



MILKYWAY IMAGE

Milkyway Image Holdings Limited

銀河映像控股有限公司

(incorporated in the Cayman Islands with limited liability)

Interim Report 2005

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This report, for which the directors of Milkyway Image Holdings Limited (the "Directors") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to Milkyway Image Holdings Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: 1. The information contained in this report is accurate and complete in all material respects and not misleading; 2. There are no other matters the omission of which would make any statement in this report misleading; and 3. All opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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HIGHLIGHTS

1. Turnover of the Group for the six months ended 30 September 2005 was approximately HK\$10 million, representing a decrease of approximately 71% as compared with the corresponding period in 2004.
2. Net loss of the Group for the six months ended 30 September 2005 was approximately HK\$8.7 million as compared to a net profit of approximately HK\$0.5 million for the corresponding period in 2004.
3. Loss per share of the Group for the six months ended 30 September 2005 was approximately HK1.08 cents (2004: earnings per share of HK0.06 cents).
4. The Board does not recommend the payment of any dividend for the six months ended 30 September 2005 (2004: Nil).

UNAUDITED INTERIM RESULTS

The Directors announce the unaudited consolidated results of Milkyway Image Holdings Limited (the "Company") and its subsidiaries (together, the "Group") for the six months ended 30 September 2005 together with the comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the period ended 30 September 2005

	Notes	Three months ended 30 September		Six months ended 30 September	
		2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Turnover	2	6,000	8,436	9,977	34,236
Costs of sales		(2,347)	(5,998)	(7,391)	(25,011)
Gross profit		3,653	2,438	2,586	9,225
Other revenue		129	224	137	232
Other operating expenses		(4,656)	(4,516)	(11,196)	(8,972)
(Loss) Profit from operations	4	(874)	(1,854)	(8,473)	485
Finance costs	5	(156)	(3)	(253)	(6)
(Loss) Profit before taxation		(1,030)	(1,857)	(8,726)	479
Taxation	6	–	–	–	–
(Loss) Profit attributable to equity holders of the Company		(1,030)	(1,857)	(8,726)	479
Dividend	7	–	–	–	–
Basic (loss) earnings per share (HK cents)	8	(0.13)	(0.23)	(1.08)	0.06

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2005

	Notes	30 September 2005 (Unaudited) HK\$'000	31 March 2005 (Audited) HK\$'000
Non-current assets			
Film rights		277	–
Property, plant and equipment		13,563	15,050
		13,840	15,050
Current assets			
Film rights, current portion		4,387	–
Film in progress		4,904	9,604
Production in progress		4,196	2,076
Trade debtors	9	3,965	59
Deposits, prepayments and other debtors		5,553	6,493
Bank balances and cash		2,310	2,853
		25,315	21,085
Current liabilities			
Trade creditors	10	1,802	721
Other creditors and accruals		733	748
Receipt in advance		19,856	16,106
Obligations under finance leases			
– due within one year		45	8
Bank loan		5,000	5,000
Amounts due to directors	11	3,012	2,338
Amounts due to related companies	12	10,040	4,010
		40,488	28,931
Net current liabilities		(15,173)	(7,846)
		(1,333)	7,204
Capital and reserves			
Share capital	13	8,050	8,050
Reserves	14	(9,574)	(848)
		(1,524)	7,202
Non-current liabilities			
Obligations under finance leases			
– due after one year		191	2
		(1,333)	7,204

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

For the period ended 30 September 2005

	Share capital	Share premium	Contributed surplus	Retained profits (accumulated losses)	Attributable to equity holders of the Company
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2004	6,440	11,387	10	(7,543)	10,294
Profit for the six months ended 30 September	–	–	–	479	479
Shares issued for cash	1,610	4,347	–	–	5,957
Share issue expenses	–	(684)	–	–	(684)
At 30 September 2004	8,050	15,050	10	(7,064)	16,046
At 1 April 2005	8,050	15,050	10	(15,908)	7,202
Loss for the six months ended 30 September	–	–	–	(8,726)	(8,726)
At 30 September 2005	8,050	15,050	10	(24,634)	(1,524)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)*For the period ended 30 September 2005*

	Six months ended 30 September 2005 HK\$'000	Six months ended 30 September 2004 HK\$'000
Net cash used in operating activities	(6,456)	(6,064)
Net cash used in investing activities	(80)	(132)
Net cash generated from financing activities	5,993	5,212
Net decrease in cash and cash equivalents	(543)	(984)
Cash and cash equivalents at 1 April	2,853	3,546
Cash and cash equivalents at 30 September	2,310	2,562
Cash and cash equivalents at 30 September, Represented by bank balances and cash	2,310	2,562

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the period ended 30 September 2005

1. Basis of preparation and principal accounting policies

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

These condensed consolidated financial statements should be read in conjunction with the Group’s annual financial statements for the year ended 31 March 2005. The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the preparation of the Group’s annual financial statements for the year ended 31 March 2005.

