



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 2004

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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 GEM of the Stock Exchange (the “GEM Listing Rules”) 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. Turnover of the Group for the nine months ended 31 December 2004 was approximately HK\$36.8 million, representing an increase of approximately 62% as compared to the corresponding period in 2003.
2. Net loss of the Group for the nine months ended 31 December 2004 was approximately HK\$1.5 million as compared to a net loss of approximately HK\$8.9 million for the corresponding period in 2003.
3. Loss per share of the Group was approximately HK0.18 cents for the nine months ended 31 December 2004 (2003: HK 1.40 cents).
4. The Board does not recommend the payment of any dividend for the nine months ended 31 December 2004 (2003: HK\$ Nil).

UNAUDITED QUARTERLY RESULTS

The Directors announce the unaudited consolidated results of Milkyway Image Holdings Limited (the "Company") and its subsidiaries (together, the "Group") for the three months and nine months ended 31 December 2004 together with the comparative unaudited figures for the corresponding periods in 2003 as follows:–

	Notes	Three months ended 31 December		Nine months ended 31 December	
		2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Turnover	2	2,600	730	36,836	22,696
Cost of sales and services		(608)	161	(25,619)	(21,585)
Gross profit		1,992	891	11,217	1,111
Other operating income		532	1,774	764	2,152
Other operating expenses		(4,450)	(4,402)	(13,422)	(12,132)
Loss from operations		(1,926)	(1,737)	(1,441)	(8,869)
Finance charges on finance leases		(3)	(9)	(9)	(27)
Loss before taxation		(1,929)	(1,746)	(1,450)	(8,896)
Taxation	3	–	–	–	–
Net loss attributable to shareholders		(1,929)	(1,746)	(1,450)	(8,896)
Dividend	4	–	–	–	–
Loss per share (HK cents)					
Basic	5	(0.24)	(0.27)	(0.18)	(1.40)
Diluted		N/A	N/A	N/A	(1.40)

Notes

1. Basis of preparation

The unaudited consolidated results of the Group have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong and the applicable disclosure requirements of the GEM Listing Rules.

The accounting policies adopted for the preparation of the Group's unaudited consolidated results 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 consist of provision of film production and TV movies production services, investment in film productions and worldwide film distribution. The turnover in the periods represents revenue from film production.

3. Taxation

No provision for Hong Kong Profits Tax has been made for the three months and nine months ended 31 December 2004 (three months and nine months ended 31 December 2003: Nil) as the Group had no estimated assessable profits for the periods.

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

4. Dividend

The Directors do not recommend the payment of any dividend for the nine months ended 31 December 2004 (2003: Nil).

5. Loss per share

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

	For the three months ended 31 December		For the nine months ended 31 December	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Loss for the period				
Loss for calculating basic and diluted loss per share	(1,929)	(1,746)	(1,450)	(8,896)
Number of shares				
Weighted average number of ordinary shares used in the calculation of basic loss per share	805,000,000	644,000,000	790,363,636	633,736,727
Effect of dilutive potential ordinary shares	N/A	N/A	N/A	–
Weighted average number of ordinary shares used in the calculation of diluted loss per share	N/A	N/A	N/A	633,736,727

No diluted loss per share for the three months and nine months ended 31 December 2004 and the three months ended 31 December 2003 were presented as there were no potential dilutive ordinary shares in issue during those periods. The computation of diluted loss per share for the nine months ended 31 December 2003 did not assume the exercise of the Company's outstanding share options existed during that period since their exercise would reduce 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 2003	11,387	10	3,245	14,642
Loss for the nine months ended 31 December 2003	–	–	(8,896)	(8,896)
At 31 December 2003	11,387	10	(5,651)	5,746
At 1 April 2004	11,387	10	(7,543)	3,854
Issue of shares	4,347	–	–	4,347
Share issue expenses	(683)	–	–	(683)
Loss for the nine months ended 31 December 2004	–	–	(1,450)	(1,450)
At 31 December 2004	15,051	10	(8,993)	6,068

FINANCIAL AND BUSINESS REVIEW

For the nine months ended 31 December 2004, the Group recorded a turnover of approximately HK\$36.8 million (2003: HK\$22.7 million) and a net loss attributable to shareholders of approximately HK\$1.5 million (2003: HK\$8.9 million).

During the period under review, the Group completed three film projects whereas only one film project was completed in the corresponding period in 2003. Apart from film production, the Group had also produced a charity mini film during the period under review.

