



MILKYWAY IMAGE

Milkyway Image Holdings Limited

銀河映像控股有限公司

(incorporated in the Cayman Islands with limited liability)

Annual Report 2005

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, there 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 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 the report.

This report, for which the directors of Milkyway Image Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to Milkyway Image Holdings Limited. The directors of Milkyway Image Holdings Limited, 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>Page</i>
Corporate Information	2
Chairman's Statement	3
Management Discussion and Analysis	5
Comparison of Business Objectives with Actual Business Progress	10
Profiles of Directors and Senior Management	13
Directors' Report	15
Auditors' Report	23
Consolidated Income Statement	24
Consolidated Balance Sheet	25
Balance Sheet	26
Consolidated Statement of Changes in Equity	27
Consolidated Cash Flow Statement	28
Notes to the Financial Statements	30
Summary of Financial Information	56

Corporate Information

Executive Directors

Mr. Law Sau Yiu, Dennis (*Chairman*)
 Ms. Teng Chia Lin, Chialina
 Mr. To Kei Fung

Independent Non-Executive Directors

Mr. Lung Hak Kau
 Ms. Wai Lai Yung
 Ms. Tsang Kei Ling

Qualified Accountant

Mr. Lee Wai Ming

Company Secretary

Mr. Lee Wai Ming

Authorised Representatives

Mr. Law Sau Yiu, Dennis
 Mr. Lee Wai Ming

Compliance Officer

Mr. Law Sau Yiu, Dennis

Audit Committee

Mr. Lung Hak Kau
 Ms. Wai Lai Yung
 Ms. Tsang Kei Ling

Registered Office

Century Yard
 Cricket Square
 Hutchins Drive
 P.O. Box 2681GT
 George Town
 Grand Cayman
 British West Indies

Head Office and Principal Place of

Business

1st Floor, 77 Hung To Road
 Kwun Tong
 Kowloon
 Hong Kong

Company Website

<http://www.milkywayimage.com>

Note: Information contained in this website does not form part of this annual report

Sponsor

Hantec Capital Limited

Principal Banker

Hang Seng Bank
 The Bank of East Asia

Principal Share Registrar and Transfer Office

Bank of Bermuda (Cayman) Limited
 Strathvale House
 North Church Street
 George Town
 Grand Cayman
 Cayman Islands
 British West Indies

Hong Kong Branch Share Registrar and Transfer Office

Secretaries Limited
 Ground Floor, BEA Harbour View Centre
 56 Gloucester Road
 Wanchai
 Hong Kong

Auditors

CCIF CPA Limited

Legal Advisers to the Company

as to Hong Kong Law
 Gallant Y. T. Ho & Co.

as to the Cayman Islands Law
 Conyers Dill & Pearman, Cayman

Stock Code

8130

Chairman's Statement

On behalf of the board (the "Board") of directors (the "Directors") of Milkyway Image Holdings Limited (the "Company"), I have pleasure in presenting to the shareholders of the Company the 2005 annual report of the Company and its subsidiaries (the "Group").

The financial year ended 31 March 2005 continued to be a challenging year to the Hong Kong film industry despite of the rapid recovery of the local economy from the impact of the outbreak of the Severe Acute Respiratory Syndrome ("SARS") epidemic in previous financial year. The problem of piracy of video products in the local market remained unresolved and to make the situation even worse is the illegal internet downloading of video contents which reached its hottest point in the year. These kinds of illegal activities severely eroded the film industry as a whole. As one of the leading local movies producers, the Group's business activities were unavoidably affected as well.

Notwithstanding the weak climate in the local film industry, the Group continued to produce quality films for both local and overseas audiences. During the year, the Group produced three film projects. These films not only achieved encouraging box office receipts at the time of local screening but also received several awards and acclaims overseas. In particular, at the 2004 Taipei Golden Horse Award, our film, "Breaking News"「大事件」, was awarded Best Director and Best Editing whilst the Group's another film, "Throw Down"「柔道龍虎榜」, was awarded Best Original Screenplay. "Breaking News"「大事件」was also awarded Best Directors at both the 2004 Chang Chun Film Festival and the 2004 Festival De Cine Sitges.

In order to broaden its revenue base, the Group invested in the year in the production of two film projects titled, "Election"「黑社會」and "The Unusual Youth"「非常青春期」both of which were completed subsequent to the balance sheet date. The Group will own the film rights of these invested films and will co-operate with other leading film distribution companies, where appropriate, in distributing the films in both the local and overseas markets. The investments manifested the Group's long-term strategy of establishing its own film library for worldwide distribution. The film, "Election"「黑社會」was invited to the 2005 Cannes International Film Festival as 'Competition Film'. It was the only Hong Kong production being invited as 'Competition Film' this year. This further demonstrated the Group's productions are well recognized by world-class filmmakers.

To diversify its area of business and products, the Group established a new subsidiary, Point Of View Movie Production Company Limited ("POV"), which aims to pursue in the business of film production in Hong Kong. POV's maiden piece, "The Unusual Youth"「非常青春期」, has been screened subsequent to the balance sheet date, which signified a fresh facet of the Group's productions.

Despite of the government authorities' determination in combating the piracy of video products and the illegal internet downloading in order to create a better business environment for the entertainment industries, the Group realized that there are still difficulties to be overcome by both the film industry and the Group as the local market is unlikely to be recovered soon. As such, the Group will make every endeavour to have an effective cost management in order to maintain its competitiveness under the current market climate while ensuring the qualities of its productions are not compromised.

Chairman's Statement

Finally, I would like to take this opportunity to thank our board of directors, management, staff and all production crews for their contributions to the Group. I would also like to extend my sincere gratitude to our shareholders, business partners, customers and suppliers for their continued support.

Law Sau Yiu, Dennis

Chairman

Hong Kong, 28 June 2005

Management Discussion and Analysis

FINANCIAL REVIEW

Financial Performance

The Group recorded a turnover for the year ended 31 March 2005 of approximately HK\$36.8 million (2004: HK\$22.7 million), representing an increase of approximately 62.1% when compared to that of previous financial year. The increase in turnover was due to the restoration of the Group's production to a normal level as compared to that in last year. Film shooting schedules were postponed for a couple of months last year as a result of the outbreak of the SARS epidemic across the Asia Pacific region and as a consequence, only one film project was completed that year. On the other hand, the Group produced and completed three film projects this year resulting in a significant increase in turnover. Apart from film production, the Group had also produced a charity mini film that also contributed to the overall turnover for the year.

For the year ended 31 March 2005, the Group recorded a net loss of approximately HK\$8.4 million (2004: HK\$10.8 million). The reduced loss this year was primarily a net result of increased turnover offset by the reduced other revenue. In prior year, the Group forfeited a customer deposit relating to an aborted film production project, net of production cost, of approximately HK\$2.8 million that was an exceptional other revenue in that year.

Gross profit ratio also rebounded to a relatively reasonable level of 24.9% this year from 4.6% last year during which the exceptional low gross profit was mainly attributable to unexpected increase in film production cost as a result of delay in film shooting schedules.

Other operating expenses increased by approximately 4.2% as compared with last year primarily due to the increase in head counts of employees resulting in an increased staff-related cost. The remaining other operating expenses exhibited, generally, similar pattern as compared to that in last year.

Liquidity, Financial Resources and Capital Structure

The shareholders' funds of the Group as at 31 March 2005, amounted to approximately HK\$7.2 million (2004: HK\$10.3 million). Current assets amounted to approximately HK\$21.1 million (2004: HK\$29.2 million), of which approximately HK\$2.9 million (2004: HK\$3.5 million) were bank balances and cash. Current liabilities amounted to approximately HK\$28.9 million (2004: HK\$37.7 million) mainly comprised advanced receipts from film companies, short-term borrowings and amounts due to directors. At 31 March 2005, the Group had bank borrowings and loan from a related company amounted to HK\$5 million (2004: nil) and HK\$4 million (2004: nil) respectively.