In preparing the condensed consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Group in light of its net liabilities at 30 September 2005. A major shareholder of the Company has agreed to provide financial support to ensure the Group to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the unaudited condensed consolidated financial statements have been prepared on a going concern basis.

The Group has adopted the following new and revised Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and interpretations (collectively referred to as “new HKFRS”) which are effective for accounting periods commencing on or after 1 January 2005:

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases

HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 34	Interim Financial Reporting
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

The adoption of the above new HKFRS has had no material impact on the accounting policies of the Group and the methods of computation in the Group's condensed consolidated financial statements.

2. Turnover

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.

An analysis of the turnover by principal activities of the operations of the Group during the reporting periods is as follows:

	For the three months ended 30 September		For the six months ended 30 September	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Film production	–	8,436	650	34,236
Film distribution	6,000	–	9,327	–
	6,000	8,436	9,977	34,236

3. Segment information

Business segment information is chosen as the primary reporting format because this is more relevant to the Group's operations and its internal financial reporting.

An analysis of the Group's turnover, results and other information for the six months ended 30 September 2005 by business segments is as follow:

	Film production		Film distribution		Consolidated	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Turnover	650	34,236	9,327	-	9,977	34,236
Segment profit/(loss)	430	9,225	(215)	-	215	9,225
Other revenue					137	232
Unallocated finance costs					(253)	(6)
Unallocated other operating expenses					(8,825)	(8,972)
(Loss) Profit from operations					(8,726)	479
Other information:						
Addition of property, plant and equipment – unallocated					548	132
Disposal of property, plant and equipment – unallocated					(459)	-
Unallocated depreciation					(1,851)	(1,912)
Amortisation of film rights	-	-	(5,682)	-	(5,682)	-

All of the Group's revenue in the six months' ended 30 September 2005 and in the corresponding period in 2004 were derived from Hong Kong. The Group's assets are located in Hong Kong. Accordingly, no analysis by geographical segment is presented.

4. (Loss) Profit from operations

	For the three months ended 30 September		For the six months ended 30 September	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
<i>(Loss) Profit from operations has been arrived at after charging:</i>				
Amortisation of film rights (included in cost of sales)	2,000	–	5,682	–
Depreciation of property, plant and equipment	901	958	1,851	1,912
Gain on disposal of property, plant and equipment	54	–	54	–
Staff costs including directors' emoluments	2,515	2,324	4,865	4,627

5. Finance costs

	For the three months ended 30 September		For the six months ended 30 September	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Interests on:				
Bank loans wholly repayable within five years	50	–	85	–
Other borrowing costs	105	–	166	–
Finance leases	1	3	2	6
	156	3	253	6

6. Taxation

No provision for Hong Kong Profits Tax has been made for the three months' and six months' ended 30 September 2005 (three months and six months ended 30 September 2004: Nil) as the Group had no estimated assessable profits for the periods. The tax losses brought forward from previous years exceed the estimated assessable profits for the three months and six months ended 30 September 2004. The Group did not generate any assessable profits in other jurisdictions during these periods.

A deferred tax asset has not been recognized in the financial statements in respect of estimated tax losses due to the unpredictability of the future profit streams.

7. Dividend

The Directors do not recommend the payment of any dividend for the six months ended 30 September 2005 (2004: Nil).

8. Basic (loss) earnings per share

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

	For the three months ended 30 September		For the six months ended 30 September	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
(Loss) Profit for the periods				
(Loss) Profit attributable to equity holders of the Company	(1,030)	(1,857)	(8,726)	479
Number of shares				
Weighted average number of ordinary shares used in the calculation of basic (loss) earnings per share	805,000,000	805,000,000	805,000,000	783,005,464

No diluted (loss) earnings per share for the three months and six months ended 30 September 2005 (2004: Nil) were presented as there were no potential dilutive ordinary shares in issue during these periods.

