finance leases amounted to approximately HK\$94,000 and thus the gearing ratio, expressed as a percentage of total debts over total equity, was approximately 0.6% (31 March 2004: 1.5%).

#### *Contingent Liabilities*

As at 30 September 2004, the Group did not have any material contingent liabilities.

## Business Review

### *Segment Information*

During the six months' period under review, the Group continued to focus on the provision of film production service. With the rebound of the local economy particularly the consumer market, box office receipts in Hong Kong increased as compared to that in last year. The Group has also benefited from the rebound as high box office receipts can add momentum to drive the film industry as a whole.

### *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 Group's productions received several acclaims. "Breaking News" [大事件] has been the Official Selection of 2004 Festival de Cannes and also been invited to Melbourne International Film Festival, Viennale International Film Festival and Toronto International Film Festival. "Throw Down" [柔道龍虎榜] has been the Venice International Film Festival – Out of Competition Opening Film and also been invited to Toronto International Film Festival and the forthcoming Tokyo FILMeX International Film Festival to be held in mid-November 2004.

### *Film Production*

Apart from the film projects namely, "Breaking News" [大事件] and "Throw Down" [柔道龍虎榜], which had been completed in the first quarter of the financial year ending 31 March 2005, one additional film project namely, "Yesterday Once More" [龍鳳鬥] was also completed in the second quarter of this fiscal year. All the three film projects have achieved encouraging box office receipts.

*Film Investment*

For the period under review, the Group did not invest in any film projects. Nevertheless, at the date of this report, the Group has invested in a film project which is in the course of production by its own. The Directors believe that by owning solely or partially the copyrights of films, the Group is able to broaden its recurrent income base.

*Prospects*

The Group will focus on its core business in film production and concurrently engage in film investment activities whenever appropriate opportunities arise. In the long run, the film investment activities will enable the Group to establish its own film library and generate recurring licensing income which, in turn, will enhance its future financial position.

With tight cost control measures and the best utilisation of its existing resources by providing facilities support service to outsider companies, the Directors believe that the Group is able to maintain its competitive edge in the market without enormous capital funding requirements.



## COMPARISON OF BUSINESS OBJECTIVE 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 six months' period ended 30 September 2004:

### Business objectives as set out in the Prospectus

### Actual business progress

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

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>• Continue to upgrade the editing and mixing studio</li> </ul> | <ul style="list-style-type: none"> <li>• Implemented as planned</li> </ul> |
|---|--|

*Film production*

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>• Six films are scheduled to deliver</li> </ul>   | <ul style="list-style-type: none"> <li>• Three films were delivered</li> </ul>  |
| <ul style="list-style-type: none"> <li>• Commence to seek potential film companies for engaging long-term film production contracts as the existing agreements approach to expiry</li> </ul> | <ul style="list-style-type: none"> <li>• The Directors have been actively negotiating with the existing film companies as well as other film companies in the provision of film production services.</li> </ul> |

*Film investment*

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>• Continue to identify possible film project for investment</li> </ul> | <ul style="list-style-type: none"> <li>• Not yet implemented during the period. However, the Group has invested in one film project at the date of this report.</li> </ul> |
|---|--|

### 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\$16.5 million had been utilised up to 30 September 2004 and approximately HK\$0.1 million 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 amount for the period from 1 April 2004 to 30 September 2004 <i>HK\$ in million</i>	Actual amount for the period from 1 April 2004 to 30 September 2004 <i>HK\$ in million</i>	Variance <i>HK\$ in million</i>	Remarks
Film production	0.2	-	(0.2)	The planned amount of HK\$6 million as stipulated in the Prospectus has been utilised as disclosed in the annual report for the year ended 31 March 2004.
Purchase of filming equipment and establish editing and mixing studio	0.1	-	(0.1)	The planned amount of HK\$5 million as stipulated in the Prospectus has been utilised as disclosed in the annual report for the year ended 31 March 2004.
Working capital	0.1	0.1	-	No material variance
Grand total	0.4	0.1	(0.3)	

Except the variances set out in the annual report for the year ended 31 March 2004, 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.

