



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 2007

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

CONTENTS

	<i>Page</i>
Highlights	2
Unaudited Quarterly Results	3
Financial and Business Review	8
Prospects	9
Other Information	10

HIGHLIGHTS

1. Turnover of Group for the three months ended 30 June 2007 was approximately HK\$9.5 million representing a decrease of approximately 48.6% as compared to the corresponding period in 2006.
2. Net profit of the Group for the three months ended 30 June 2007 was approximately HK\$22.7 million, representing an increase of approximately 889.5% as compared to the corresponding period in 2006.
3. Earnings per share of the Group was approximately HK15.8 cents for the three months ended 30 June 2007 (2006: HK2.9 cents).
4. The Board does not recommend the payment of any dividend for the three months ended 30 June 2007.

UNAUDITED QUARTERLY RESULTS

The board of directors (the "Board") of Milkyway Image Holdings Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 30 June 2007, together with the comparative unaudited figures for the corresponding period in 2006 as follows:

	Notes	For the three months ended 30 June	
		2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
Turnover	2	9,547	18,583
Cost of sales		(7,673)	(11,377)
Gross profit		1,874	7,206
Other revenue	2	28,613	290
Other operating expenses		(6,943)	(4,893)
Profit from operations		23,544	2,603
Finance costs	3	(825)	(307)
Profit before taxation		22,719	2,296
Taxation	4	–	–
Profit attributable to equity holders of the Company		22,719	2,296
Dividend		–	–
Earnings per share (HK cents)	5		
– Basic (2006: restated)		15.8	2.9
– Diluted		N/A	N/A

NOTES TO THE FIRST QUARTERLY RESULTS

1. Basis of Preparation

The Group's unaudited consolidated results have been prepared in accordance with the Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The unaudited consolidated results comply with the applicable disclosure requirements of the Hong Kong Company Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprises Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). The accounting policies adopted in preparing the unaudited consolidated results for the three months ended 30 June 2007 and 2006 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2007. The consolidated results are unaudited but have been reviewed by the audit committee.

In the three months ended 30 June 2007, the Group had applied for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by HKICPA that are effective for accounting periods beginning on or after 1 April 2007. The adoption of the new HKFRSs has had no material effect on how the results and financial position for the current or prior accounting period as prepared and presented.

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 June	
	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
Turnover		
Film production	7,500	–
Film distribution	2,047	18,583
	9,547	18,583
Other revenue		
Gain on disposal of subsidiaries	28,323	–
Interest income	277	45
Sundry income	13	245
	28,613	290
Total income	38,160	18,873

The following table sets out the turnover breakdown of the Group by geographical region for the three months ended 30 June 2007 and 2006:

	For the three months ended 30 June	
	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
Hong Kong	9,300	6,000
Overseas	247	12,583
	9,547	18,583

3. Finance costs

	For the three months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interests on:		
Bank loans wholly repayable within five years	–	10
Amounts due to related companies	472	292
Interest on convertible bonds wholly repayable within five years	345	–
Finance charges on finance leases	8	5
	825	307

4. Taxation

No provision for taxation has been made in the financial statements as the Group had no assessable profit for the three months ended 30 June 2007 (2006: Nil).

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. Earnings per share

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company for the three months ended 30 June 2007 of approximately HK\$22.7 million (2006: profit attributable to equity holders of the Company of approximately HK\$2.3 million) and on the weighted average of 144,200,399 shares in issue during the three months period ended 30 June 2007 (three months period ended 30 June 2006: 80,500,000 shares, as adjusted). The comparative figure of basic earnings per share for the period ended 30 June 2006 had been re-calculated to reflect the share consolidation occurred on 10 January 2007.

No diluted earnings per share has been presented because there is no dilutive potential share as at 30 June 2007. No diluted earnings per share has been presented for the three months ended 30 June 2006 as the exercise price of the Company's options was higher than the average market price for shares during that period.

6. Changes in Equity

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Share-based compensation reserve HK\$'000	Convertible bond reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2006	8,050	15,050	10	1,030	-	(34,093)	(9,953)
Profit for the period	-	-	-	-	-	2,296	2,296
At 30 June 2006	8,050	15,050	10	1,030	-	(31,797)	(7,657)
At 1 April 2007	10,620	18,074	10	1,030	2,369	(50,247)	(18,144)
Profit for the period	-	-	-	-	-	22,719	22,719
Issue of convertible bonds	-	-	-	-	6,262	-	6,262
Conversion into shares from convertible bonds	14,313	23,838	-	-	(8,381)	-	29,770
Cancellation of share options	-	-	-	(1,030)	-	1,030	-
At 30 June 2007	24,933	41,912	10	-	250	(26,498)	40,607

7. Related Party Transactions

During the period under review, two related companies of which Mr. Law Sau Yiu and Ms. Teng Chia Lin, Chialina, both executive directors of the Company, are directors and 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 2007, the aggregate amount of loans was HK\$9 million (HK\$29 million). During the three months ended 30 June 2007, the Group paid interest of approximately HK\$472,000 (2006: HK\$292,000) to the lenders.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the three months ended 30 June 2007 (2006: Nil).

FINANCIAL AND BUSINESS REVIEW

For the three months ended 30 June 2007, the Group recorded a turnover of approximately HK\$9.5 million (2006: HK\$18.6 million) and a profit attributable to equity holders of the Company of approximately HK\$22.7 million (2006: HK\$2.3 million).