9. Trade debtors

The Group has not granted any credit terms to its customers or dealers. The aged analysis of the trade debtors as at 30 September 2005 and 31 March 2005 is as follows:

	As at 30 September 2005 (Unaudited) HK\$'000	As at 31 March 2005 (Audited) HK\$'000
Within 30 days	1,564	–
31 – 90 days	2,399	20
91 – 180 days	2	–
181 – 365 days	–	39
	3,965	59

10. Trade creditors

The aged analysis of trade creditors as at 30 September 2005 and 31 March 2005 is as follows:

	As at 30 September 2005 (Unaudited) HK\$'000	As at 31 March 2005 (Audited) HK\$'000
Within 6 months	1,320	719
6 – 12 months	482	–
Over 1 year	–	2
	1,802	721

11. Amounts due to directors

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

12. Amounts due to related companies

The amounts represented loans from two private companies of which Mr. Law Sau Yiu, Dennis ("Mr. Law") and Ms. Teng Chia Lin, Chialina ("Ms. Teng"), both executive directors of the Company, are directors and/or shareholders. The loans are unsecured, bear interest at commercial rate and are repayable within one year from the date of advances.

13. Share capital

	Unaudited	
	Number of shares of HK\$0.01 each '000	Amount HK\$'000
Authorised		
At 1 April and 30 September 2005	10,000,000	100,000
Issued and fully paid		
At 1 April and 30 September 2005	805,000	8,050

14. Reserves

Movements in reserves of the Group during the period are set out in the unaudited condensed consolidated statement of changes in equity of this report.

15. Share Option Schemes

The Company adopted two share option schemes on 2 August 2002, namely, the pre-IPO share option scheme ("Pre-IPO Share Option Scheme") and the share option scheme ("Share Option Scheme"). The principal terms of the two share option schemes have been set out in note 25 to the financial statements as included in the annual report of the Company for the year ended 31 March 2005.

Pre-IPO Share Option Scheme

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

Share Option Scheme

At a meeting of the board of directors of the Company (the "Board") held on 16 September 2005, it was proposed and approved by the Board that grant of options for 64,400,000 shares of the Company's ordinary shares be conditionally offered to Mr. To Kei Fung ("Mr. To") (being a former director of the Company, currently the chief executive officer, an employee of the Company) under the Share Option Scheme to subscribe for shares of the Company, subject to the approval of the Company's shareholders at the Extraordinary General Meeting (the "EGM") held on 28 October 2005. The proposed grant was duly approved by the Company's shareholders at the EGM by way of poll. Details of the grant were set out in the circular of the Company dated 7 October 2005 and the announcement of the Company dated 28 October 2005.

The principal terms of the grant are as follows:

Date of conditional grant	Name of proposed grantee	No. of options granted previously	No. of options granted	Exercise price	Exercise period
16 September 2005	To Kei Fung	Nil	64,400,000 (Note a)	HK\$0.04 (Note b)	Between 20 September 2005 to 19 September 2015

Notes:

- (a) 64,400,000 shares representing approximately 8% of the total issued share capital of the Company at the balance sheet date.
- (b) The exercise price represented the higher of the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on 16 September 2005, date of proposed grant, (i.e. HK\$0.04) and a price being the average closing prices of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the 5 Business Days immediately preceding 16 September 2005, date of proposed grant (i.e. HK\$0.04).

16. Commitments

Operating leases commitments

At 30 September 2005, the Group had total future minimum lease payments under non-cancellable operating leases, which are payable as follows:

	As at 30 September 2005 (Unaudited) HK\$'000	As at 31 March 2005 (Audited) HK\$'000
Within one year	1,800	1,800
In the second to fifth year inclusive	1,650	2,550
	3,450	4,350

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

Other commitments

At 30 September 2005, the Group had contracted for production service but not provided for in the financial statements amounting to approximately HK\$11,400,000 (31 March 2005: HK\$18,582,000).

Save as disclosed above, the Group had no other commitments at 30 September 2005.

17. Related Party Transactions

- (a) During the period under review, Mr. Law, executive director of the Company, continued to provide personal guarantee to a bank to secure facilities granted to the Group. The facility is also secured by listed securities, other than that of the Company, placed by Mr. Law having discounted market value not less than the amount of banking facility utilised by the Group from time to time. No fee was paid to him by the Group during the period (2004: Nil).
- (b) As detailed in note 12 to the condensed consolidated financial statements, two private companies of which Mr. Law and Ms. Teng, are directors and/or shareholders, have advanced loans amounted to HK\$10 million to the Group. During the three months' and six months' ended 30 September 2005, the Group paid interest of approximately HK\$105,000 and HK\$166,000 (2004: Nil) to the lenders. At 30 September 2005, there was outstanding interest of approximately HK\$40,000 (At 31 March 2005: HK\$10,000).