**CONDENSED CONSOLIDATED INCOME STATEMENT**

FOR THE PERIOD ENDED 30 SEPTEMBER 2004

	Notes	Three months ended 30 September		Six months ended 30 September	
		2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
<b>Turnover</b>	2	<b>8,436</b>	21,966	<b>34,236</b>	21,966
Costs of sales and services		<b>(5,998)</b>	(21,746)	<b>(25,011)</b>	(21,746)
Gross profit		<b>2,438</b>	220	<b>9,225</b>	220
Other operating income		<b>224</b>	230	<b>232</b>	378
Other operating expenses		<b>(4,516)</b>	(4,014)	<b>(8,972)</b>	(7,730)
<b>Profit (Loss) from operations</b>	4	<b>(1,854)</b>	(3,564)	<b>485</b>	(7,132)
Finance charges on finance leases		<b>(3)</b>	(9)	<b>(6)</b>	(18)
<b>Profit (Loss) before taxation</b>		<b>(1,857)</b>	(3,573)	<b>479</b>	(7,150)
Taxation	5	–	–	–	–
<b>Net profit (loss) attributable to shareholders</b>		<b>(1,857)</b>	(3,573)	<b>479</b>	(7,150)
<b>Dividend</b>	6	–	–	–	–
<b>Earnings (Loss) per share (HK cents)</b>	7				
<b>Basic</b>		<b>(0.23)</b>	(0.57)	<b>0.06</b>	(1.14)
<b>Diluted</b>		<b>N/A</b>	–	<b>N/A</b>	–

**CONDENSED CONSOLIDATED BALANCE SHEET**

AT 30 SEPTEMBER 2004

	Notes	30 September 2004 (Unaudited) HK\$'000	31 March 2004 (Audited) HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment		16,980	18,760
<b>Current assets</b>			
Production in progress		2,551	16,508
Trade debtors	8	713	8
Deposits, prepayments and other debtors		8,736	9,179
Bank balances and cash		2,562	3,546
		14,562	29,241
<b>Current liabilities</b>			
Trade creditors	9	3,717	4,017
Other creditors and accruals		549	647
Receipt in advance		9,933	31,888
Amounts due to directors		1,202	1,005
Obligations under finance leases – due within one year		94	111
		15,495	37,668
<b>Net current liabilities</b>			
		(933)	(8,427)
		16,047	10,333
<b>Capital and reserves</b>			
Share capital	10	8,050	6,440
Reserves	11	7,997	3,854
		16,047	10,294
<b>Non-current liabilities</b>			
Obligations under finance leases – due after one year		–	39
		16,047	10,333

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
FOR THE PERIOD ENDED 30 SEPTEMBER 2004

	<b>Total equity 2004 (Unaudited) HK\$'000</b>	Total equity 2003 (Unaudited) HK\$'000
At 1 April	<b>10,294</b>	20,914
Profit (loss) for the six months ended 30 September	<b>479</b>	(7,150)
Shares issued for cash	<b>5,957</b>	168
Share issue expenses	<b>(683)</b>	–
At 30 September	<b>16,047</b>	13,932

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

FOR THE PERIOD ENDED 30 SEPTEMBER 2004

	<b>Six months ended 30 September 2004 (Unaudited) HK\$'000</b>	Six months ended 30 September 2003 (Unaudited) HK\$'000
Net cash (used in) generated from operating activities	<b>(6,064)</b>	1,886
Net cash used in investing activities	<b>(132)</b>	(9,936)
Net cash generated from financing activities	<b>5,212</b>	78
Net decrease in cash and cash equivalents	<b>(984)</b>	(7,972)
Cash and cash equivalents at 1 April	<b>3,546</b>	11,364
Cash and cash equivalents at 30 September	<b>2,562</b>	3,392
Cash and cash equivalents at 30 September, represented by bank balances and cash	<b>2,562</b>	3,392

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

FOR THE PERIOD ENDED 30 SEPTEMBER 2004

**1. Basis of preparation and principal accounting policies**

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules and with Statement of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The condensed financial statements have been prepared under the historical cost convention. The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2004.

**2. Turnover**

The principal activities of the Group are the provision of film production and TV movie production services. The turnover in the six months period ended 30 September 2004 and in the corresponding period in 2003 represents revenue from film production.

**3. Segment information**

All of the Group's revenue in the six months ended 30 September 2004 and in the corresponding period in 2003 were derived from Hong Kong and solely from film production operation. The Group's assets are located in Hong Kong. Accordingly, no analysis by business segment and by geographical segment is presented.

