



**MILKYWAY IMAGE**

**Milkyway Image Holdings Limited**

**銀河映像控股有限公司**

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8130)

First Quarterly Report 2006

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

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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 three months ended 30 June 2006 was approximately HK\$18.6 million representing an increase of approximately 367% as compared to the corresponding period in 2005.
2. Net profit of the Group for the three months ended 30 June 2006 was approximately HK\$2.3 million as compared to a net loss of approximately HK\$7.7 million for the corresponding period in 2005.
3. Earnings per share of the Group was approximately HK0.29 cents for the three months ended 30 June 2006 (2005: loss per share of HK0.96 cents).
4. The Board does not recommend the payment of any dividend for the three months ended 30 June 2006 (2005: HK\$ Nil).

## UNAUDITED QUARTERLY RESULTS

The Directors announce the unaudited consolidated results of Milkyway Image Holdings Limited (the "Company") and its subsidiaries (together, the "Group") for the three months ended 30 June 2006 together with the comparative unaudited figures for the corresponding period in 2005 as follows:–

		Three months ended 30 June	
	Notes	2006 Unaudited HK\$'000	2005 Unaudited HK\$'000
<b>Turnover</b>	2	<b>18,583</b>	3,977
Cost of sales		<b>(11,377)</b>	(5,044)
Gross profit/(loss)		<b>7,206</b>	(1,067)
Other revenue	2	<b>290</b>	8
Other operating expenses		<b>(4,893)</b>	(6,540)
<b>Profit/(Loss) from operations</b>		<b>2,603</b>	(7,599)
Finance costs	3	<b>(307)</b>	(97)
<b>Profit/(Loss) before taxation</b>		<b>2,296</b>	(7,696)
Taxation	4	–	–
<b>Profit/(loss) attributable to equity holders of the Company</b>		<b>2,296</b>	(7,696)
<b>Dividend</b>	5	–	–
<b>Earnings/(Loss) per share (HK cents)</b>	6		
Basic		<b>0.29</b>	(0.96)
Diluted		N/A	N/A

**NOTES****1. Basis of preparation**

The unaudited consolidated results of the Group have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules. They should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2006. The accounting policies and methods of computation used in the preparation of these unaudited consolidated results are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 March 2006.

**2. Turnover and Other revenue**

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 and other revenue of the Group during the reporting periods is as follows:

	<b>For the three months ended 30 June</b>	
	<b>2006 (Unaudited) HK\$'000</b>	2005 (Unaudited) HK\$'000
Turnover:		
Film production	–	650
Film distribution	<b>18,583</b>	3,327
	<b>18,583</b>	3,977
Other revenue:		
Interest income	<b>45</b>	3
Sundry income	<b>245</b>	5
	<b>290</b>	8
Total income	<b>18,873</b>	3,985

The following table sets out the turnover breakdown of the Group by geographical region for the three months ended 30 June 2006:

	For the three months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Hong Kong	6,000	1,002
Overseas	12,583	2,975
Turnover	<b>18,583</b>	3,977

### 3. Finance costs

	For the three months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Interests on:		
Bank loans wholly repayable within five years	10	32
Other borrowings	292	64
Finance leases	5	1
	<b>307</b>	97

### 4. Taxation

No provision for Hong Kong Profits Tax has been made for the three months ended 30 June 2006 (2005: Nil) as the tax losses brought forward from previous years exceed the estimated assessable profits for the period. The Group had no estimated assessable profits for the three months ended 30 June 2005. The Group had no profit tax liability for the three months ended 30 June 2006 (2005: Nil) in other jurisdictions.

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.

## 5. Dividend

The Directors do not recommend the payment of any dividend for the three months ended 30 June 2006 (2005: Nil).

## 6. Earnings/(Loss) per share

The calculation of the basic earnings/(loss) per share is based on the profit attributable to equity holders of the Company for the three months ended 30 June 2006 of approximately HK\$2,296,000 (2005: loss attributable to equity holders of the Company of approximately HK\$7,696,000) and on 805,000,000 (2005: 805,000,000) ordinary shares in issue during the period.

No diluted earnings per share has been presented because the exercise price of the Company's options was higher than the average market price for shares for the three months ended 30 June 2006.

There were no potential dilutive ordinary shares in issue during the three months ended 30 June 2005. No diluted loss per share was presented for that period.

## 7. Share capital and reserves

	Share capital HK\$'000	Share premium HK\$'000	Reserves			Total HK\$'000
			Contributed surplus HK\$'000	Share-based compensation reserve HK\$'000	(Accumulated losses) HK\$'000	
At 1 April 2006	8,050	15,050	10	1,030	(34,093)	(9,953)
Profit for the three months ended 30 June 2006	-	-	-	-	2,296	2,296
At 30 June 2006	8,050	15,050	10	1,030	(31,797)	(7,657)
At 1 April 2005	8,050	15,050	10	-	(15,908)	7,202
Loss for the three months ended 30 June 2005	-	-	-	-	(7,696)	(7,696)
At 30 June 2005	8,050	15,050	10	-	(23,604)	(494)

## 8. Related Party Transactions

- (a) During the period under review, two private companies of which Mr. Law Sau Yiu (“Mr. Law”) and Ms. Teng Chia Lin, Chialina (“Ms. Teng”), both executive directors of the Company, are directors and/or shareholders, have advanced loans to the Group. The loans are unsecured, bear interest at commercial rate and are repayable within one year from the date of advances. At 30 June 2006, the aggregate amount of loans was HK\$29 million (31.3.2006: HK\$15 million). During the three months ended 30 June 2006, the Group paid interest of approximately HK\$292,000 (2005: HK\$64,000) to the lenders.
- (b) During the period under review, Mr. Law 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 in respect of the provision of personal guarantee was paid to him by the Group during the period (2005: Nil). No facility was utilized by the Group at 30 June 2006. The facility utilized by the Group at 31 March 2006 amounted to HK\$3 million.

