



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)

Interim Report 2006

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

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HIGHLIGHTS

1. Turnover of the Group for the six months ended 30 September 2006 was approximately HK\$42.5 million, representing an increase of approximately 326% as compared with the corresponding period in 2005.
2. Net loss of the Group for the six months ended 30 September 2006 was approximately HK\$1.4 million (2005: HK\$8.7 million).
3. Loss per share of the Group for the six months ended 30 September 2006 was approximately HK0.18 cents (2005: HK1.08 cents).
4. The Board does not recommend the payment of any dividend for the six months ended 30 September 2006 (2005: 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 2006 together with the comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the period ended 30 September 2006

	Notes	Three months ended 30 September		Six months ended 30 September	
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Turnover	2	23,958	6,000	42,541	9,977
Costs of sales		(20,252)	(2,347)	(31,629)	(7,391)
Gross profit		3,706	3,653	10,912	2,586
Other revenue	2	13	129	303	137
Other operating expenses		(7,030)	(4,656)	(11,923)	(11,196)
Loss from operations	4	(3,311)	(874)	(708)	(8,473)
Finance costs	5	(410)	(156)	(717)	(253)
Loss before taxation		(3,721)	(1,030)	(1,425)	(8,726)
Taxation	6	–	–	–	–
Loss attributable to equity holders of the Company		(3,721)	(1,030)	(1,425)	(8,726)
Dividend	7	–	–	–	–
Basic loss per share (HK cents)	8	(0.46)	(0.13)	(0.18)	(1.08)

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2006

	Notes	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
Non-current assets			
Film rights		639	277
Property, plant and equipment		10,692	11,698
		11,331	11,975
Current assets			
Film rights-current portion		1,299	4,982
Film in progress		9,731	6,483
Production in progress		14,919	12,364
Trade debtors	9	11,925	417
Deposits, prepayments and other debtors		4,482	4,944
Bank balances and cash		5,962	3,610
		48,318	32,800
Current liabilities			
Trade creditors	10	6,385	2,459
Other creditors and accruals		579	905
Receipt in advance		31,928	31,813
Obligations under finance leases			
– due within one year		366	41
Bank loan		–	3,000
Amounts due to directors	11	1,242	1,242
Amounts due to related companies	12	30,090	15,097
		70,590	54,557
Net current liabilities		(22,272)	(21,757)
		(10,941)	(9,782)
Capital and reserves			
Share capital	13	8,050	8,050
Reserves	14	(19,428)	(18,003)
		(11,378)	(9,953)
Non-current liabilities			
Obligations under finance leases			
– due after one year		437	171
		(10,941)	(9,782)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the period ended 30 September 2006

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Share-based compensation reserve HK\$'000	Accumulated losses HK\$'000	Attributable to equity holders of the Company HK\$'000
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)
At 1 April 2006	8,050	15,050	10	1,030	(34,093)	(9,953)
Loss for the six months ended 30 September	–	–	–	–	(1,425)	(1,425)
At 30 September 2006	8,050	15,050	10	1,030	(35,518)	(11,378)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)*For the period ended 30 September 2006*

	Six months ended 30 September 2006 HK\$'000	Six months ended 30 September 2005 HK\$'000
Net cash generated from (used in) operating activities	3,110	(6,456)
Net cash used in investing activities	(11,968)	(80)
Net cash generated from financing activities	11,210	5,993
Net increase (decrease) in cash and cash equivalents	2,352	(543)
Cash and cash equivalents at 1 April	3,610	2,853
Cash and cash equivalents at 30 September	5,962	2,310
Cash and cash equivalents at 30 September, Represented by bank balances and cash	5,962	2,310

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the period ended 30 September 2006

1. Basis of preparation and 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 2006. 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 2006.

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 2006. 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 financial statements have been prepared on a going concern basis.