Meanwhile, the Group also invested in film projects, one of which is in the course of production at the balance sheet date of the period under review. The project is presented by the Group in association with a local leading film company. It manifested the Group's long-term strategy of broadening its recurrent income base by establishing its own film library for worldwide distribution.

Turnover for the nine months ended 31 December 2004 increased by approximately 62% as compared to that in last year whilst gross profit soared to nine-fold to that in the corresponding period. With the management's effort in cost control, the Group continued in experiencing reduced operating cost in general, except for staff costs which were higher than the corresponding period in 2003 as a result of increase in head count of employees.

Regarding film production, the Group's productions, titled "Breaking News" [大事件], "Throw Down" [柔道龍虎榜] and "Yesterday Once More" [龍鳳鬥] have achieved encouraging box office receipts and also received various awards and acclaims. In particular, "Breaking News" [大事件] was awarded Best Director and Best Editing whereas "Throw Down" [柔道龍虎榜] was awarded Best Original Screenplay in the 2004 Taipei Golden Horse Award. In addition, "Breaking News" [大事件], was also awarded Best Director in the Chang Chun Film Festival as well as in the Festival De Cine Sitges.

During the period under review, the Group has established several companies to be engaged in film distribution, assets holding and film production. The Group has also restructured certain existing companies to streamline its operation and cater for different business activities.

To cope with the continuous expansion of business activities namely investment in film productions, the Group has secured banking facility amounting to HK\$5 million for provision of funds to meet its general working capital when required. Meanwhile, subsequent to the balance sheet date of the period under review, the Group has procured a loan of HK\$2 million from a company in which the Company's directors, Mr. Law Sau Yiu, Dennis ("Mr. Law") and Ms. Teng Chia Lin, Chialina ("Ms. Teng") are directors and shareholders. Details of the aforementioned financing activities are set out in the section headed 'Related Party Transactions' to this report.

PROSPECTS

Looking ahead, the Group will continue to focus on its core business of film production and, at the same time, engage in film investment and distribution activities. With the financing facilities in place, the Group's financial position is strengthened which in turn enables the Group to benefit from any emerging opportunities.

The newly established wholly-owned subsidiary, Point of View Movie Production Company Limited ("POV"), aims to pursue in the business of film production in Hong Kong. The establishment of POV will allow the Group to diversify its area of business and products and the Group looks forward to contributing to the local film industry with its high quality films winning over audience's support.

At the date of this report, the Group has invested in two film projects under production to which the Group owns film rights for future distribution purpose. Apart from this, several other film projects are in the pre-production phases.

The Directors are optimistic about the future of the film industry in view of the local government's determination in combating the counterfeiting and piracy of video products.

RELATED PARTY TRANSACTIONS

During the period under review, Mr. Law, provided personal guarantee to a bank to secure banking facility granted to the Group. The facility is also secured by listed securities, other than that of the Company, placed by Mr. Law having discounted market value not less than the amount of banking facility utilized by the Group from time to time. No such banking facility was utilized by the Group during the period under review.

Subsequent to the balance sheet date of the period under review, a private company in which Mr. Law and Ms. Teng are directors and shareholders, advanced HK\$2 million to the Group. The loan is unsecured, bears interest at commercial rate and is repayable within one year from the date of advance.

ADDITIONAL INFORMATION REQUIRED BY THE GEM LISTING RULES

1. Directors' and Chief Executive's Interests of Short Positions in Shares, Underlying Shares and Debentures

At 31 December 2004, the interests and short positions of the Directors and the chief executive of the Company 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 Interest	Total	%
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 31 December 2004, none of the Directors or chief executives of the Company 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 31 December 2004, no options under the Share Option Scheme had been granted.

3. Substantial Shareholders

At 31 December 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:

Name of shareholder	Number of shares held	% of the Company's issued share capital
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 31 December 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 31 December 2004.

5. Competing Interests

At 31 December 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 irrecoverably 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. Compliance with Rules 5.34 to 5.45 of the GEM Listing Rules

In the opinion of the Directors, the Company has complied with Rules 5.34 to 5.45 of the GEM Listing Rules concerning board practices and procedures throughout the nine months period ended 31 December 2004.

7. Purchase, Sale or Redemption of Listed Securities of the Company

During the nine months ended 31 December 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

8. Audit Committee

The Company has established an audit committee on 2 August 2002 with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee comprises the three independent non-executive directors namely, Mr. Lung Hak Kau, Ms. Wai Lai Yung and Ms. Tsang Kei Ling. The audit committee has reviewed the Group's unaudited consolidated financial statements for the nine months ended 31 December 2004.

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

Hong Kong, 31 January 2005