



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)

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2007

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## **HIGHLIGHTS**

1. Turnover of the Group for the year ended 31 March 2007 was approximately HK\$62.3 million, representing an increase of approximately 261% as compared with previous year.
2. Loss of the Group for the year ended 31 March 2007 was approximately HK\$16.2 million as compared with the loss of approximately HK\$18.2 million in 2006.
3. Loss per share of the Group was approximately HK 18.8 cents for the year ended 31 March 2007 (2006: HK\$22.6 cents).
4. The Board does not recommend the payment of any dividend for the year ended 31 March 2007 (2006: HK\$ Nil).

## ANNUAL RESULTS

The Directors announce the audited consolidated results of Milkyway Image Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) for the year ended 31 March 2007 together with the comparative figures for the corresponding year in 2006 as follows:

### Consolidated Income Statement

For the year ended 31 March 2007

	Notes	2007 HK\$'000	2006 HK\$'000
Turnover	3	62,288	17,258
Cost of sales		<u>(49,004)</u>	<u>(13,438)</u>
Gross profit		13,284	3,820
Other revenue	3	813	529
Other operating expenses		(24,430)	(21,854)
Provisions		<u>(4,000)</u>	<u>–</u>
Loss from operations	5	(14,333)	(17,505)
Finance costs	6	<u>(1,821)</u>	<u>(680)</u>
Loss before taxation		(16,154)	(18,185)
Income tax	7	<u>–</u>	<u>–</u>
Loss for the year attributable to equity holders of the Company		<u><u>(16,154)</u></u>	<u><u>(18,185)</u></u>
Loss per share	8		
– Basic		<u><u>(HK18.9 cents)</u></u>	<u><u>(HK22.6 cents)</u></u>
– Diluted		<u><u>N/A</u></u>	<u><u>N/A</u></u>

## Consolidated Balance Sheet

As at 31 March 2007

	<i>Notes</i>	<b>2007</b> <b>HK\$'000</b>	2006 HK\$'000
<b>Non-current assets</b>			
Film rights		–	277
Property, plant and equipment		<u>9,952</u>	<u>11,698</u>
		<u>9,952</u>	<u>11,975</u>
<b>Current assets</b>			
Film rights, current portion		2,397	4,982
Films in progress		9,110	6,483
Production in progress		25,522	12,364
Trade debtors	9	13,812	417
Deposits, prepayments and other debtors		6,116	4,944
Bank balances and cash		<u>23,877</u>	<u>3,610</u>
		<u>80,834</u>	<u>32,800</u>
<b>Current liabilities</b>			
Trade creditors	10	2,762	2,459
Other creditors and accruals		1,117	905
Receipt in advance		46,347	31,813
Amounts due to directors		2,484	1,242
Amounts due to related companies		37,755	15,097
Provisions		4,000	–
Obligations under finance leases			
– due within one year		380	41
Bank loan		–	<u>3,000</u>
		<u>94,845</u>	<u>54,557</u>
<b>Net current liabilities</b>		<u>(14,011)</u>	<u>(21,757)</u>
<b>Total assets less current liabilities</b>		<u>(4,059)</u>	<u>(9,782)</u>
<b>Capital and reserves</b>			
Share capital		10,620	8,050
Reserves		<u>(28,764)</u>	<u>(18,003)</u>
<b>Total equity</b>		<u>(18,144)</u>	<u>(9,953)</u>
<b>Non-current liabilities</b>			
Convertible bonds		13,841	–
Obligations under finance leases			
– due after one year		244	171
		<u>14,085</u>	<u>171</u>
		<u>(4,059)</u>	<u>(9,782)</u>

## Consolidated Statement of Changes in Equity

For the year ended 31 March 2007

	Attributable to equity holders of the Company						
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Share-based compensation reserves HK\$'000	Convertible bond reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2005	8,050	15,050	10	–	–	(15,908)	7,202
Loss for the year	–	–	–	–	–	(18,185)	(18,185)
Share option scheme – value of employee services	–	–	–	1,030	–	–	1,030
At 31 March 2006 and 1 April 2006	8,050	15,050	10	1,030	–	(34,093)	(9,953)
Loss for the year	–	–	–	–	–	(16,154)	(16,154)
Issue of shares	1,610	1,932	–	–	–	–	3,542
Share issue expenses	–	(159)	–	–	–	–	(159)
Issue of convertible bonds	–	–	–	–	2,692	–	2,692
Conversion into shares from convertible bonds	960	1,251	–	–	(323)	–	1,888
At 31 March 2007	<u>10,620</u>	<u>18,074</u>	<u>10</u>	<u>1,030</u>	<u>2,369</u>	<u>(50,247)</u>	<u>(18,144)</u>