Management Discussion and Analysis

The Group generally financed its film production activities and other operations with inflow of advanced receipts from film companies. It financed its investing activities with funds from the net proceeds raised from the open offer during the year by new issue of 161,000,000 shares of HK\$0.01 each of the Company at a subscription price of HK\$0.037 per share. The new issue enlarged the Group's capital base and improved its financial position which in turn provide support to the continuing development of the Group's existing business activities and would allow the shareholders to participate in the growth of the Group.

To cope with the continuous expansion of business activities namely investment in film productions, the Group incepted bank borrowings to provide funds for its general working capital and procured a loan from a related company to finance its film production activities. All the Group's borrowings bear interest at commercial rates.

Foreign Exchange Exposure

As the Group's business transactions for the year ended 31 March 2005 and its assets and liabilities at the balance sheet date were denominated in Hong Kong Dollars, the Group did not expose to any foreign exchange risks.

Material Acquisition, Disposal and Significant Investments

For the year ended 31 March 2005, the Group did not made any significant capital investment whereas, in last year, it acquired a total of approximately HK\$10.9 million of property, plant and equipment of which HK\$9.5 million were camera and lighting equipment. On the other hand, During the year, the Group invested in two film projects that were under production at the balance sheet date to which the Group owns film rights for future distribution purpose.

Apart from the aforesaid, the Group made no other material acquisitions or disposals of subsidiaries or any other investments during the year ended 31 March 2005.

Employees and Remuneration Policies

As at 31 March 2005, the Group employed a total of 22 employees (2004: 19), including the executive directors. The Group remunerated its employees in accordance with their work performance and experience. The Directors had their discretions in granting share options and bonuses to the Group's employees depending upon the work performance of particular employee and the financial performance of the Group. No share options were granted during the year. For the year ended 31 March 2005, total staff costs, including Directors' emoluments, amounted to approximately HK\$9.5 million (2004: HK\$7.6 million).

Management Discussion and Analysis

Charges on Group Assets

As at 31 March 2005, the Group did not have any charges on its assets.

Gearing Ratio

As at 31 March 2005, the gearing ratio, expressed as a percentage of total debts over total equity, was 125.2% (2004: 1.5%). Although the gearing ratio of the Group has increased significantly from last year, the Directors believed that the utilization of relatively lower cost of financing method would be beneficial to the Group as a whole.

Contingent Liabilities

As at 31 March 2005, the Group did not have any material contingent liabilities.

BUSINESS REVIEW

Segment Information

The Group continued to focus on the provision of film production service during the year. In the mean time, it also produced a charity mini film that signified another source of related productions. This kind of related production did not constitute a core business but it broadened the revenue base of the Group.

For the year ended 31 March 2005, the Group did not produce any television movies. Nevertheless, the Group will continue to explore business opportunities in this segment in the future.

Meanwhile, the Group has formulated a long-term strategy in establishing its own film library for worldwide distribution. It has invested in two film projects that were in the course of production by its own at the balance sheet date and to which the Group own the film rights for future distribution purpose. No revenue was recorded in this segment for the year.

Sales and Marketing

With the aim of raising public awareness and enhancing the sales potential of the films produced by the Group, the Group continued to actively promote and market its films by participating in both local and international film festivals and it became an integral part of the Group's marketing strategy.

Management Discussion and Analysis

The Group has not only earned praises and achieved encouraging box office receipts in local market for the films produced by itself, but has also proven its competitiveness in international film market. For the year ended 31 March 2005, the films produced by the Group received awards and acclaims as set out below:

Name of Films	Film Festivals	Awards and Acclaims
Breaking News	2004 Taipei Golden Horse Award	Best Director
		Best Editing
	2004 Chang Chun Film Festival	Best Director
	2004 Festival De Cine Sitges	Best Directors
	2004 Festival de Cannes	Official Selection
	2004 Melbourne International Film Festival	Official Selection
	2004 International Film Festival Vienna	Official Selection
	2004 Tokyo International Film Festival	Official Selection
Throw Down	2004 Toronto International Film Festival	Official Selection
	2004 Pusan International Film Festival	Official Selection
	2004 Taipei Golden Horse Award	Best Original Screenplay
	2004 Venice International Film Festival	Out of Competition Opening Film
Yesterday Once More	2004 Toronto International Film Festival	Official Selection
	2004 Tokyo FILMeX International Film Festival	Official Selection
	2004 Udine Far East Film Festival	Official Selection

Film Production

Regarding the film projects signed with One Hundred Years of Films Company Limited, Golden Harvest Film Productions Limited and Teamwork Motion Pictures Limited as detailed in the Company's prospectus dated 13 August 2002 (the "Prospectus"), the Group had completed the productions of two films titled "Breaking News" 「大事件」 and "Throw Down" 「柔道龍虎榜」 for the year under review and had recorded encouraging box office receipts. These two films have received various awards as detailed in the previous section headed "Sales and Marketing".

Apart from the aforementioned film projects, the Group has entered into agreements with another film company, to produce and/or to provide production resources for three films. One of these films has completed during the year whereas another film has been put into production at the balance sheet date.

Management Discussion and Analysis

Film Investment

In view of the arising recognitions abroad of the Group's productions and to broaden its income base, the Group decided to restart its film investment business. Accordingly, it set up its own distribution company and restructured certain existing companies to streamline its operation. Two film projects were put into production during the year and were completed subsequent to the balance sheet date. The Group expected that revenues arising from the distribution and licensing of film rights would be recognized in the forthcoming financial year.

Establishment of Subsidiary

The Group established a wholly-owned subsidiary, Point Of View Movie Production Company Limited ("POV"), engaged in the business of film production in Hong Kong. The establishment of POV allows the Group to diversify its area of business and products by presenting a fresh facet of the Group.

Future Plans for Material Investments

Other than those disclosed under the section headed "Statement of Business Objectives" in the Prospectus and the aforementioned film investment activity, the Group does not have any future plans for material investments.

Prospects

Looking forward, the Group will continue to enhance its core businesses of provision of film production service but concurrently to identify every opportunity for film investment and other related businesses.

Apart from building up its own film library, the Group will also continue in establishing its own in-house script library by acquiring quality screenplay with different titles from external freelance scriptwriters in addition to those developed by the Group itself. Arrangement has been made to achieve this objective. The Directors expect the establishment of such script library will improve the Group's efficiency in the film production process.

With tight cost control measures and the best utilization of its existing resources, the Directors believe that the Group is able to maintain its competitive edge in the market by leveraging on its management and production personnel's expertise in the film industry.

Comparison of Business Objectives 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 Prospectus for the period from the 1 October 2004 to 31 March 2005 (the "Review Period"). The actual progress of the Group compared with the business objectives as set out in the Prospectus for the period from 1 April 2004 to 30 September 2004 has been disclosed in the interim report for the six months 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

- Continue to upgrade the editing and mixing studio

Implemented as planned

Film production

- Six films are scheduled to deliver

Apart from a charity mini film, no film was delivered during the Review Period as during that time, the Group devoted the majority of its available production resources for the production of two film projects in which the Group will own their film rights. One of these two film projects titled "Election" [黑社會] is a large-scale production and hence demanded a prolonged production schedule whereas another film project titled "The Unusual Youth" [非常青春期] was in the post-production stage at the balance sheet date.

- Continue to seek opportunities to work with overseas film companies targeting in the US market

No co-operative agreement has been entered into during the Review Period though the process of seeking such co-operation opportunities is still ongoing.

