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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)**

### **ISSUE OF CONVERTIBLE BONDS**

On 12 March 2007, the Company and the Subscriber entered into the Subscription Agreement in respect of the issue of the Convertible Bonds in the principal amount of HK\$25 million due 2012. Completion of the Subscription is subject to the conditions as set out in the paragraph headed "Conditions precedent" in the section headed "Subscription Agreement dated 12 March 2007" below. Detailed terms of the Convertible Bonds are set out in the paragraph headed "Principal terms of the Convertible Bonds" in the section headed "The Subscription Agreement dated 12 March 2007" below.

The net proceeds from the Convertible Bonds of approximately HK\$22.3 million will be used for financing the possible diversified future investments of the Group and the general working capital of the Group. As at the date of this announcement, no such investment has been identified by the Group.

The EGM will be convened at which an ordinary resolution will be proposed to seek approval by the Shareholders of, among other things, the issue of the Convertible Bonds and the Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Bonds. No Shareholder has any material interest in relation to the issue of Convertible Bonds and therefore no Shareholder is required to abstain from voting at the EGM.

A circular containing, among other things, further details of the Convertible Bonds and the notice of the EGM will be despatched to the Shareholders as soon as practicable.

At the request of the Company, trading in the Shares was suspended with effect from 9:30 a.m. on 12 March 2007 pending the release of this announcement. Application has been made for the resumption of trading of the Shares with effect from 9:30 a.m. on 15 March 2007.

## SUBSCRIPTION AGREEMENT DATED 12 MARCH 2007

### 1) Parties

Issuer: the Company

Subscriber: the Subscriber, a wholly owned subsidiary of China Star

To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, each of the Subscriber, China Star and their respective beneficial owners is independent of and not connected with the directors, chief executive, substantial shareholders or management shareholders of the Company or any of its subsidiaries or any of their respective associates or its connected persons and is not a connected person of the Company. The Subscriber and China Star did not hold any Shares or other securities in the Company and is not acting in concert with any of the Shareholders in respect of the Company as at the date of this announcement.

### 2) Principal terms of the Convertible Bonds

Principal amount: HK\$25 million which will be issued by the Company at the price of HK\$22.5 million, being 90% of the face value of the Convertible Bonds

Interest rate: The Convertible Bonds shall not carry any interest.

Maturity date: Unless previously redeemed, repurchased and cancelled or converted, any outstanding Convertible Bonds shall be redeemed on the date falling on the fifth anniversary of the date of issue of the Convertible Bonds.

Ranking: The Convertible Bonds constitute general and unsecured obligations of the Company and rank equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Company.

Early redemption: The Company shall be entitled at any time while the Convertible Bonds are outstanding to redeem the Convertible Bonds or any part thereof at 110% of the principal amount of the Convertible Bonds (in multiples of HK\$500,000).

Conversion: Provided that any conversion of the Convertible Bonds does not trigger off a mandatory offer under rule 26 of the Code on the part of the Subscriber, the Subscriber will have the right to convert the whole or part of the principal amount of the Convertible Bonds into Shares at any time and from time to time, from the date of issue of the Convertible Bonds in amounts of not less than a whole multiple of HK\$500,000 on each conversion.

Conversion price: The conversion price is initially HK\$0.33 per Share, subject to adjustments for, among other matters, subdivision or consolidation of Shares, rights issue, extraordinary stock or cash distribution, and other dilutive events (which are the standard anti-dilution adjustments). The conversion price represents:

- (i) the closing price per Share as quoted on the Stock Exchange of HK\$0.33 on 9 March 2007, being the last day of trading in the Shares on GEM before the date of the Subscription Agreement; and
- (ii) a premium of approximately 24.53% over the average of the closing prices per Share for the last five trading days ended on 9 March 2007, being the last day of trading in the Shares on GEM before the date of the Subscription Agreement.

Voting: The Subscriber will not be entitled to attend or vote at any general meeting of the Company by reason only of it being the holder of the Convertible Bonds.

Transfer: With the prior written consent of the Company, the Convertible Bonds may be transferable provided always that no transfer or assignment of the Convertible Bonds shall be made to any connected person of the Company.

Based on the conversion price of HK\$0.33 per Conversion Share, a maximum number of 75,757,575 Conversion Shares will be allotted and issued upon exercise of the conversion rights attached to the Convertible Bonds in full, which represent: (i) approximately 78.42% of the issued share capital of the Company as at the date of this announcement; (ii) approximately 42.90% of the issued share capital of the Company as enlarged by the allotment and issue of the conversion shares to be allotted and issued upon the exercise in full of the conversion rights attaching to the December Bonds issued pursuant to the December Placing; and (iii) approximately 30.02% of the issued share capital of the Company as enlarged by the allotment and issue of the conversion shares to be allotted and issued upon the exercise in full of the conversion rights attaching to the December Bonds issued pursuant to the December Placing, and the Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Bonds in full.

The Conversion Shares will rank pari passu in all respects with the Shares in issue as at the date of allotment and issue of the Conversion Shares.

The Company will publish monthly announcements stating the relevant details of the conversion of the Convertible Bonds to enable investors to make appropriate investment decisions on an informed basis.