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:

	For the three months ended 30 September		For the six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Turnover:				
Film production	13,014	–	13,014	650
Film distribution	10,944	6,000	29,527	9,327
	23,958	6,000	42,541	9,977
Other revenue:				
Interest income	–	–	45	3
Sundry income	13	129	258	134
	13	129	303	137
Total income	23,971	6,129	42,844	10,114

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 2006 by business segments is as follows:

	Film production		Film distribution		Consolidated	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Turnover	13,014	650	29,527	9,327	42,541	9,977
Segment profit/(loss)	1,989	430	6,301	(215)	8,290	215
Other revenue					303	137
Unallocated finance costs					(717)	(253)
Unallocated other operating expenses					(9,301)	(8,825)
Loss from operations					(1,425)	(8,726)
Other information:						
Addition of property, plant and equipment-unallocated					926	548
Disposal of property, plant and equipment-unallocated					-	(459)
Unallocated depreciation					(1,932)	(1,851)
Addition of film rights	-	-	11,751	11,836	11,751	11,836
Amortisation of film rights	-	-	(15,072)	(7,172)	(15,072)	(7,172)

An analysis of the Group's turnover for the six months ended 30 September 2006 by geographical segments is as follow:

	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Hong Kong	20,061	7,002
Overseas	22,480	2,975
	42,541	9,977

The Group's assets are located in Hong Kong. Accordingly, no analysis by geographical segment is presented.

4. Loss from operations

	For the three months ended 30 September		For the six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
<i>Loss from operations has been arrived at after charging:</i>				
Amortisation of film rights (included in cost of sales)	5,636	2,448	15,072	7,172
Depreciation of property, plant and equipment	973	901	1,932	1,851
Gain on disposal of property, plant and equipment	–	54	–	54
Staff costs including directors' emoluments	2,577	2,515	5,097	4,865

5. Finance costs

	For the three months ended 30 September		For the six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Interests on:				
Bank loans wholly repayable within five years	–	50	10	85
Other borrowing costs	398	105	690	166
Finance leases	12	1	17	2
	410	156	717	253

6. Taxation

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

A deferred tax asset has not been recognized in the condensed 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 2006 (2005: Nil).

8. Basic loss per share

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

	For the three months ended 30 September		For the six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Loss for the periods				
Loss attributable to equity holders of the Company	(3,721)	(1,030)	(1,425)	(8,726)
Number of shares				
Number of ordinary shares used in the calculation of basic loss per share	805,000,000	805,000,000	805,000,000	805,000,000

The computation of diluted loss per share for the three months and six months ended 30 September 2006 did not assume the exercise of the Company's outstanding share options existed during the periods since their exercise would reduce loss per share. No diluted loss per share for the three months and six months ended 30 September 2005 were presented as there were no potential dilutive ordinary shares in issue during those 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 2006 and 31 March 2006 is as follows:

	As at 30 September 2006 (Unaudited) HK\$'000	As at 31 March 2006 (Audited) HK\$'000
Within 30 days	7,552	125
31-90 days	–	182
91-180 days	4,232	1
181-365 days	139	109
Over 365 days	2	–
	11,925	417

10. TRADE CREDITORS

The aged analysis of trade creditors as at 30 September 2006 and 31 March 2006 is as follows:

	As at 30 September 2006 (Unaudited) HK\$'000	As at 31 March 2006 (Audited) HK\$'000
Within 6 months	6,316	2,459
6-12 months	69	–
Over 1 year	–	–
	6,385	2,459

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 2006	10,000,000	100,000
Issued and fully paid		
At 1 April and 30 September 2006	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 29 to the financial statements as included in the annual report of the Company for the year ended 31 March 2006.

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

Details of the share options outstanding under the Share Option Scheme and movements during the six months ended 30 September 2006 were as follows:

Chief executive	Date of grant	Outstanding as at 1 April 2006	Granted during the period under review	Exercised during the period under review	Lapsed during the period under review	Outstanding as at 30 September 2006	Vesting period	Exercise period	Exercise price
Mr. To Kei Fung	28 October 2005	64,400,000	-	-	-	64,400,000 (Note a)	N/A	Between 20 September 2005 to 19 September 2015	HK\$0.04 (Note b)

Notes:

- 64,400,000 shares representing approximately 8% of the total issued share capital of the Company at the balance sheet date.
- 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 2006, the Group had total future minimum lease payments under non-cancellable operating leases, which are payable as follows:

	As at 30 September 2006 (Unaudited) HK\$'000	As at 31 March 2006 (Audited) HK\$'000
Within one year	1,650	1,800
In the second to fifth year inclusive	–	750
	1,650	2,550

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 2006, the Group had contracted for production service but not provided for in the financial statements amounting to approximately HK\$14,697,000 (31 March 2006: HK\$18,480,000).