Film investment

- Continue to identify possible film investments opportunities

At the balance sheet date, the Group has invested in two film projects that were completed subsequent to the balance sheet date. The Group expects the investments can start generating revenues in the forthcoming financial year.

Comparison of Business Objectives with Actual Business Progress

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 (the "Net Proceeds"). Of this amount, approximately HK\$16.4 million had been utilised up to 31 March 2004 and approximately HK\$0.6 million has been applied during the year under review in accordance with the proposed application set out in the Prospectus. Details of the application of the proceeds during the year under review are set out as follows:

	Planned amount up to 31 March 2005 HK\$ in million	Actual amount up to 31 March 2005 HK\$ in million	Variance HK\$ in million	Remarks
Film production	6.0	7.8	1.8	The Group has engaged film directors and additional popular artists in order to fulfill the obligations contemplated under the production agreements as stipulated in the Prospectus and other production agreements with other companies. Accordingly, an aggregate of HK\$7.8 million has been utilized up to 31 March 2004 and no further proceeds was applied during the year.
Film investment	5.0	0.5	(4.5)	Due to the outbreak of SARS and the slowdown of the economy, the Group withheld its original plan of film investment in the previous years until this year during which the remaining balance of the Net Proceeds amounted to HK\$0.5 million were invested for the production of films to be owned by the Group

Comparison of Business Objectives with Actual Business Progress

	Planned amount up to 31 March 2005 HK\$ in million	Actual amount up to 31 March 2005 HK\$ in million	Variance HK\$ in million	Remarks
Purchase of filming equipment and establish editing and mixing studio	5.0	5.2	0.2	No material variance
Working capital	1.0	3.5	2.5	The Group recorded net loss for the year ended 31 March 2004, accordingly, additional funds were utilised to finance its working capital as a temporary measure in that year
Grand total	<u>17.0</u>	<u>17.0</u>	<u>-</u>	

Owing to the unpredictable outbreak of SARS, certain milestone events in achieving the Group's business objectives stipulated in the Prospectus have inevitably been postponed resulting in variances as set out above. The Net Proceeds of approximately HK\$17 million have all been applied as at 31 March 2005.

Profiles of Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Law Sau Yiu, Dennis, aged 42, joined the Group in October 2003 and was appointed as the Chairman. Mr. Law is currently the managing director of Yu Tai Hing Company Limited which is a well-established private property investment and development group in Hong Kong. He has 16 years of experience in property investment and development. Mr. Law is responsible for overall strategic planning and policy making for the Group. He also acts as film director and producer of particular film projects of the Group. Mr. Law holds a Bachelor of Arts Degree in Communications from Loyola Marymount University of Los Angeles, California in the United States of America.

Ms. Teng Chia Lin, Chialina, aged 40, is a practising dental surgeon. Ms. Teng joined the Group in October 2003. She graduated from Guy's Hospital Medical & Dental School of The United Medical and Dental Schools of Guy's and St. Thomas' (now known as the Guy's, King's and St. Thomas' Schools of Medicine, Biomedical Sciences and the Dental Institute), University of London in the United Kingdom in 1989, with a Bachelor degree in Dental Surgery. She joined The Prince Philip Dental Hospital in 1990, and then started her own private practice in 1991. Ms. Teng also held directorship in a number of property investment companies. She is the spouse of Mr. Law.

Mr. To Kei Fung, aged 50, is the founder of the Group responsible for overseeing and supervising the Group's film production projects. He also acts as film director, producer and consultants of the Group's particular film projects. Mr. To has over 20 years experience in the Hong Kong television and film industries as a producer and director. Prior to establishing the Group in May 1996, Mr. To had worked as a producer for Television Broadcasts Limited for approximately 15 years. He had also held the position of Chief Operational Officer of China Star Laser Disc Co. Ltd.

Independent Non-Executive Directors

Mr. Lung Hak Kau, aged 43, was appointed by the Group in August 2004. Mr. Lung has 16 years of experience in investment management and investment banking. He has worked in several multinational financial institutions. He is a Chartered Financial Analyst and is, currently the President of The Hong Kong Society of Financial Analysts and a fellow member of The Hong Kong Institute of Directors.

Ms. Wai Lai Yung, aged 47, was appointed by the Group in September 2004. Ms. Wai has been a director of KanHan Technologies Group Limited, a Company listed on the GEM of The Stock Exchange of Hong Kong Limited, since January 2003. She has been a director of Yorkshire Capital Limited, a company providing business consultancy service, since 1993. Ms. Wai is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

Profiles of Directors and Senior Management

Ms. Tsang Kei Ling, aged 41, was appointed by the Group in January 2005. Ms. Tsang has been a director of C.L. Management Limited, a company providing secretarial and consultancy services, since 1995. She has been a director of a trading company, Great Party Hong Kong Limited, since 2003.

SENIOR MANAGEMENT

Ms. Chan Dao Ho, aged 41, is the production executive of the Group. Ms. Chan is responsible for overseeing and supervising the administration and film production project of the Group. Prior to joining the Group in May 1996, Ms. Chan worked as an assistant director for Film Workshop Limited and then joined DLO Productions Limited as a production manager. Ms. Chan has over 17 years experience in the Hong Kong film industry.

Ms. Ho Mei Yee, aged 41, re-joined the Group as assistant to the Chief Operating Officer in September 2004. Ms. Ho was previously acted as an independent non-executive director until her resignation in August 2004. Before appointed by the Group as an independent non-executive director in November 2001, she joined Television Broadcasts Limited in 1987 and was later promoted to the Administration Officer position of the drama division. Prior to joining the Group, Ms. Ho was working as the production services controller at China Star I-Content Limited and has accumulated over 16 years of experience in the entertainment industry.

Mr. Ding Yuin-Shan, aged 30, is the Assistant General Manager - Business Development of the Group and is in charge of the Group's business development and promotion. He received a master degree in film theory from New York University. Prior to joining the Group in November 2001, he worked for China Star Entertainment Group as film coordinator and was responsible for overseeing film festival activities.

Mr. Lee Wai Ming, aged 38, is the Financial Controller and Company Secretary of the Group. Prior to joining the Group in May 2004, he has over 10 years experience in the auditing and accounting fields. He received a Bachelor of Arts Degree in Accountancy from the Hong Kong Polytechnics University. He is also a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants.

Mr. Ng Hung Keung, aged 39, is the treasurer of the Group. Mr. Ng is responsible for the treasury function of the Group. Prior to joining the Group in May 1996, Mr. Ng worked as an accountant for Oriental Harbour Chinese Restaurant. Mr. Ng has over 10 years experience in the accounting field. He holds the Higher Certificate of Accountancy of Hong Kong Technical Colleges.

Directors' Report

The directors present their annual report and the audited financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 March 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally engaged in the provision of film production services, production of television movies, investment in film productions and worldwide film distribution. Details of the activities of its subsidiaries are set out in note 13 to the financial statements.

RESULTS

The results of the Group for the year ended 31 March 2005 are set out in the consolidated income statement on page 24 of this annual report.

The directors do not recommend the payment of a dividend.

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the pass five financial years is set out on page 56 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 19 to the financial statements.

In order to provide supports to the continuing development of the Group's existing business activities, the Company issued 161 million ordinary shares of HK\$0.01 each, at a subscription price of HK\$0.037 per share on the basis of one new share for every four shares held on 2 April 2004 ("Open Offer"). The Open Offer became unconditional and completed on 22 April 2004. The new shares rank pari passu with the existing shares in all respects.