No application will be made for listing of, or permission to deal in, the Convertible Bonds on the Stock Exchange or any other stock exchange. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

### **3) Conditions precedent**

Completion is conditional upon the fulfillment of the following conditions precedent:

- (a) the GEM Listing Committee of the Stock Exchange shall have granted the listing of and permission to deal in the Conversion Shares;
- (b) the passing by the Shareholders of the necessary resolution at the EGM to be convened and held to approve the issue of the Convertible Bonds and the transactions contemplated thereunder including but not limited to the allotment and issue of the Conversion Shares;
- (c) there being no event existing or having occurred and no condition being in existence which would be (after the issue of the Convertible Bonds) an event of default under the Convertible Bonds and no event or act having occurred which, with the giving of notices, or the lapse or time, or both, would (after the issue of the Convertible Bonds), constitute such an event of default;
- (d) the Subscriber being satisfied in its absolute discretion with the results of the due diligence review to be conducted on the assets, liabilities, affairs and operations of the Group;
- (e) the representations and warranties given by the Company to the Subscriber under the Subscription Agreement remaining true, accurate and complete in all material respects; and
- (f) all necessary consents and approvals required to be obtained on the part of the Company and the Subscriber in respect of the Subscription Agreement and the transactions contemplated thereby having been obtained.

If any of the above conditions are not fulfilled on or before the date falling 60 days from the date of the Subscription Agreement or such other date as the Company and the Subscriber may agree, the Subscription Agreement will lapse and become null and void and the parties to the Subscription Agreement shall be released from all obligations hereunder, save the liabilities for any antecedent breaches thereof.

#### **4) Completion**

Completion shall take place on the third business day following the date on which the above conditions are fulfilled.

#### **5) Termination**

The Subscriber may, by notice to the Company given at any time prior to payment of the Subscription Price for the Convertible Bonds to the Company, terminate the Subscription Agreement in any of the following circumstances:

- (a) in the reasonable opinion of the Subscriber, the success of the Subscription would be materially and adversely affected by:
  - (i) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Subscriber materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Subscription; or
  - (ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Subscriber materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and makes it inexpedient or inadvisable to proceed with the Subscription; or
  - (iii) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the reasonable opinion of the Subscriber is likely to materially or adversely affect the success of the Subscription or otherwise makes it inexpedient or inadvisable to proceed with the Subscription; or

- (iv) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or
- (v) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than 15 consecutive business days, excluding any suspension in connection with the clearance of the announcement, the circular or other documents in connection with the Subscription; or
- (vi) any material breach of any of the representations, warranties or undertakings contained in the Subscription Agreement comes to the knowledge of the Subscriber.

In the event that the Subscriber terminates the Subscription Agreement, the obligations of all parties under the Subscription Agreement shall terminate forthwith and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches.

#### **REASON FOR THE ISSUE OF CONVERTIBLE BONDS AND USE OF PROCEEDS**

The Directors consider that the Company has no immediate need to raise funds by issuing Convertible Bonds, however, the Directors consider raise funds by issuing Convertible Bonds is justifiable considering the recent favourable market conditions which represent an opportunity for the Company to enhance its working capital and strengthen its capital base and financial position for the possible diversified future investments of the Group. The Directors consider that the issue of the Convertible Bonds is an appropriate means of raising additional capital for the Company since it will not have an immediate dilution effect on the shareholding of the existing Shareholders.

The Directors consider that the terms of the Subscription Agreement, which were arrived at after arm's length negotiations between the Company and the Subscriber, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. The net proceeds from the issue of the Convertible Bonds of approximately HK\$22.3 million will be used for financing the possible diversified future investments of the Group and the general working capital of the Group. As at the date of this announcement, no such investment has been identified by the Group.

## SHAREHOLDING STRUCTURE

The shareholding structure of the Company as at the date of this announcement, immediately after the full conversion of the December Bonds but before the conversion of the Convertible Bonds, and immediately after full conversion of the December Bonds and the Convertible Bonds is as follows:

Shareholder	At the date of this announcement		Immediately after full conversion of the December Bonds but before conversion of the Convertible Bonds		Assuming full conversion of the December Bonds and the Convertible Bonds and the Shares the Subscriber is entitled to is restricted to less than 30% of the issued share capital of the Company with any balance Conversion Shares being held by the public	
	No. of Shares	Approximate percentage	No. of Shares	Approximate percentage	No. of Shares	Approximate percentage
Right Opportune Limited (Note 1)	37,376,000	38.69%	37,376,000	21.16%	37,376,000	14.81%
Subscriber	–	–	–	–	75,682,036 (Note 2)	29.99% (Note 2)
Public:						
The holders of the December Bonds (Note 3)	–	–	80,000,000	45.30%	80,000,000	31.70%
Other public Shareholders	59,224,000	61.31%	59,224,000	33.54%	59,299,539	23.50%
Sub-total of public shareholders	59,224,000	61.31%	139,224,000	78.84%	139,299,539	55.20%
Total	96,600,000	100.00%	176,600,000	100.00%	252,357,575	100.00%