Save as disclosed above, the Group had no other commitments at 30 September 2006.

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 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 September 2006 (At 31 March 2006: HK\$3,000,000).

- (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\$30 million to the Group. During the three months and six months ended 30 September 2006, the Group paid interest of approximately HK\$398,000 and HK\$690,000 (2005: HK\$105,000 and HK\$166,000 respectively) to the lenders. At 30 September 2006, there was outstanding interest of approximately HK\$90,000 (At 31 March 2006: HK\$97,000).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Financial Performance

For the six months ended 30 September 2006, the Group recorded a turnover of approximately HK\$42.5 million as compared with that for the corresponding period in 2005 of approximately HK\$10 million, representing an increase of approximately 326%. Net loss attributable to equity holders of the Company amounted to approximately HK\$1.4 million (2005: HK\$8.7 million).

During the period under review, the Group completed the production of two film projects titled, "love@first note" 「戀愛初歌」 and "Election 2" 「黑社會以和為貴」 both of which have been released for exhibition in local cinemas. The Group also delivered the master material of a previously completed film project, "Election" 「黑社會」 and "Election 2" 「黑社會以和為貴」 for worldwide exhibition. The Group owns the film rights of these films for distribution. Distribution income recognized for the six months ended 30 September 2006 in accordance with the Group's revenue recognition policy amounted to approximately HK\$29.5 million (2005: HK\$9.3 million). Meanwhile, the Group continued in the provision of film production service to other film companies, out of which the film, "Exiled" 「放•逐」, has completed and released for exhibition. Revenue generated in respect of film production services during the period under review amounted to approximately HK\$13 million (2005: HK\$0.7 million).

Gross profit amounted to approximately HK\$10.9 million for the six months ended 30 September 2006 (2005: HK\$2.6 million). Gross profit ratio remains steady at approximately 26% which was comparable to that in the corresponding period in 2005.

A net loss of approximately HK\$1.4 million was recorded for the six months ended 30 September 2006 as compared to the corresponding period in 2005 of approximately HK\$8.7 million. The positive progress was mainly driven by the significant increase of turnover as compared to that in the corresponding period in 2005. The Group's other operating expenses incurred in the period remained steady of approximately HK\$11.9 million (2005: HK\$11.2 million) in which slight increases in staff costs and promotion expenses were recorded. Finance costs remained in a growing trend due to the continued high level of borrowing during the period.

Liquidity, Financial Resources, Capital Structure and Gearing Ratio

As at 30 September 2006, the Group had current assets amounted to approximately HK\$48.3 million (31 March 2006: HK\$32.8 million), of which approximately HK\$6.0 million (31 March 2006: HK\$3.6 million) was bank balances and cash. Current liabilities amounted to approximately HK\$70.6 million (31 March 2006: HK\$54.6 million) mainly comprised advanced receipts from film companies; bank loan of revolving nature and amounts due to related companies. At 30 September 2006, the Group had loans from related companies amounted to HK\$30 million (31 March 2006: bank loans of HK\$3 million and loans from related companies of HK\$15 million). The Group also incepted a new finance lease of HK\$664,000 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 2006.

As at 30 September 2006, the gearing ratio, expressed as a percentage of total liabilities over total assets, was 119.1% (31 March 2006: 122.2%).

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 did not made any significant capital investments other than investment in film projects which were recorded as films in progress at the production stage and transferred to film rights upon completion. The Group owns the film rights of these film for future distribution purpose.

Apart from the aforesaid, the Group made no other material acquisition, disposal or any significant investments during the period.