Directors' Report

RESERVES

Movements during the year in the reserves of the Group and the Company are set out in note 20 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 March 2005, the Company did not have any distributable reserves.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Law Sau Yiu, Dennis (*Chairman*)

Ms. Teng Chia Lin, Chialina

Mr. To Kei Fung

Independent non-executive directors:

Mr. Lung Hak Kau (appointed on 4 August 2004)

Ms. Wai Lai Yung (appointed on 28 September 2004)

Ms. Tsang Kei Ling (appointed on 21 January 2005)

Mr. Lau Wai Pun, Raymond (resigned on 21 January 2005)

Ms. Ho Mei Yee (resigned on 4 August 2004)

In accordance with article 87 of the Company's articles of association, Mr. To Kei Fung shall retire by rotation; and in accordance with article 86 of the Company's articles of association, Ms. Tsang Kei Ling and Ms. Wai Lai Yung, being directors appointed after the annual general meeting held on 12 August 2004, shall retire at the forthcoming annual general meeting. These directors being eligible, offer themselves for re-election. Mr. Law Sau Yiu, Dennis, being the Chairman, will continue to hold office.

Directors' Report

DIRECTORS' SERVICE CONTRACTS

Mr. Law Sau Yiu, Dennis and Ms. Teng Chia Lin, Chialina, both of whom are executive directors, have entered into service agreements with the Company for an initial fixed term of three years commencing from 9 October 2003. Mr. To Kei Fung, an executive director, has entered into a service agreement with the Company for an initial fixed term of three years commencing from 26 August 2002.

Under the said service agreements, Mr. Law Sau Yiu, Dennis and Ms. Teng Chia Lin, Chialina are entitled to an annual salary of HK\$1,800,000 and HK\$456,000 respectively, subject to any increment at such rate as the board of directors may at its absolute discretion determine and Mr. Law Sau Yiu, Dennis and Ms. Teng Chia Lin, Chialina shall abstain from voting in respect of the resolution regarding such increase. Mr. To Kei Fung is entitled to an annual salary of HK\$2,160,000, a housing provision at the rate of HK\$960,000 per annum and a performance bonus to be determined by the board of directors at its absolute discretion provided that Mr. To Kei Fung shall abstain from voting and not be counted towards the quorum in respect of the resolution regarding such performance bonus. The annual salary and housing provision payable to Mr. To Kei Fung under his service agreement with the Company are subject to annual increment at such rate as the board of directors may at its absolute discretion determine and Mr. To Kei Fung shall abstain from voting in respect of the resolution regarding such increase.

Mr. Lung Hak Kau entered into a letter of appointment with the Company on 10 July 2004 for a term of one year commencing on 4 August 2004 and will continue thereafter unless and until terminated by either the Company or Mr. Lung Hak Kau and such appointment is subject at all times to the articles of association of the Company.

Ms. Wai Lai Yung entered into a letter of appointment with the Company on 24 September 2004 for a term of one year commencing on 28 September 2004 and will continue thereafter unless and until terminated by either the Company or Ms. Wai Lai Yung and such appointment is subject at all times to the articles of association of the Company.

Ms. Tsang Kei Ling entered into a letter of appointment with the Company on 20 January 2005 for a term of one year commencing on 21 January 2005 and will continue thereafter unless and until terminated by either the Company or Ms. Tsang Kei Ling and such appointment is subject at all times to the articles of association of the Company.

Save as disclosed above, none of the directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

Directors' Report

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 March 2005, the interests and short positions of the directors and chief executives of the Company and their associates in the shares, underlying shares and debentures 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 of Hong Kong Limited (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 Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of the Stock Exchange (the "GEM Listing Rules"), were as follows:

Long positions in the ordinary shares of HK\$0.01 each of the Company

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	44.3
Ms. Teng Chia Lin, Chialina	–	–	357,000,000 (Note)	–	357,000,000	44.3

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 March 2005, 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.

SHARE OPTION SCHEMES

Particulars of the Company's share option schemes are set out in note 25 to the financial statements.

Directors' Report

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share option schemes disclosed above and in note 25 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTEREST IN CONTRACTS

During the year, a private company of which Mr. Law Sau Yiu, Dennis and Ms. Teng Chia Lin, Chialina are directors and shareholders, advanced HK\$4,000,000 (2004: Nil) to the Group. The loan is unsecured, bears interest at commercial rate and is repayable within one year from the date of advance.

Save as disclosed above, no contracts of significance to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

COMPETING INTERESTS

At 31 March 2005, 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.

Directors' Report

SUBSTANTIAL SHAREHOLDERS

At 31 March 2005, 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:

Long positions in the ordinary shares of HK\$0.01 each of the Company

Name of shareholder	Capacity	Number of shares held	% of the Company's issued share capital
Right Opportune Limited	Beneficial owner (Note 1)	357,000,000	44.3
Grand Sum Assets Limited	Beneficial owner	59,500,000	7.4
Ms. Lee Po Yi, Shirley Anne	Interest of controlled corporation (Note 2)	59,500,000	7.4

Notes:

- (1) Please refer to note disclosed above in respect of Directors' and chief executives' interests and short positions in shares, underlying shares and debentures.
- (2) 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 March 2005, the Company has not been notified of any persons (other than the directors and 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.

RETIREMENT BENEFITS SCHEME

Particulars of the retirement benefits scheme of the Group are set out in note 23 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 March 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Directors' Report

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association and there is no restriction against such rights under the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

MAJOR CUSTOMERS AND SUPPLIERS

Major customers

The directors are of the view that the film industry in Hong Kong is largely dominated by a few major film companies. The Group's largest five customers accounted for 100% (2004: 100%) of the Group's turnover. The largest customer accounted for approximately 39% (2004: 94%) of the Group's turnover.

Major suppliers

The only raw material required by the Group's operations is film negatives supplied by a number of film manufacturers in Hong Kong.

Total purchases of the Group amounted to approximately HK\$0.64 million (2004: HK\$0.93 million) representing approximately 2.9% (2004: 4.3%) of the Group's cost of production.

Purchases from the largest five suppliers accounted for 100% (2004: 100%) of the Group's purchases. Purchases from the largest supplier accounted for approximately 80% (2004: 36%) of the Group's purchases.

At no time during the year did the directors, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had an interest in the Group's largest five customers or largest five suppliers during the year.

AUDIT COMMITTEE

The Company has established an audit committee on 2 August 2002 with written terms of reference in compliance with Rules 5.28 to 5.33 of 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. During the year, the audit committee held four meetings to review the Group's annual report, half-year report and quarterly reports.

Directors' Report

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules throughout the year ended 31 March 2005.

SPONSOR'S INTERESTS

Pursuant to a sponsor's agreement dated 12 August 2002 entered into 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 notified to the Company by Hantec, at 31 March 2005, neither Hantec, its directors, employees nor their associates had any interests in any class of securities (including options or rights to subscribe for such securities) of the Company or any other companies of the Group.

AUDITORS

The financial statements of the Company for the year ended 31 March 2003 were audited by Moores Rowland Mazars.

During the year ended 31 March 2004, Messrs, Morres Rowland Mazars resigned and Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company. The financial statements of the Company for the year ended 31 March 2004 were audited by Deloitte Touche Tohmatsu.

On 10 May 2005, Messrs. Deloitte Touche Tohmatsu resigned as auditors of the Company, CCIF CPA Limited were then appointed to fill casual vacancy and have remained the Company's auditors from that date.