### Notes:

- (1) The entire issued share capital of Right Opportune Limited is beneficially owned by Mr Law Sau Yiu, Dennis, an executive Director and the chairman of the Company.
- (2) Based on the initial conversion price of HK\$0.33 per Conversion Share, a maximum number of 75,757,575 Conversion Shares will be allotted and issued upon exercise of the conversion rights attached to the Convertible Bonds in full. For illustration purpose, assuming full conversion of the Convertible Bonds on the date of this announcement and subject to the restriction that any conversion of the Convertible Bonds cannot trigger off a mandatory offer under rule 26 of the Code on the part of the Subscriber, the maximum Shares that can be converted under rule 26 of the Code on the part of the Subscriber will only represent 29.99% of the issued share capital of the Company.
- (3) As at the date of this announcement, none of the holders of the December Bonds will become a substantial Shareholder upon full conversion of the December Bonds.

## FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

<b>Date of announcement</b>	<b>Event</b>	<b>Net proceeds</b>	<b>Intended use of proceeds</b>	<b>Actual use of proceeds</b>
29 November 2006	Placing of 161,000,000 new Previous Shares at a subscription price of HK\$0.022	Approximately HK\$3.42 million	To be applied as general working capital of the Group	The net proceeds of approximately HK\$3 million has been applied as general working capital of the Group
5 December 2006	the December Placing	Approximately HK\$17.6 million	To be applied as general working capital of the Group	The net proceeds has not been utilized

Save as disclosed above, the Company has not conducted any other fund raising activities in the past twelve months before the date of this announcement.

### EGM

The EGM will be convened at which an ordinary resolution will be proposed to seek approval of the issue of the Convertible Bonds and the Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Bonds. No Shareholder has any material interest in relation to the issue of Convertible Bonds and therefore no Shareholder is required to abstain from voting at the EGM.

### GENERAL

The Group is principally engaged in the provision of film production services, production of television series, investment in film productions and worldwide film distribution.

A circular containing, among other things, further details of the Convertible Bonds and the notice of the EGM will be despatched to the Shareholders as soon as practicable.

### SUSPENSION OF TRADING

At the request of the Company, trading in the Shares was suspended with effect from 9:30 a.m. on 12 March 2007 pending the release of this announcement. Application has been made for the resumption of trading of the Shares with effect from 9:30 a.m. on 15 March 2007.



## DEFINITIONS

Unless the context requires otherwise, the following terms have the following meanings in this announcement:

“associates”	has the meaning ascribed thereto in the GEM Listing Rules
“Board”	board of the Directors
“China Star”	China Star Entertainment Limited, a company incorporated in Bermuda and the issued shares of which are listed on The Stock Exchange of Hong Kong Limited
“Code”	The Hong Kong Code on Takeovers and Mergers
“Company”	Milkyway Image Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on GEM
“Completion”	completion of the Subscription Agreement
“connected persons”	has the meaning ascribed thereto in the GEM Listing Rules
“Conversion Shares”	the Shares which may fall to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Bonds
“Convertible Bonds”	the zero coupon convertible bonds in principal amount of HK\$25 million due 2012 to be issued by the Company to the Subscriber pursuant to the Subscription Agreement
“December Bonds”	the convertible bonds in the aggregate principal amount of HK\$20 million and issued by the Company pursuant to the placing agreement dated 5 December 2006 and entered into between the Company and Kingston Securities Limited, which entitle the holder thereof to subscribe for the Shares at an initial subscription price of HK\$0.25 per Share
“December Placing”	the placing of the December Bonds
“Directors”	directors of the Company

“EGM”	the extraordinary general meeting of Company to be convened to consider and, if thought fit, approve the issue of the Convertible Bonds and the Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Bonds
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Previous Share(s)”	ordinary share(s) of HK\$0.01 each in the issued and unissued share capital of the Company, before the implementation of the Share Consolidation
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Share Consolidation”	the consolidation of every ten (10) issued and unissued Previous Shares of HK\$0.01 each in the capital of the Company into one (1) Share of HK\$0.10 each, details of which were disclosed in the announcement of the Company dated 5 December 2006 and in the circular of the Company dated 22 December 2006
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Classical Statue Limited, a company incorporated in the British Virgin islands with limited liability and a wholly owned subsidiary of China Star
“Subscription”	the subscription of the Convertible Bonds by the Subscriber pursuant to the terms of the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 12 March 2007 and entered into between the Company and the Subscriber in relation to the subscription and issue of the Convertible Bonds

“HK\$” Hong Kong dollars, the lawful currency of Hong Kong

“%” per cent.

On behalf of the board of  
**Milkyway Image Holdings Limited**  
**Law Sau Yiu, Dennis**  
*Chairman*

Hong Kong, 14 March 2007

*As at the date of this announcement, the Board comprises three executive directors namely, Law Sau Yiu, Dennis, Teng Chia Lin and Chan Dao Ho and three independent non-executive directors namely, Lung Hak Kau, Wai Lai Yung and Tsang Kei Ling.*

*This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief that:-(i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

*This announcement will remain on the GEM website at <http://www.hkgem.com> on the “Latest Company Announcement” page for at least seven days from the date of its posting.*