#### 4. Profit (Loss) from operations

	For the three months ended 30 September		For the six months ended 30 September	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
<i>Profit (loss) from operations has been arrived at after charging:</i>				
Depreciation of property, plant and Equipment	958	906	1,912	1,703

#### 5. Taxation

No provision for Hong Kong Profits Tax has been made for the three months and six months ended 30 September 2004 (three months and six months ended 30 September 2003: Nil) as the tax losses brought forward from previous years exceed the estimated assessable profits for the periods. The Group had no estimated assessable profits for the three months and six months ended 30 September 2003.

No deferred tax charge/credit was recognised as the amount involved has been insignificant.

#### 6. Dividend

The Directors do not recommend the payment of any dividend for the six months ended 30 September 2004 (2003: 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	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
<b>Profit (Loss) for the period</b>				
Profit (Loss) for calculating basic and diluted earnings (loss) per share	<b>(1,857)</b>	(3,573)	<b>479</b>	(7,150)
<b>Number of shares</b>				
Weighted average number of ordinary shares used in the calculation of basic earnings (loss) per share	<b>805,000,000</b>	629,939,130	<b>783,005,464</b>	628,577,049
Effect of dilutive potential ordinary shares	<b>N/A</b>	–	<b>N/A</b>	–
Weighted average number of ordinary shares used in the calculation of diluted earnings (loss) per share	<b>N/A</b>	629,939,130	<b>N/A</b>	628,577,049

No diluted (loss) earnings per share for the three months and six months ended 30 September 2004 were presented as there were no potential dilutive ordinary shares in issue during those periods. The computation of diluted loss per share for the three months and six months ended 30 September 2003 did not assume the exercise of the Company's outstanding share options existed during those periods since their exercise would reduce loss per share.

## 8. Trade debtors

The Group has not granted any credit terms to its customers or dealers. The aged analysis of the trade debtors as at 30 September 2004 and 31 March 2004 is as follows:

	<b>As at 30 September 2004 (Unaudited) HK\$'000</b>	As at 31 March 2004 (Audited) HK\$'000
Within 30 days	436	8
31 – 90 days	277	–
	<b>713</b>	<b>8</b>

## 9. Trade creditors

The aged analysis of trade creditors as at 30 September 2004 and 31 March 2004 is as follows:

	<b>As at 30 September 2004 (Unaudited) HK\$'000</b>	As at 31 March 2004 (Audited) HK\$'000
Within 6 months	3,608	4,017
6 – 12 months	109	–
	<b>3,717</b>	<b>4,017</b>

## 10. Share capital

	Note	Number of shares of HK\$0.01 each	Amount HK\$'000
<b>Authorised</b>		10,000,000,000	100,000
<b>Issued and fully paid</b>			
At 1 April 2004		644,000,000	6,440
Issue of shares on the basis of one offer share for every four shares held	(i)	161,000,000	1,610
At 30 September 2004		805,000,000	8,050

Note (i): On 26 April 2004, 161,000,000 shares of HK\$0.01 each of the Company were issued at HK\$0.037 per share on the basis of one offer share for every four shares held on 2 April 2004.

## 11. Reserves

	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profits (Accumulated losses) HK\$'000	Total HK\$'000
At 1 April 2003	11,387	10	3,245	14,642
Loss for the six months ended 30 September 2003	–	–	(7,150)	(7,150)
<b>At 30 September 2003</b>	11,387	10	(3,905)	7,492
At 1 April 2004	11,387	10	(7,543)	3,854
Issue of shares	4,347	–	–	4,347
Share issue expenses	(683)	–	–	(683)
Profit for the six months ended 30 September 2004	–	–	479	479
<b>At 30 September 2004</b>	15,051	10	(7,064)	7,997

## 12. Commitments

### *Operating leases commitments*

At 30 September 2004, the Group had total future minimum lease payments under non-cancellable operating leases, which are payable as follows:

	<b>As at 30 September 2004 (Unaudited) HK\$'000</b>	As at 31 March 2004 (Audited) HK\$'000
Within one year	<b>1,800</b>	1,800
In the second to fifth year inclusive	<b>3,450</b>	600
	<b>5,250</b>	2,400

Operating lease payments represented rentals payable by the Group for its office premises. Lease was negotiated for a term of 3 years and rentals were fixed for the period.