A resolution for the re-appointment of CCIF CPA Limited as auditors of the Company for the ensuing year will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Law Sau Yiu, Dennis

Chairman

Hong Kong, 28 June 2005

Auditors' Report



CCIF

CCIF CPA LIMITED

37/F Hennessy Centre
500 Hennessy Road
Causeway Bay Hong Kong

To the shareholders of
Milkyway Image Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 24 to 55 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2005 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited

Certified Public Accountants

Hong Kong, 28 June 2005

Chan Wai Dune, Charles

Practising Certificate Number P00712

Consolidated Income Statement

For the year ended 31 March 2005

	<i>Notes</i>	2005 HK\$'000	2004 HK\$'000
Turnover	4	36,836	22,696
Cost of sales		(27,653)	(21,654)
Gross profit		9,183	1,042
Other revenue		815	4,977
Other operating expenses		(18,327)	(17,586)
Loss from operations	6	(8,329)	(11,567)
Finance costs	7	(36)	(10)
Loss before taxation		(8,365)	(11,577)
Taxation credit	10	–	789
Net loss for the year	20	(8,365)	(10,788)
Loss per share	11		
Basic		(HK1.05 cents)	(HK1.70 cents)
Diluted		–	(HK1.70 cents)

The notes on pages 30 to 55 form part of these financial statements.

Consolidated Balance Sheet

As at 31 March 2005

	Notes	2005 HK\$'000	2004 HK\$'000
Non-current assets			
Property, plant and equipment	12	15,050	18,760
Current assets			
Film in progress		9,604	–
Production in progress		2,076	16,508
Trade debtors	14	59	8
Deposits, prepayments and other debtors		6,493	9,179
Bank balances and cash		2,853	3,546
		21,085	29,241
Current liabilities			
Trade creditors	15	721	4,017
Other creditors and accruals		748	647
Receipt in advance		16,106	31,888
Amounts due to directors	16	2,338	1,005
Amount due to a related company		4,010	–
Obligations under finance leases			
– due within one year	17	8	111
Bank loan	18	5,000	–
		28,931	37,668
Net current liabilities		(7,846)	(8,427)
		7,204	10,333
Capital and reserves			
Share capital	19	8,050	6,440
Reserves	20	(848)	3,854
		7,202	10,294
Non-current liabilities			
Obligations under finance leases			
– due after one year	17	2	39
Deferred taxation	21	–	–
		2	39
		7,204	10,333

Approved and authorised for issue by the board of directors on 28 June 2005

On behalf of the board
Law Sau Yiu, Dennis
 Director

To Kei Fung
 Director

The notes on pages 30 to 55 form an integral part of these financial statements.

Balance Sheet

As at 31 March 2005

	<i>Notes</i>	2005 HK\$'000	2004 HK\$'000
Non-current assets			
Interests in subsidiaries	13	9,563	10,009
Current assets			
Deposits, prepayments and other debtors		112	154
Bank balances and cash		86	35
		198	189
Current liabilities			
Other creditors and accruals		223	101
Amounts due to directors	16	2,338	66
		2,561	167
Net current (liabilities)/assets			
		(2,363)	22
		7,200	10,031
Capital and reserves			
Share capital	19	8,050	6,440
Reserves	20	(850)	3,591
		7,200	10,031

Approved and authorised for issue by the board of directors on 28 June 2005

On behalf of the board

Law Sau Yiu, Dennis

Director

To Kei Fung

Director

The notes on pages 30 to 55 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2005

	Total equity	
	2005 HK\$'000	2004 HK\$'000
At 1 April	10,294	20,914
Net loss for the year	(8,365)	(10,788)
Shares issued for cash	5,957	168
Share issue expenses	(684)	–
At 31 March	7,202	10,294

The notes on pages 30 to 55 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2005

	2005 HK\$'000	2004 HK\$'000
OPERATING ACTIVITIES		
Loss before taxation	(8,365)	(11,577)
Adjustments for:		
Interest income	(1)	(1)
Forfeited deposits relating to aborted film production	–	(2,757)
Gain on disposal of film in progress	–	(100)
Allowance for production in progress	–	111
Allowance for production deposits	1,950	–
Depreciation	3,822	3,565
Finance charges on finance leases	12	10
Loan interest expense	24	–
Loss on disposal of property, plant and equipment	23	–
Operating cash flows before movements in working capital	(2,535)	(10,749)
Increase in film in progress	(9,604)	–
Decrease/(increase) in production in progress	14,432	(12,798)
(Increase)/decrease in trade debtors	(51)	8,591
Decrease in deposits, prepayments and other debtors	736	4,099
Decrease in trade creditors	(3,296)	(1,940)
Increase/(decrease) in other creditors and accruals	101	(1,509)
(Decrease)/increase in receipt in advance	(15,782)	8,535
Increase in amounts due to directors	1,333	1,005
Cash used in operations	(14,666)	(4,766)
Hong Kong Profits Tax paid	–	(345)
Loan interest paid	(14)	–
NET CASH USED IN OPERATING ACTIVITIES	(14,680)	(5,111)
INVESTING ACTIVITIES		
Interest received	1	1
Purchase of property, plant and equipment	(135)	(4,853)
Proceeds from disposal of film in progress	–	2,100
NET CASH USED IN INVESTING ACTIVITIES	(134)	(2,752)

Consolidated Cash Flow Statement *(continued)*

For the year ended 31 March 2005

	2005 HK\$'000	2004 HK\$'000
FINANCING ACTIVITIES		
Finance charges on finance leases paid	(12)	(10)
New bank loan raised	5,000	–
Advance from a related company	4,000	–
Proceeds from issue of shares	5,957	168
Repayment of obligations under finance leases	(140)	(113)
Share issue expenses	(684)	–
NET CASH FROM FINANCING ACTIVITIES	14,121	45
NET DECREASE IN CASH AND CASH EQUIVALENTS	(693)	(7,818)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3,546	11,364
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		
Bank balances and cash	2,853	3,546

The notes on pages 30 to 55 form an integral part of these financial statements.

Notes to the Financial Statements

31 March 2005

1. GENERAL

The Company was incorporated in the Cayman Islands under the Companies Law of Cayman Islands as an exempted company with limited liability and its shares are being listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activities of the Group are the provision of film production services, production of television movies, investment in film productions and worldwide film distribution.

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In 2004, the Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these HKFRSs would have a significant impact on its results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the HKICPA. The principal accounting policies adopted are as follows:

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Notes to the Financial Statements

31 March 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Revenue recognition

Income from the production of films and television movies is recognised when the production is completed, which is usually upon delivery of the film negatives to the customers.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

(c) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation increase.

(d) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items of income or expense that are never taxable and deductible.

Notes to the Financial Statements

31 March 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Taxation *(continued)*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity in which case the deferred tax is also dealt with in equity.

(e) Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation and any accumulated impairment losses.

Notes to the Financial Statements

31 March 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Property, plant and equipment *(continued)*

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method, at the following rates per annum:

Leasehold improvements	20%
Furniture and fixtures	20%
Machinery and equipment	10% – 20%
Motor vehicles	20%
Office equipment	20%

Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to the Company.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Property, plant and equipment held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the relevant leases.

(f) Subsidiaries

A subsidiary is a company in which the Company directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. A subsidiary is considered to be controlled if the Company has the power directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

Investments in subsidiaries are included in the Company's balance sheet at cost less provision for impairment loss, if necessary. The results of subsidiaries are accounted for by the Company to the extent of dividends received and receivable during the year.

Notes to the Financial Statements

31 March 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Production in progress

Production in progress represents films and television series under production and is stated at production costs incurred to date, less foreseeable losses. Such production costs are carried forward as production in progress in the balance sheet and are transferred to film production costs in the income statement upon completion.

(h) Film in progress

Film in progress represents films and television series under production and is stated at production costs incurred to date, less any identified impairment loss. Such production costs are transferred to film rights upon completion of production.

(i) Leased assets

(i) *Finance leases*

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation.

Payments to the lessor are treated as consisting of capital and interest elements. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce an approximately periodic rate of charge on the remaining balance of the obligations for each accounting period.