Employees and Remuneration Policies

As at 30 September 2006, the Group had 22 full time employees (31 March 2006: 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. Details of the outstanding options are set out in note 15 to the condensed consolidated financial statements. Staff costs including Directors' emoluments during the period were approximately HK\$5,097,000 (2005: HK\$4,865,000). The Group also provides mandatory provident fund scheme for its employees.

Charge on Group Assets

As at 30 September 2006, the Group did not have any charges on its assets.

Contingent Liabilities

As at 30 September 2006, the Group did not have any material contingent liabilities.

Business Review

Segment Information

During the six months' period under review, revenue from film distribution soared from approximately HK\$9.3 million in the corresponding period in 2005 to approximately HK\$29.5 million this period. Results attributable to this business segment has turned around from a segment loss of approximately HK\$0.2 million in the prior period to a segment profit of approximately HK\$6.3 million. The Group enjoyed a positive return from the expenses incurred in prior periods for marketing and promotional activities in relation to films owned by it. Film distribution income became the major revenue source as compared to the revenue generated from provision of film production services to outsiders. Nevertheless, the provision of film production service remained a key source of revenue which provide a more secured positive segment result. Revenue from provision of film production service in the period under review amounted to approximately HK\$13.0 million as compared to approximately HK\$0.7 million in prior period. Segment profit for this business segment for the period under review amounted to approximately HK\$2.0 million (2005: HK\$0.4 million).

Sales and Marketing

The Group's productions in the period under review received several acclaims out of which the film, "Election" [黑社會], was invited as Official Entry to The 51st Asia-Pacific Film Festival and the film, "Election 2" [黑社會以和為貴], was selected as Official Selection to both The 44th New York Film Festival and The 24th Torino Film Festival. Furthermore, the film, "Exiled" [放•逐] has been nominated in The 43rd Taipei Golden Horse Award for awards of Best Feature Film, Best Director, Best Editing and Best Action Choreography. In The 39th Sitges International Film Festival of Catalonia, the film was awarded Best Film (Young Jury Award) and it was also selected as Closing Film in The 2006 Hong Kong Asia Film Festival.

Film Investment

For the period under review, the Group invested in two film projects titled, "love@first note" [戀愛初歌] and "Election 2" [黑社會以和為貴]. Another film, "Fatal Contact" [黑拳], invested by the Group has been released for exhibition subsequent to 30 September 2006 with encouraging box receipts. Apart from the above, the Group has invested in a film which is under production at the date of this report.

Film Production

In addition to the investments in film projects as mentioned above which the Group owned the film rights, the Group continued in the period under review in providing film production services for another film project, "Exiled" [放•逐] which is owned by other film company.

Prospects

The six months' period under review continued to be a challenging time for the Group. Although the Group has been adopting every measure to ensure a cost-effective operation, the general trend of arising costs of operation in the local market is expected to exert increasing pressures on the Group's general overhead and cost of production. The Group will make every endeavour in controlling the budget with an aim to stabilize its overall costs at a reasonable level.

The results for the period under review indicated the Group's film distribution segment has achieved encouraging performance. The Directors believe that this business segment will continue to bring positive growth to the Group in the future. Meanwhile, the Group considers the provision of film production service business remained an indispensable revenue source. As such, these two main streams of operations will be continued side by side in order to maximize the returns to the shareholders of the Company.

OTHER INFORMATION

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

At 30 September 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	-	-	373,760,000 (Note)	-	373,760,000	46.43
Ms. Teng Chia Lin, Chialina	-	-	373,760,000 (Note)	-	373,760,000	46.43

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 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. 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 29 to the financial statements as included in the annual report of the Company for the year ended 31 March 2006 and note 15 to the condensed consolidated financial statements of this report.

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

Save as disclosed above, at 30 September 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.

4. SUBSTANTIAL SHAREHOLDERS

At 30 September 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:

Name of shareholder	Number of shares held	% of the Company's issued share capital
Right Opportune Limited	373,760,000 (Note a)	46.43
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 2006, 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 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.

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

During the six months ended 30 September 2006, 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 2006.

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 2006.

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 2006.

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
Law Sau Yiu Dennis
Chairman

Hong Kong, 13 November 2006