18. Event after Balance Sheet Date

On the EGM held on 28 October 2005, the Company's shareholders approved the proposed grant of share options to Mr. To. Details of the grant are set out in note 15 to the condensed consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Financial Performance

For the six months ended 30 September 2005, the Group recorded a turnover of approximately HK\$10 million as compared with that for the corresponding period in 2004 of approximately HK\$34 million, representing a decrease of approximately 71%. Net loss attributable to equity holders of the Company amounted to approximately HK\$8.7 million (2004: net profit of approximately HK\$0.5 million). The Group completed the production of two film projects titled, "The Unusual Youth" (非常青春期) and "Election" (黑社會) in the period under review. The Group owns the film rights of these two films for distribution. Distribution income recognized for the six months ended 30 September 2005 in accordance with the Group's revenue recognition policy amounted to approximately HK\$9.3 million (2004: Nil). Meanwhile, the Group continued in the provision of film production service with the corresponding revenue generated during the period under review amounted to approximately HK\$0.7 million (2004: HK\$34.2 million).

Gross profit amounted to approximately HK\$2.6 million for the six months ended 30 September 2005 (2004: HK\$9.2 million). Gross profit ratio remains steady at approximately 26% as compared to the corresponding period in 2004 of approximately 27%.

A net loss of approximately HK\$8.7 million was recorded for the six months ended 30 September 2005 mainly due to the significant reduction of turnover from that in the corresponding period in 2004. During the review period in 2004, three large-scale film projects were completed and delivered and all the service income was recognised whereas in the current period, distribution income was recognised based upon the delivery of master material to individual customer for exhibition in various regions. During the period under review, the Group has invested in its own productions by owning the rights of the film projects in order to benefit from their distributions both locally and overseas while at the same time building up its own film library. To achieve this objective, the Group incurred extra marketing and promotion expenses for publicizing the two film projects which in turn leads to an overall increase in other operating expenses. Furthermore, the Group incurred interest expenses in respect of bank loan and loans from related companies. No such interest expenses were recorded in the corresponding period in 2004.

Liquidity, Financial Resources Capital Structure and Gearing Ratio

The deficit in shareholders' funds of the Group as at 30 September 2005 amounted to approximately HK\$1.5 million (31 March 2005: surplus in shareholders' funds of HK\$7.2 million). Current assets amounted to approximately HK\$25.3 million (31 March 2005: HK\$21.1 million), of which approximately HK\$2.3 million was bank balances and cash. Current liabilities amounted to approximately HK\$40.5 million (31 March 2005: HK\$28.9 million) mainly comprised advanced receipts from film companies; bank loan of revolving nature and amounts due to directors and related companies. The Group also inceptioned a new finance lease of HK\$230,000 during the period under review for the financing of purchase of property, plant and equipment.

There has been no change in the capital structure of the Company since 1 April 2005.

As at 30 September 2005, the gearing ratio, expressed as a percentage of total liabilities over total assets, was 103.9% (31 March 2005: 80.1%).

Foreign Exchange Exposure

During the period under review, the majority of the Group's transactions, assets and liabilities were denominated in Hong Kong dollars and United States dollars. As the risk on fluctuation in exchange rates was considered to be minimal, the Group did not enter into any foreign exchange contracts for hedging purpose.

Material Acquisition, Disposal and Significant Investments

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

Employees and Remuneration Policies

As at 30 September 2005, the Group had 22 full time employees (31 March 2005: 22), 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. Subsequent to the balance sheet date, the shareholders of the Company has approved the grant of options to an employee. Details of the grant of options are set out in note 15 to the condensed consolidated financial statements. Staff costs including Directors' emoluments during the period were approximately HK\$4,865,000 (2004: HK\$4,627,000). The Group also provides mandatory provident fund scheme for its employees.

Charge on Group Assets

As at 30 September 2005, the Group did not have any charges on its assets.

Contingent Liabilities

As at 30 September 2005, the Group did not have any material contingent liabilities.

Business Review

Segment Information

During the six months' period under review, the Group aligned its resources to focus more on the investing in its own productions. Film distribution income has been the major revenue during this period as compared to the revenue generated from provision of film production services to outsiders. Although the results of the film distribution business, net of attributable costs and expenses, did not bring a positive contribution to the Group's overall results for this period, it was believed that expenses incurred in current period for marketing and promotion can benefit the Group's overall performance in the subsequent periods.

Sales and Marketing

The Group's productions in the period under review not only achieved encouraging box office receipts but also received several acclaims. In particular, the film, "Election" (黑社會), has entered into the 2005 Cannes International Film Festival as 'Official Competition Film' and has been invited as Official Entry to the 2005 London Film Festival and the Closing Film for the 2005 Melbourne International Film Festival. The film was awarded Best Film (Carnet Jove Jury) at the 2005 Sitges International Film Festival of Catalonia whereas the Group's key film director, Mr. To Kei Fung, was awarded Best Director in this film festival. In The 42nd Golden Horse Awards, the film, "Election" (黑社會), was awarded Best Original Screenplay and Best Sound Effects.