Notes:

### 1. BASIS OF PREPARATION

In preparing the consolidated financial statements, the directors of the Company have given consideration to the future liquidity of the Group in light of its deficit in equity of approximately HK\$18,144,000 as at 31 March 2007 (2006: approximately HK\$9,953,000) and the loss attributable to the equity holders of the Company of approximately HK\$16,154,000 for the year ended 31 March 2007 (2006: approximately HK\$18,185,000). The directors have taken the measures subsequent to the year ended 31 March 2007, which included (i) the placing of convertible bonds with a principal amount of HK\$25 million in May 2007; and (ii) the proposed disposal of two subsidiaries with a total consideration of HK\$26 million to improve the liquidity position of the Group. In the opinion of the directors, the Group will be able to meet its liabilities in full as they fall due in the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

If these measures were not successful or insufficient, or if the going concern basis was not appropriate, adjustments would have to be made to the financial statements to reduce the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities.

## 2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has applied, for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) that are effective for accounting periods either beginning on or after 1 December 2005, 1 January 2006 or 1 March 2006. The adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting years are prepared and presented. Accordingly, no prior year adjustment is required.

The Group has not early applied the following new standards, amendment and interpretations that have been issued but are not yet effective. The Group anticipates that the application of new standards, amendment and interpretations will have no material impact on the consolidated financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures (effective for annual periods beginning on or after 1 January 2007)
HKFRS 7	Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007)
HKFRS 8	Operating segments (effective for annual periods beginning on or after 1 January 2009)
HK(IFRIC) – Int 8	Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006)
HK(IFRIC) – Int 9	Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006)
HK(IFRIC) – Int 10	Interim financial reporting and impairment (effective for annual periods beginning on or after 1 November 2006)
HK(IFRIC) – Int 11	HKFRS 2: Group and treasury share transactions (effective for annual periods beginning on or after 1 March 2007)
HK(IFRIC) – Int 12	Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008)

## 3. TURNOVER AND OTHER REVENUE

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Turnover		
Film production	22,030	7,930
Film distribution	40,258	9,328
	<u>62,288</u>	<u>17,258</u>
Other revenue		
Gain on disposal of property, plant and equipment	–	53
Bank interest income	183	29
Sundry income	630	447
	<u>813</u>	<u>529</u>
Total income	<u>63,101</u>	<u>17,787</u>

#### 4. BUSINESS AND GEOGRAPHICAL SEGMENTS

##### a) Business segments

For management purposes, the Group is currently organised into three operating divisions, namely, film production, film distribution and television movies production. These divisions are the basis on which the Group reports its primary segment information.

##### Income statement

	Film production		Film distribution		Television movies production		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<b>22,030</b>	7,930	<b>40,258</b>	9,328	–	–	<b>62,288</b>	17,258
Segment profit/(loss)	<b>4,684</b>	1,664	<b>4,654</b>	(320)	–	–	<b>9,338</b>	1,344
Unallocated corporate income							<b>813</b>	529
Unallocated corporate expenses							<b>(24,484)</b>	(19,378)
Loss from operations							<b>(14,333)</b>	(17,505)
Finance costs							<b>(1,821)</b>	(680)
Loss before taxation							<b>(16,154)</b>	(18,185)
Income tax							–	–
Loss for the year attributable to equity holders of the Company							<b>(16,154)</b>	(18,185)

## Balance sheet

	Film production		Film distribution		Television movies production		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	<b>29,547</b>	16,297	<b>25,239</b>	11,849	<b>500</b>	500	<b>55,286</b>	28,646
Unallocated corporate assets							<b>35,500</b>	16,129
Consolidated total assets							<b>90,786</b>	44,775
Segment liabilities	<b>(43,028)</b>	(28,466)	<b>(6,081)</b>	(5,806)	–	–	<b>(49,109)</b>	(34,272)
Unallocated corporate liabilities							<b>(59,821)</b>	(20,456)
Consolidated total liabilities							<b>(108,930)</b>	(54,728)

## Other information

	Film production		Film distribution		Television movies production		Unallocated		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Additions of property, plant and equipment	–	–	–	–	–	–	<b>2,195</b>	585	<b>2,195</b>	585
Depreciation	–	–	–	–	–	–	<b>3,941</b>	3,752	<b>3,941</b>	3,752
Additions of film rights	–	–	<b>27,196</b>	12,431	–	–	–	–	<b>27,196</b>	12,431
Amortisation of film rights	–	–	<b>30,058</b>	7,172	–	–	–	–	<b>30,058</b>	7,172
Impairment loss of films in progress	–	–	<b>1,600</b>	–	–	–	–	–	<b>1,600</b>	–
Gain on disposal of property, plant and equipment	–	–	–	–	–	–	–	53	–	53



## b) Geographical segments

The Group's revenue are derived from Hong Kong and overseas distribution. The following table provides an analysis of the group's sales revenue by geographical market:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Hong Kong	36,656	14,283
Overseas	25,632	2,975
	<u>62,288</u>	<u>17,258</u>

All of the Group's assets are located in Hong Kong during the year.