(ii) *Operating leases*

All other leases are classified as operating leases and the annual rentals are charged to income statement on a straight-line basis over the relevant lease terms.

(j) Receipt in advance

Receipt in advance represents deposits received from film companies before the completion of production of films and television movies pursuant to the production agreements and will be recognised as income when the production has been completed.

Notes to the Financial Statements

31 March 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

(l) Related party

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(m) Provision and contingencies

A provision is recognised when there is a present obligation, legal or constructive, as a result of past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

(n) Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

Notes to the Financial Statements

31 March 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are charged to the income statement in the year in which they are incurred.

(p) Retirement benefits costs

Payments to the Group's retirement benefits scheme are charged as an expense as they fall due.

4. TURNOVER

	2005 HK\$'000	2004 HK\$'000
Film production	36,836	22,696

Notes to the Financial Statements

31 March 2005

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group is currently organised into three operating divisions, namely, film production, film distribution and television movies production. These divisions are the basis on which the Group reports its primary segment information.

Income statement

	Film production		Film distribution		Television movies production		Consolidated	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Turnover	36,836	22,696	-	-	-	-	36,836	22,696
RESULT								
Segment profit/(loss)	9,183	1,042	(274)	-	-	(111)	8,909	931
Unallocated operating income							815	4,977
Unallocated operating expenses							(18,053)	(17,475)
Loss from operations							(8,329)	(11,567)
Finance costs							(36)	(10)
Loss before taxation							(8,365)	(11,577)
Taxation credit							-	789
Net loss for the year							(8,365)	(10,788)

Notes to the Financial Statements

31 March 2005

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

Balance sheet

	Film production		Film distribution		Television movies production		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	6,440	22,014	9,604	-	1,500	2,300	17,544	24,314
Unallocated corporate assets							18,591	23,687
Consolidated total assets							36,135	48,001
Segment liabilities	10,714	35,905	6,113	-	-	-	16,827	35,905
Unallocated corporate liabilities							12,106	1,802
Consolidated total liabilities							28,933	37,707

Notes to the Financial Statements

31 March 2005

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

Other information

	Film production		Film distribution		Television movies production		Unallocated	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Allowance for production in progress	-	-	-	-	-	111	-	-
Allowance for production deposits	1,950	-	-	-	-	-	-	-
Additions of property, plant and equipment	-	-	-	-	-	-	609	10,853
Depreciation	-	-	-	-	-	-	3,822	3,565
Loss on disposal of property, plant and equipment	-	-	-	-	-	-	23	-

(b) Geographical segments

All of the Group's revenue are derived from Hong Kong and all of the Group's assets are located in Hong Kong. Accordingly, no analysis by geographical segment is presented.

Notes to the Financial Statements

31 March 2005

6. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging/(crediting):

	2005 HK\$'000	2004 HK\$'000
Auditors' remuneration	220	280
Contributions to retirement benefits scheme (included in staff costs)	186	135
Depreciation of property, plant and equipment	3,822	3,565
Allowance for production in progress (included in other operating expenses)	–	111
Allowance for production deposits (included in cost of sales)	1,950	–
Loss on disposal of property, plant and equipment	23	–
Operating lease rental in respect of land and buildings	1,800	1,800
Staff costs including directors' emoluments	9,464	7,635
Interest earned on bank deposits	(1)	(1)
Forfeited deposits relating to aborted film production net of production costs	–	(2,757)
Gain on disposal of film in progress	–	(100)

7. FINANCE COSTS

	2005 HK\$'000	2004 HK\$'000
Interests on:		
Bank loans wholly repayable within five years	14	–
Other borrowing costs	10	–
Finance leases	12	10
	36	10

Notes to the Financial Statements

31 March 2005

8. DIRECTORS' EMOLUMENTS

	2005 HK\$'000	2004 HK\$'000
Directors' fees:		
Executive directors	–	–
Independent non-executive directors	234	77
Other emoluments of executive directors:		
Salaries and other allowances	5,376	4,669
Retirement benefits scheme contributions	46	26
	5,656	4,772

The three (2004: five) executive directors of the Company received emoluments of approximately HK\$1,817,000 (2004: HK\$750,000), HK\$473,000 (2004: HK\$190,000) and HK\$3,132,000 (2004: HK\$3,132,000) respectively. In addition, two executive directors of the Company received approximately HK\$427,000 and HK\$196,000 respectively and resigned during the year ended 31 March 2004 and remain as employees of the Group.

The five (2004: two) independent non-executive directors of the Company received directors' fees of approximately HK\$33,000 (2004: HK\$61,500), HK\$77,000 (2004: HK\$4,000), HK\$63,000 (2004: nil), HK\$49,000 (2004: nil) and HK\$12,000 (2004: nil) respectively.

In addition, an independent non-executive director of the Company received HK\$11,500 and resigned during the year ended 31 March 2004.

During the year, no emolument was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office (2004: nil). None of the directors has waived any emoluments during the year.

Each of the executive directors entered into a service contracts shall continue thereafter until terminated by either party giving to the other not less than six months' notice in writing.

Notes to the Financial Statements

31 March 2005

9. EMPLOYEES' EMOLUMENTS

The five highest paid individuals of the Group include three (2004: two) directors, details of whose emoluments are set out in note 7 above. The total amount of the emoluments of the remaining two individual (2004: three individuals) during the year are as follows:

	2005 HK\$'000	2004 HK\$'000
Salaries and other allowances	1,041	1,344
Retirement benefits scheme contributions	24	36
	1,065	1,380

The aggregate emoluments of each of these remaining two (2004: three) individuals were less than HK\$1,000,000 in both years.

10. TAXATION CREDIT

The credit comprises:

	2005 HK\$'000	2004 HK\$'000
Underprovision of Hong Kong Profits Tax in prior years	–	(1)
Deferred taxation (note 21)	–	790
	–	789

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries have no assessable profits for the year (2004: nil).

Notes to the Financial Statements

31 March 2005

10. TAXATION CREDIT (continued)

The taxation credit for the year can be reconciled to the loss before taxation per the consolidated income statement as follows:

	2005 HK\$'000	2004 HK\$'000
Loss before taxation	(8,365)	(11,577)
Taxation credit at domestic income tax rate of 17.5% (2004: 17.5%)	1,464	2,026
Tax effect of estimated tax losses not recognised	(1,452)	(1,119)
Underprovision in prior years	–	(1)
Tax effect of expenses not deductible for tax purpose	(13)	(25)
Increase in opening deferred taxation resulting from an increase in tax rate	–	(74)
Others	1	(18)
Taxation credit for the year	–	789

11. LOSS PER SHARE

The calculation of basic loss per share for the year is based on the net loss for the year of approximately HK\$8,365,000 (2004: HK\$10,788,000) and the weighted-average number of 793,972,603 (2004: 636,288,525) ordinary shares in issue during the year.

Diluted loss per share is not presented as there were no dilutive potential ordinary shares during the year. The computation of diluted loss per share for the year ended 31 March 2004 did not assume the exercise of the Company's outstanding share options existed during that year since their exercise would reduce loss per share in that year.