### *Other commitments*

At 30 September 2004, the Group had contracted for production service but not provided for in the financial statements amounting to approximately HK\$18,715,000 (31 March 2004: HK\$19,055,000).

Save as disclosed above, the Group had no other commitments at 30 September 2004.

## ADDITIONAL INFORMATION REQUIRED BY THE GEM LISTING RULES

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

At 30 September 2004, the interests and short positions of the Directors and the chief executive of the Company and their associates in the shares of the Company and 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 the required standards of dealing by directors of the listed issuer as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

Name of Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total number of shares held	% of the Company's issue share capital
Mr. Law Sau Yiu, Dennis	-	-	357,000,000 (Note)	-	357,000,000	44.35
Ms. Teng Chia Lin, Chialina	-	-	357,000,000 (Note)	-	357,000,000	44.35

Note:

These shares are held by Right Opportune Limited, the entire issued share capital of which is wholly and beneficially owned by Mr. Law Sau Yiu, Dennis. Ms. Teng Chia Lin, Chialina is the spouse of Mr. Law Sau Yiu, Dennis and thus is deemed to be interested in the shares held by Right Opportune Limited.

Save as disclosed above, at 30 September 2004, 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 required standards of dealing by directors of the listed issuer as referred to in Rule 5.46 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 22 to the financial statements as included in the annual report of the Company for the year ended 31 March 2004.

### *Pre-IPO Share Option Scheme*

Following the exercise in prior years of all the share options granted to option holders, there are no outstanding share options granted under the Pre-IPO Share Option Scheme. In addition, the right to offer or grant further share options under the Pre-IPO Share Option Scheme was terminated upon the listing of the Company's shares on the GEM. Accordingly, the Pre-IPO Share Option Scheme was effectively terminated upon the exercise of all share options by all the option holders.

### *Share Option Scheme*

At 30 September 2004, no options under the Share Option Scheme had been granted.

### 3. SUBSTANTIAL SHAREHOLDERS

At 30 September 2004, the register of substantial shareholders maintained by the Company under Section 336 of the SFO showed that, other than the interests disclosed above in respect of certain Directors, the following shareholders had an interest of 5% or more in the issued share capital of the Company:

<b>Name of shareholder</b>	<b>Number of shares held</b>	<b>% of the Company's issued share capital</b>
Right Opportune Limited	357,000,000 (Note a)	44.35
Grand Sum Assets Limited	59,500,000	7.39
Ms. Lee Po Yi, Shirley Anne	59,500,000 (Note b)	7.39

Notes:

- (a) Please refer to note disclosed above in respect of Directors and chief executive's interests or short positions in shares, underlying shares and debentures.
- (b) Grand Sum Assets Limited is a company wholly and beneficially owned by Ms. Lee Po Yi, Shirley Anne. Accordingly, Ms. Lee Po Yi, Shirley Anne is deemed to be interested in the 59,500,000 shares held by Grand Sum Assets Limited.

Save as disclosed above, at 30 September 2004, the Company has not been notified of 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 which were to be recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% 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 at 30 September 2004.

#### 5. COMPETING INTERESTS

At 30 September 2004, none of the Directors, the substantial shareholders nor their respective associates had any interests in any business which competes or may compete with the business of the Group pursuant to Rule 11.04 of the GEM Listing Rules.

As disclosed in the prospectus of the Company dated 13 August 2002 in relation to the listing of the Company's shares on GEM, Mr. To Kei Fung, an executive director, has unconditionally and irrevocably undertaken to the Company that he will not at any time during which the Company is listed on GEM and so 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 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.



## 6. CORPORATE GOVERNANCE

### *Compliance with Rules 5.34 to 5.45 of the GEM Listing Rules*

The Company has complied throughout the six months ended 30 September 2004 with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

### *Compliance with Rules 5.48 to 5.67 of the GEM Listing Rules*

The Company has complied throughout the six months ended 30 September 2004 with the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors have complied with the required standard of dealings regarding directors' securities transactions.

### *Compliance with Rules 5.28 to 5.33 of the GEM Listing Rules*

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 the three independent non-executive directors namely, Mr. Lau Wai Pun, Raymond, Mr. Lung Hak Kau and Ms. Wai Lai Yung. The audit committee has reviewed the Group's unaudited consolidated financial statements for the six months ended 30 September 2004.

## 7. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 September 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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