## 5. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging/(crediting):

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Auditors' remuneration	220	220
Contributions to retirement benefits scheme (included in staff costs)	167	175
Amortisation of film rights (included in cost of sales)	30,058	7,172
Impairment loss of films in progress (included in cost of sales)	1,600	–
Production costs (included in cost of sales)	17,346	6,266
Depreciation of property, plant and equipment	3,941	3,752
Operating lease rental in respect of land and buildings	1,866	1,800
Share-based payment	–	1,030
Staff costs including directors' emoluments	10,654	10,058
Bank interest income	(183)	(29)
Gain on disposal of property, plant and equipment	–	(53)
	<u>–</u>	<u>–</u>

## 6. FINANCE COSTS

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Interests on:		
Bank loans wholly repayable within five years	10	202
Amounts due to related companies (Note 31(b))	1,545	465
Interest on convertible bonds wholly repayable within five years (Note 26)	221	–
Finance charges on finance leases	45	13
	<u>1,821</u>	<u>680</u>

## 7. INCOME TAX

No provision for Hong Kong profits tax has been made in the financial statements as the Company and its subsidiaries have no assessable profits for the years ended 31 March 2007 and 2006.

Income tax for the year can be reconciled to the loss before taxation per the consolidated income statement as follows:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Loss before taxation	<u>(16,154)</u>	<u>(18,185)</u>
Tax at the Hong Kong profits tax rate of 17.5% (2006: 17.5%)	(2,827)	(3,182)
Tax effect of unrecognised tax losses	1,955	3,151
Tax effect of non-taxable incomes	(32)	(15)
Tax effect of non-deductible expenses	739	46
Tax effect of tax losses utilised	(238)	–
Tax effect of unrecognised temporary differences	403	–
Income tax for the year	<u>–</u>	<u>–</u>

## 8. LOSS PER SHARE

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

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Net loss attributable to equity holders of the Company	<u>(16,154)</u>	<u>(18,185)</u>
		<i>(Restated)</i> <i>(note (i))</i>
Weighted average number of shares for basic loss per share (thousand)	<u>85,600</u>	<u>80,500</u>
		<i>(Restated)</i>
Loss per share		
– Basic	<u>(HK18.9 cents)</u>	<u>(HK22.6 cents)</u>
– Diluted	<u>N/A</u>	<u>N/A</u>

*Notes:*

- (i) The weighted average number of ordinary shares for the year ended 31 March 2006 for the purposes of basic loss per share has been adjusted for the share consolidation completed during the year.
- (ii) No diluted loss per share has been presented for the years ended 31 March 2007 and 2006 as the conversion of all potential ordinary shares arising from share options granted by the Company and convertible bonds would have an anti-dilutive effect on the loss per share for the years ended 31 March 2007 and 2006.

## 9. TRADE DEBTORS

Credit periods given to customers or dealers ranged from 30 to 180 days. The aged analysis of the trade debtors is as follows:

	<b>The Group</b>	
	<b>2007</b>	<b>2006</b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
Within 30 days	3,506	125
31–90 days	91	182
91–180 days	7,280	1
181–365 days	2,902	109
Over 365 days	33	–
	<hr/>	<hr/>
	<b>13,812</b>	<b>417</b>
	<hr/> <hr/>	<hr/> <hr/>

The Company's directors consider that the carrying amount of trade debtors approximates their fair value.

## 10. TRADE CREDITORS

The aged analysis of the trade creditors is as follows:

	<b>The Group</b>	
	<b>2007</b>	<b>2006</b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
Within 6 months	2,693	2,459
Over 1 year	69	–
	<hr/>	<hr/>
	<b>2,762</b>	<b>2,459</b>
	<hr/> <hr/>	<hr/> <hr/>

The Company's directors consider that the carrying amount of trade creditors approximates their fair value.

## 11. DIVIDEND

The Directors do not recommend the payment of any dividend for the year ended 31 March 2007 (2006: Nil).