During the period under review, out of the total turnover of approximately HK\$9.5 million, turnover of approximately HK\$7.5 million and HK\$2.0 million was derived from a film production ("Hooked on You" 「每當變幻時」) and a film distribution ("Gong Tau" 「降頭」) respectively. Overall gross profit margin was decreased from approximately 39% in 2006 to approximately 20% in current period. Such decrease was caused by the increase in income from film production of which had relatively lower gross profit margin.

The improvement in the results was mainly contributed by the disposal of two wholly-owned subsidiaries, namely, Milkyway Image (Hong Kong) Limited and Luminous Star Limited. Such disposal was resulted in a gain on disposal of approximately HK\$28.3 million which was classified as other revenue in the income statement.

Other operating expenses were increased by 41.9% to approximately HK\$6.9 million from HK\$4.9 million in last corresponding period. Such increase was mainly attributed to the increase in salaries and allowances, rental expenses and professional fees. The management believed that the situation of high level of overhead will be improved following the disposal of two wholly-owned subsidiaries. Finance costs were increased by 168.7% to approximately HK\$825,000 from HK\$307,000 in last corresponding period. The amortization of accrued interest in relation to the issue of convertible bonds mainly attributed to such increase.

PROSPECT

As at the date of this report, several films are in their production phases or in their pre-production phases. One of these films, titled "Fatal Move" 「奪帥」 almost reaches completion. The management believes that film production and distribution is a way to secure steady income flow for the Group. At the same time, the management has also been adopting cost control measures to lower the overhead of the Group.

Following the conversions of nearly all the convertible bonds issued during the period under review, the capital base of the Group has been strengthened and the gearing ratio further reduced. Together with proceeds derived from the disposal of two wholly-owned subsidiaries, the Group will further develop the existing business and actively explore valuable investment opportunities so as to diversify and broaden its revenue sources.

OTHER INFORMATION

1. Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debenture

At 30 June 2007, the interests and short position of the directors and chief executives of the Company and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Hong Kong Securities and Futures Ordinance ("SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 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 maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Rule 5.46 of the GEM Listing Rules, were as follows:

Long positions in the ordinary shares of HK\$0.1 each of the Company

Name	Personal interests	Family interests	Corporate interests	Total	% of the Company's issued share capital
Mr. Law Sau Yiu, Dennis	-	-	37,376,000 (Note 1)	37,376,000	14.99%
Ms. Teng Chia Lin, Chialina	-	-	37,376,000 (Note 1)	37,376,000	14.99%

Note:

- (1) 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 June 2007, 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 the 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 Option Scheme

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 32 to the financial statements as included in the annual report of the Company for the year ended 31 March 2007.

Details of movements in the Company's share options granted under the Share Option Scheme during the three months ended 30 June 2007 are as follows:

Type of participant	Date of grant	Exercise price (Note 1)	Exercise period	Outstanding at 31/3/2007 (Note 1)	Granted during the period	Lapsed during the period	Cancelled during the period	Outstanding at 30/6/2007
Former chief executive	16/9/2005	HK\$0.4	20/9/2005 to 19/9/2015	6,440,000	-	-	(6,440,000)	-

Note:

- The exercise prices and number of options have been adjusted for the share consolidation as completed on 10 January 2007.

3. Directors and Chief Executives' Rights to Acquire Shares or Debentures

At 30 June 2007, 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 executives 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 June 2007, the register of substantial shareholders maintained by the Company under Section 336 of the SFO showed that, other than the interests disclosed above in respect of certain directors, the following shareholders had an interest of 5% or more in the issued share capital of the Company:

Long positions

Name of shareholder	Capacity	Interest in shares	Interest in underlying shares	Total interest in shares	% of the Company's issued share capital
China Star Entertainment Limited	Interest of controlled corporation (Note 1)	72,727,272	3,030,303	75,757,575	30.38%
China Star Entertainment (BVI) Limited	Interest of controlled corporation (Note 1)	72,727,272	3,030,303	75,757,575	30.38%
Classical Statue Limited	Beneficial owner	72,727,272	3,030,303	75,757,575	30.38%
Mr. Law Sau Yiu, Dennis	Interest of controlled corporation (Note 2)	37,376,000	-	37,376,000	14.99%
Ms. Teng Chia Lin, Chialina	Interest of controlled corporation (Note 2)	37,376,000	-	37,376,000	14.99%
Right Opportune Limited	Beneficial owner	37,376,000	-	37,376,000	14.99%

Notes:

- (1) Classical Statue Limited is a wholly-owned subsidiary of China Star Entertainment (BVI) Limited which in turn is a wholly-owned subsidiary of China Star Entertainment Limited.
- (2) 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 June 2007, 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.

5. Competing Interests

At 30 June 2007, 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

The Company has not redeemed any of its listed securities during the three months ended 30 June 2007. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the three months ended 30 June 2007.

7. Corporate Governance

For the three months ended 30 June 2007, the Company complied with provisions set out in Appendix 15 of the Code of Corporate Governance Practices of the GEM Listing Rules.

8. 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 comprised 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 consolidated financial statements for the three months ended 30 June 2007.

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, Ms. Chan Dao Ho, Mr. Yip Tai Him and Mr. Lei Hong Wai and five independent non-executive directors namely, Mr. Lung Hak Kau, Ms. Wai Lai Yung, Ms. Tsang Kei Ling, Mr. Lai Hok Lim and Mr. Leung Wai Man.

By Order of the Board
Milkyway Image Holdings Limited
Law Sau Yiu, Dennis
Chairman

Hong Kong, 10 August 2007