Notes to the Financial Statements

31 March 2005

12. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Machinery and equipment HK\$'000	Motor vehicles HK\$'000	Office equipment HK\$'000	Total HK\$'000
COST						
At 1 April 2004	4,098	707	16,663	459	1,728	23,655
Additions	–	9	564	–	36	609
Disposal	(75)	–	(582)	–	(54)	(711)
At 31 March 2005	4,023	716	16,645	459	1,710	23,553
DEPRECIATION						
At 1 April 2004	909	175	3,064	161	586	4,895
Charge for the year	819	144	2,419	92	348	3,822
Eliminated on disposal	(58)	–	(108)	–	(48)	(214)
At 31 March 2005	1,670	319	5,375	253	886	8,503
NET BOOK VALUES						
At 31 March 2005	2,353	397	11,270	206	824	15,050
At 31 March 2004	3,189	532	13,599	298	1,142	18,760

The net book values of motor vehicles of approximately HK\$206,000 (2004: HK\$298,000) and office equipment of approximately HK\$824,000 (2004: HK\$1,142,000) include amounts of approximately HK\$206,000 (2004: HK\$298,000) and HK\$9,000 (2004: HK\$18,000) respectively in respect of assets held under finance leases.

Notes to the Financial Statements

31 March 2005

13. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	78	78
Amounts due from subsidiaries	22,685	15,031
Allowance for amounts due from subsidiaries	(13,200)	(5,100)
	9,485	9,931
	9,563	10,009

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of the directors, the amount will not be repayable in the next twelve months.

The Company has undertaken to provide necessary financial resources to support the future operations of the subsidiaries. The directors are of the opinion that the underlying value of the subsidiaries was not less than the carrying amount of the subsidiaries as at 31 March 2005.

Notes to the Financial Statements

31 March 2005

13. INTERESTS IN SUBSIDIARIES (continued)

The details of the subsidiaries of the Company at 31 March 2005 are as follows:

Name of subsidiary	Country/ place of incorporation	Issued and fully paid share capital	Interest held	Principal activities
Galaxy Image (BVI) Limited	British Virgin Islands	Ordinary shares of US\$10,000	100%	Investment holding
Inspire Film Distribution Limited	Hong Kong	Ordinary shares of HK\$2	100%	Provision of film distribution
Luminous Star Limited	Hong Kong	Ordinary shares of HK\$2	100%	Assets holding
Point Of View Movie Production Company Limited	Hong Kong	Ordinary shares of HK\$2	100%	Provision of film production
Milkyway Image (Hong Kong) Limited	Hong Kong	Ordinary shares of HK\$10,000	100%	Provision of film production and television movies production
Milkyway Image Limited	Hong Kong	Ordinary shares of HK\$2	100%	Holding of film rights

Galaxy Image (BVI) Limited is directly held by the Company. The other subsidiaries are indirectly held by the Company.

The principal place of operation of the subsidiaries is Hong Kong.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

Notes to the Financial Statements

31 March 2005

14. TRADE DEBTORS

The Group has not granted any credit terms to its customers or dealers. The aged analysis of the trade debtors is as follows:

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Within 30 days	–	8
31-90 days	20	–
91-180 days	–	–
181-365 days	39	–
	59	8

15. TRADE CREDITORS

The aged analysis of the trade creditors is as follows:

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Within six months	719	4,017
Over 1 year	2	–
	721	4,017

16. AMOUNTS DUE TO DIRECTORS

The Group and the Company

The amounts represent accrued salaries to directors. They are unsecured, non-interest bearing and have no fixed repayment terms.

Notes to the Financial Statements

31 March 2005

17. OBLIGATIONS UNDER FINANCE LEASES

At the balance sheet date, the Group had obligations under finance leases repayable as follows:

	THE GROUP			
	Minimum leases payments		Present value of minimum leases payments	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Amount payable under finance leases:				
Within one year	13	123	8	111
More than one year but not exceeding two years	2	44	2	39
	15	167	10	150
Less: Future finance charges	(5)	(17)	–	–
Present value of lease obligations	10	150	10	150
Less: Amount due for payment within one year			(8)	(111)
			2	39

The average lease term is 4 years and leases are repayable in fixed monthly instalments. There is no arrangement for contingent rent payments.

18. BANK LOAN

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Bank loan	5,000	–
Bank loan repayable within one year	5,000	–

The short-term bank loan was secured by personal guarantee given and listed securities, other than that of the Company, placed by a director, bearing interest at commercial rate and repayable within 3 months.

Notes to the Financial Statements

31 March 2005

19. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
At 31 March 2004 and 31 March 2005, ordinary shares of HK\$0.01 each	10,000,000,000	100,000
Issued and fully paid:		
At 31 March 2003, ordinary shares of HK\$0.01 each	627,200,000	6,272
Issue of shares upon exercise of pre-initial public offering share options, ordinary shares of HK\$0.01 each	16,800,000	168
At 31 March 2004, ordinary shares of HK\$0.01 each	644,000,000	6,440
Issue of shares on the basis of one offer share for every four shares held	161,000,000	1,610
At 31 March 2005, ordinary shares of HK\$0.01 each	805,000,000	8,050

On 16 September 2003, a senior management exercised his share option rights to subscribe for 16,800,000 shares in the capital of the Company at an exercise price of HK\$0.01 per share in an aggregate amount of HK\$168,000.

On 15 March 2004, the Company proposed to raise approximately HK\$5,957,000 before expenses by issuing 161,000,000 shares of HK\$0.01 each of the Company at a subscription price of HK\$0.037 per share on the basis of one offer share for every four shares held on 2 April 2004 ("Open Offer"). Mr. Law Sau Yiu, Dennis, a director and a controlling shareholder of the Company, has undertaken to subscribe for or procure subscription for 71,400,000 shares of HK\$0.01 each of the Company offered under the Open Offer. The remaining 89,600,000 shares of HK\$0.01 each of the Company offered under the Open Offer have been fully underwritten by Kingston Securities Limited pursuant to the underwriting agreement dated 15 March 2004 entered into between the Company, Kingston Securities Limited and Mr. Law Sau Yiu, Dennis. The Open Offer became unconditional and completed on 22 April 2004.

Notes to the Financial Statements

31 March 2005

20. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profits (accumulated losses) HK\$'000	Total HK\$'000
THE GROUP				
At 1 April 2003	11,387	10	3,245	14,642
Net loss for the year	–	–	(10,788)	(10,788)
<hr/>				
At 31 March 2004 and 1 April 2004	11,387	10	(7,543)	3,854
Net loss for the year	–	–	(8,365)	(8,365)
Issue of shares	4,347	–	–	4,347
Share issue expenses	(684)	–	–	(684)
<hr/>				
At 31 March 2005	15,050	10	(15,908)	(848)
<hr/>				
THE COMPANY				
At 1 April 2003	11,387	78	(1,238)	10,227
Net loss for the year	–	–	(6,636)	(6,636)
<hr/>				
At 31 March 2003 and 1 April 2004	11,387	78	(7,874)	3,591
Net loss for the year	–	–	(8,104)	(8,104)
Issue of shares	4,347	–	–	4,347
Share issue expenses	(684)	–	–	(684)
<hr/>				
At 31 March 2005	15,050	78	(15,978)	(850)

The contributed surplus of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the shares of the Company issued for the acquisition at the time of the reorganisation of the Group.

The contributed surplus of the Company represents the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the shares of the Company issued in exchange pursuant to the reorganisation of the Group.

Notes to the Financial Statements

31 March 2005

20. RESERVES (continued)

In accordance with the laws of the Cayman Islands, the Company's share premium and contributed surplus are distributable to the shareholders of the Company subject to the Company's articles of association and provided that immediately following the distribution of dividends, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

21. DEFERRED TAXATION

THE GROUP

The followings are the deferred tax liability and asset recognised by the Group and movements thereon:

	Accelerated tax depreciation	Estimated tax losses	Total
	HK\$'000	HK\$'000	HK\$'000
At 1 April 2003	1,270	(480)	790
Charge (credit) to income statement	584	(1,448)	(864)
Effect of change in tax rate	119	(45)	74
At 31 March 2004 and 1 April 2004	1,973	(1,973)	–
Charge (credit) to income statement	86	(86)	–
At 31 March 2005	<u>2,059</u>	<u>(2,059)</u>	–

At 31 March 2005, the Group has unused estimated tax losses of approximately HK\$20,511,000 (2004: HK\$18,862,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK\$11,764,000 (2004: HK\$11,274,000) of such losses. No deferred tax asset has been recognised in respect of the remaining balance of approximately HK\$8,747,000 (2004: HK\$7,588,000) due to the unpredictability of future profit streams.