Film Production

In addition to the investments in film projects as mentioned above, the Group also utilised its expertise during the period under review by the provision of production resources and services for another film project, which is owned by other film company.

Film Investment

For the period under review, the Group invested in two film projects titled, “The Unusual Youth” (非常青春期) and “Election” (黑社會). Another film being invested by the Group is in progress at the date of this report. The Directors believe that by owning solely or partially the copyrights of films, the Group is able to broaden its recurrent income base.

Prospects

Although the film distribution segment recorded a loss for the period under review, the Directors consider it is still in its infant stage in which relatively higher marketing and promotion expenses are unavoidable at this stage but believe that the benefit will be emerging in the future periods. The Group will focus on the provision of film production service business as well as in film investment activities whenever appropriate opportunities arise.

At the date of this report, the Group has entered into a number of film production agreements with several film companies for the production of several films for the rest of the year and early next year. Certain films are either in their production stages or in the pre-production stages.

The Group will continue to implement cost control measures to ensure a cost-effective operation.

OTHER INFORMATION

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

At 30 September 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")), which were notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have taken under such provisions of the SFO); or which are required to be 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 Rule 5.46 of 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	%
Mr. Law Sau Yiu, Dennis	-	-	370,800,000 (Note)	-	370,800,000	46.06
Ms. Teng Chia Lin, Chialina	-	-	370,800,000 (Note)	-	370,800,000	46.06

Note:

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

Save as disclosed above, at 30 September 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), which would have to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have taken under such provisions of the SFO); or

which were required to be 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 Rule 5.46 of the GEM Listing Rules.

2. DIRECTORS AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at 30 September 2005, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the directors and chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate, and none of the directors and chief executive of the Company or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such rights.

3. SHARE OPTIONS SCHEMES

The Company adopted two share option schemes on 2 August 2002, namely, the pre-IPO share option scheme ("Pre-IPO Share Option Scheme") and the share option scheme ("Share Option Scheme"). The principal terms of the two share option schemes have been set out in the note 25 to the financial statements as included in the annual report of the Company for the year ended 31 March 2005 and note 15 to the condensed consolidated financial statements of this report.

4. SUBSTANTIAL SHAREHOLDERS

At 30 September 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:

Name of shareholder	Number of shares held	% of the Company's issued share capital
Right Opportune Limited	370,800,000 (Note a)	46.06
Grand Sum Assets Limited	59,500,000	7.39
Ms. Lee Po Yi, Shirley Anne	59,500,000 (Note b)	7.39

Notes:

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

Save as disclosed above, at 30 September 2005, the Company has not been notified of any persons (other than the Directors or chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which were to be recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

5. COMPETING INTERESTS

At 30 September 2005, none of the directors, management shareholders and substantial shareholders, or 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.

6. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 September 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

7. AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.29 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. The audit committee has reviewed the Group's unaudited condensed consolidated financial statements for the six months ended 30 September 2005.

8. REMUNERATION COMMITTEE

A Remuneration Committee has been established with written terms of reference in accordance with the requirements of the Code on Corporate Governance Practices. The Remuneration Committee comprises two independent non-executive directors, namely Mr. Lung Hak Kau and Ms. Wai Lai Yung and one executive director, Mr. Law Sau Yiu, Dennis being the chairman of the Remuneration Committee. The principal responsibilities of the Remuneration Committee include recommendation to the Board on the Group's policy and structure for all remuneration of directors and senior managements, the determination of specific remuneration packages of all executive directors and senior managements, and review and approve performance-based remuneration.

9. COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors have complied with such code of conduct and the required standard of dealings regarding directors' securities transactions throughout the six months ended 30 September 2005.

10. CORPORATE GOVERNANCE

The Company has complied with the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules throughout the six months ended 30 September 2005.

11. BOARD OF DIRECTORS

As at the date of this report, the executive directors of the Company are Mr. Law Sau Yiu, Dennis (Chairman), Ms. Teng Chia Lin, Chialina and Ms. Chan Dao Ho; the independent non-executive directors of the Company are Mr. Lung Hak Kau, Ms. Wai Lai Yung and Ms. Tsang Kei Ling.

By order of the Board
Milkyway Image Holdings Limited
Teng Chia Lin, Chialina
Director

Hong Kong, 14 November 2005