## FINANCIAL AND BUSINESS REVIEW

For the three months ended 30 June 2006, the Group recorded a turnover of approximately HK\$18.6 million (2005: 4.0 million) and a profit attributable to equity holders of the Company of approximately HK\$2.3 million (2005: a loss attributable to equity holders of the Company of approximately HK\$7.7 million).

During the period under review, the Group completed the production of the film project titled, “Election 2”「黑社會以和為貴」which has released for exhibition in local cinemas during the period under review. The Group also delivered the master material of the film “Election”「黑社會」for worldwide exhibition. The Group owns the film rights of these two films and revenue of the corresponding portions of distribution fees were recognized in accordance with the Group’s revenue recognition policy. Local box office receipts of the film “Election 2”「黑社會以和為貴」has been outstanding whereas its overseas distribution pre-sale was also encouraging. It was selected as the Opening Film (World Premiere) for the 30th Hong Kong International Film Festival and as Out of Competition Official Selection of the 2006 Cannes International Film Festival.



Both the abovementioned films were invited as Official Entry to The 7th Tokyo Filmex Film Festival, The 31st Toronto International Film Festival and the 2006 Munich Asia Filmfest. In the forthcoming 11th Golden Bauhinia Awards, the film "Election" 「黑社會」 received 9 nominations to participate in the competition as Best Film, Best Director, Best Screenwriters, Best Actor, Best Supporting Actor, Best Supporting Actress, Best Music, Best Editing and Best Cinematography whereas the film "Election 2" 「黑社會以和為貴」 received 4 nominations to participate in the competition as Best Screenwriters, Best Supporting Actor, Best New Actor/Actress and Best Music.

At the reporting date, several productions are either completed or near completion, out of which the film, "love@first note" 「戀愛初歌」 will be released shortly whereas the films, "Fatal Contact" 「黑拳」 and "Exiled" 「放•逐」 are near completions. The film, "Exiled" 「放•逐」 was invited to participate as the Competition Film in The 63rd Venice Film Festival and as Official Entry to The 31st Toronto International Film Festival.

Although the Group's productions continued to earn praises during the period under review, the Group was still facing a challenging business environment where no significant improvement is noted. During the three months ended 30 June 2006, the Group has recorded a profit of approximately HK\$2.3 million which is a turn-around from the loss of approximately HK\$7.7 million for the corresponding period in 2005.

During the period under review, overall operating expenses decreased from HK\$6.5 million in prior period to HK\$4.9 million this period, out of which promotion and marketing expenses have reduced drastically and the Group enjoyed the benefit from those promotion and marketing activities undertaken in prior periods. However, as the Group has substantial amount of borrowings during the period under review, finance cost has been increasing since prior periods from HK\$97,000 to HK\$307,000 in this period.

## **PROSPECTS**

Film distribution activity has achieved promising performance and the Group will continue this business while at the same time provide film production services to other film investment companies. At the date of this report, the Group has entered into a number of film production agreements with different film companies and several talented film directors and scriptwriters have been engaged to involve in the production of these contracted film projects.

Looking ahead, the Directors expect the local market to be unlikely to experience any significant breakthrough in a short period of time and overseas distribution will be an alternative revenue source to the sluggish local market. Apart from the revenue side, the Group will regularly review its cost structure and policies in order to make best use of its existing resources for a better return for its shareholders in future.

## OTHER INFORMATION

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

At 30 June 2006, 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	-	-	371,700,000 (Note)	-	371,700,000	46.17
Ms. Teng Chia Lin, Chialina	-	-	371,700,000 (Note)	-	371,700,000	46.17

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.

## Outstanding share options

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 29 to the financial statements as included in the annual report of the Company for the year ended 31 March 2006.

Pursuant to the Share Option Scheme adopted by the Company and approved by the Company's shareholders at the Extraordinary General Meeting held on 28 October 2005, Mr. To Kei Fung, the chief executive officer of the Company was granted options to subscribe for 64,400,000 shares of the Company's ordinary shares, details of which were as follows:

Name	Date of proposed grant	Date of grant	No. of options granted previously	No. of options granted	Exercise price	Exercise period
To Kei Fung	16 September 2005	28 October 2005	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).

Save as disclosed above, at 30 June 2006, 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 June 2006, 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. SUBSTANTIAL SHAREHOLDERS

At 30 June 2006, the register of substantial shareholders maintained by the Company under Section 336 of the SFO showed that, other than the interests disclosed above in respect of certain directors, the following shareholders had an interest of 5% or more in the issued share capital of the Company:

<b>Name of shareholder</b>	<b>Number of shares held</b>	<b>% of the Company's issued share capital</b>
Right Opportune Limited	371,700,000 (Note a)	46.17
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 executives' 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 June 2006, the Company has not been notified of any persons (other than the Directors or chief executives of the Company) who had interests or short positions in the shares and underlying shares of the Company which were to be recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

#### **4. COMPETING INTERESTS**

At 30 June 2006, 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.

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

During the three months period ended 30 June 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

#### **6. 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 three months ended 30 June 2006.

## 7. 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.

## 8. 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 three months ended 30 June 2006.

## 9. 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**  
**Law Sau Yiu, Dennis**  
*Chairman*

Hong Kong, 11 August 2006