The tax losses may be carried forward indefinitely.

THE COMPANY

No deferred tax asset has been recognised in respect of estimated tax losses of approximately HK\$2,495,000 (2004: HK\$2,704,000) due to the unpredictability of future profits streams.

These tax losses may be carried forward indefinitely.

Notes to the Financial Statements

31 March 2005

22. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Operating lease commitments

At 31 March 2005, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Within one year	1,800	1,800
In the second to fifth year inclusive	2,550	600
	4,350	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.

The Company had no significant lease commitments at the balance sheet date.

(b) Capital commitments

The Group and the Company had no significant capital commitments at the balance sheet date (2004: Nil).

(c) Other commitments

At 31 March 2005, the Group had contracted for production service but not provided in the financial statements amounting to approximately HK\$18,582,000 (2004: HK\$19,055,000).

The Company had no other commitments at the balance sheet date.

(d) Contingent liabilities

At 31 March 2005, the Group and the Company had no material contingent liabilities (2004: Nil).

23. RETIREMENT BENEFITS SCHEME

The Group participates in a mandatory provident fund scheme ("MPF Scheme") operated by an approved trustee in Hong Kong and makes contributions for its eligible employees. Under the MPF Scheme, the Group and its employees are each required to make contributions to the MPF Scheme at 5% of the employees' relevant income, subject to the cap of HK\$20,000. Contributions to the MPF Scheme vested immediately as accrued benefits to the employee once they are paid.

Notes to the Financial Statements

31 March 2005

24. RELATED PARTY TRANSACTIONS

- (a) During the year, Mr. Law Sau Yiu, Dennis provided personal guarantee to a bank to secure facilities granted to a subsidiary. 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 utilised by the Group from time to time. No fee was paid to him by the Group (2004: Nil).
- (b) During the year, a private company of which Mr. Law Sau Yiu, Dennis and Ms. Teng Chia Lin, Chialina are directors and shareholders, advanced HK\$4,000,000 (2004: Nil) to the Group. The loan is unsecured, bears interest at commercial rate and is repayable within one year from the date of advance. At 31 March 2005, there was outstanding interest of HK\$10,000.

25. SHARE OPTION SCHEMES

Pursuant to the written resolutions of the shareholders of the Company dated 2 August 2002, two share option schemes, namely the pre-initial public offering share option scheme ("Pre-IPO Share Option Scheme") and the share option scheme ("Share Option Scheme"), were approved and adopted.

Share Option Scheme

The major terms of the Share Option Scheme are summarised as follows:

- (a) The purpose of the Share Option Scheme is to enable the Group to grant share options to selected participants as incentives or rewards for their contribution to the Group.
- (b) The participants include:
 - (i) (1) any employee or proposed employee of the Company, any of its subsidiaries or any entity ("Invested Entity") in which the Group holds an equity interest, including any executive director of the Company, any of such subsidiaries or any Invested Entity;
 - (2) any non-executive director (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;
 - (3) any supplier of goods or services to any member of the Group or any Invested Entity;

Notes to the Financial Statements

31 March 2005

25. SHARE OPTION SCHEMES *(continued)*

Share Option Scheme *(continued)*

- (4) any customer of the Group or any Invested Entity;
 - (5) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;
 - (6) any shareholder of any member of the Group or any Invested Entity or any holder or any securities issued by any member of the Group or any Invested Entity; and
 - (7) any joint venture partner or counter-party to business transactions of the Group.
- (ii) any company wholly owned by one or more persons belonging to any of the above classes of participants.
- (c) The exercise price of a share option shall be a price determined by the directors and shall at least be the higher of:
- (i) the closing price of a share of the Company as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; and
 - (ii) the average closing price of a share of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.
- (d) Maximum number of shares:
- (i) The total number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the shares in issue from time to time; and
 - (ii) The total number of shares which may be issued upon exercise of all share options to be granted under the Share Option Scheme and any other schemes must not in aggregate, exceed 10% of the shares in issue at the date of adoption of the Share Option Scheme (the "Limit") provided that share options lapsed in accordance with the terms of the Share Option Scheme will not be counted for the purpose of calculating the Limit.

Notes to the Financial Statements

31 March 2005

25. SHARE OPTION SCHEMES *(continued)*

Share Option Scheme *(continued)*

- (e) The total number of shares issued and to be issued upon the exercise of share options granted and to be granted to each participant (including both exercised and outstanding options) in any 12-month period up to and including the date of grant must not exceed 1% of the shares in issue.
- (f) The exercisable period should be determined by the board of directors upon grant of the share option but in any event should not exceed 10 years from the date of grant of the share option.

No share option under the Share Option Scheme has been granted since its adoption on 2 August 2002.

Pre-IPO Share Option Scheme

The purpose of the Pre-IPO Share Option Scheme is to recognise the contribution of the senior management and independent contractors of the Group to its growth. The principal terms of the Pre-IPO Share Option Scheme conditionally approved by written resolutions of the shareholders of the Company dated 2 August 2002 were substantially the same as the terms of the Share Option Scheme described above except that:

- (a) the subscription price per share was HK\$0.01 representing a discount of approximately 96.67% of the offer price of HK\$0.30 under the placement and public offer of the Company's shares on 19 August 2002;
- (b) the total number of shares subject to the Pre-IPO Share Option Scheme was 84,000,000, representing 15% of the total issued share capital of the Company immediately following completion of the share offer and the capitalisation (but before enlargement by the allotment and issue of shares pursuant to the exercise of the over-allotment option and any share option granted under the Pre-IPO Share Option Scheme); and
- (c) save for the share options which have been granted under the Pre-IPO Share Option Scheme, no further share option was offered or granted under the Pre-IPO Share Option Scheme, as the right to do so was terminated upon the listing of the Company's shares on GEM.

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 as at 31 March 2005. 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.

Summary of Financial Information

For the year ended 31 March 2005

RESULTS

	Year ended 31 March				2005 HK\$'000
	2001 HK\$'000 (Note)	2002 HK\$'000 (Note)	2003 HK\$'000	2004 HK\$'000	
Turnover	29,260	96,109	55,743	22,696	36,836
Profit (loss) from operations	3,501	8,229	3,343	(11,567)	(8,329)
Finance costs	(19)	(43)	(22)	(10)	(36)
Profit (loss) before taxation	3,482	8,186	3,321	(11,577)	(8,365)
Taxation (charge) credit	–	(530)	(790)	789	–
Profit (loss) attributable to shareholders	3,482	7,656	2,531	(10,788)	(8,365)

ASSETS AND LIABILITIES

	As at 31 March				2005 HK\$'000
	2001 HK\$'000 (Note)	2002 HK\$'000 (Note)	2003 HK\$'000	2004 HK\$'000	
Non-current assets	399	813	17,472	18,760	15,050
Current assets	48,219	23,876	40,655	29,241	21,085
Current liabilities	53,342	23,834	36,267	37,668	28,931
Non-current liabilities	–	131	946	39	2

Note:

The results and assets and liabilities of the Group for the two year ended 31 March 2002 have been extracted from the prospectus dated 13 August 2002 issued by the Company. These have been prepared on a combined basis as if the group structure on 22 April, 2002 had been in existence throughout the years concerned.