## EXTRACT OF AUDITORS' REPORT

The Directors would like to draw the shareholders' attention that the auditors, CCIF CPA Limited, have the following opinion on the Group's financial statements for the year ended 31 March 2007:

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 March 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements which discloses that as at 31 March 2007, the Group had deficit in total equity of approximately HK\$18,144,000 and the Group incurred a loss attributable to equity holders of the Company of approximately HK\$16,154,000 for the year ended 31 March 2007. These conditions, along with other matters as disclosed in Note 2 to the consolidated financial statements, indicate the existence of a material uncertainty which may cause significant doubt about the Group's ability to continue as a going concern.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **FINANCIAL REVIEW**

#### **Financial Performance**

The Group recorded a turnover for the year ended 31 March 2007 of approximately HK\$62.3 million (2006: HK\$17.3 million), representing an increase of approximately 261% when compared to that of previous financial year. The growth was attributable to the increased revenue from provision of film production services from approximately HK\$7.9 million in prior year to approximately HK\$22 million this year coupled with the boosted revenue from film distribution from approximately HK\$9.3 million in prior year to approximately HK\$40.3 million this year. Revenue from film distribution segment has overtaken that from provision of film production services and accounted for approximately 65% of the overall turnover for the year.

Gross profit also soared from approximately HK\$3.8 million in prior year to approximately HK\$13.3 million in current year. Gross profit ratio remained similar to prior year of 21% (2006: 22%).

Despite of the encouraging growth in turnover and soaring gross profit, the Group, however, recorded a net loss of approximately HK\$16.2 million (2006: HK\$18.2 million) representing a minor improvement from that in the previous year. The continued loss recorded was attributable to the sustained high level of overhead of the Group. Marketing and promotion expenses increased commensurate with the increased productions while finance costs also hit a new record at the time the Group's borrowings reached a new high. Professional fees incurred during the year in connection with the issue of shares and convertible bonds also contributed to the soared overhead. Coupled with the increase in the aforementioned overhead, the Group also made a provision for a litigation claim from an individual who was injured at the time of rendering service in film production. The combine effect results in a 34% increase in the overall administrative and other operating expenses.

#### **Liquidity, Financial Resources and Capital Structure**

A deficit in shareholders' funds of the Group as at 31 March 2007 amounted to approximately HK\$18.1 million (2006: HK\$9.9 million) was recorded. Current assets amounted to approximately HK\$80.8 million (2006: HK\$32.8 million), of which approximately HK\$23.9 million (2006: HK\$3.6 million) were bank deposits and cash representing 29.5% of the current assets. Current liabilities amounted to approximately HK\$94.8 million (2006: HK\$54.6 million) mainly comprised advanced receipts from film companies and loans from related companies. The liability component of convertible bonds not yet converted of approximately HK\$13.8 million (2006: nil) was recorded as non-current liabilities. At 31 March 2007, the Group had loans from related companies amounted to HK\$37.5 million (2006: HK\$15 million). The bank loans of HK\$3 million as at 31 March 2006 was repaid during the year. The Group also incepted a new finance lease of HK\$664,000 during the year for the financing of purchase of property, plant and equipment.

The Group generally financed its film production activities and other operations with inflow of advanced receipts from film companies. During the year, it issued zero coupon convertible bonds to provide funds for its general working capital and financing of any possible diversified future investments. The Group also procured loans from related companies to finance its film production activities. All the Group's borrowings bear interest at commercial rates.

In December 2006, the Group placed 161,000,000 shares of HK\$0.01 each (equivalent to 16,100,000 shares of HK\$0.1 each upon share consolidation in January 2007) under general mandate with net proceeds of approximately HK\$3.4 million.

### **Foreign Exchange Exposure**

As the majority of the Group's business transactions for the year ended 31 March 2007 and its assets and liabilities at the balance sheet date were denominated in Hong Kong Dollars and United States Dollars, the risk on fluctuation in exchange rates was considered to be minimal. Accordingly, the Group did not enter into any foreign exchange contract for hedging purpose.

### **Material Acquisition, Disposal and Significant Investments**

For the year ended 31 March 2007, the Group did not made any significant capital investment 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 these film rights for future distribution purpose.

In April 2007, the Group entered into an agreement with a company beneficially owned by the Group's chief executive officer, Mr. To Kei Fung to disposed of the interests in two subsidiaries, namely, Milkyway Image (Hong Kong) Limited and Luminous Star Limited to it at a consideration of HK\$26 million. The disposal was unanimously approved by the Company's shareholders at an extraordinary general meeting held in June 2007.

### **Employees and Remuneration Policies**

As at 31 March 2007, the Group employed a total of 20 employees (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. No share options were granted in previous year. For the year ended 31 March 2007, total staff costs, including Directors' emoluments, amounted to approximately HK\$10.7 million (2006: HK\$11.1 million).

### **Charges on Group Assets**

As at 31 March 2007, the Group did not have any charges on its assets.

## **Gearing Ratio**

As at 31 March 2007, the gearing ratio, expressed as a percentage of total liabilities over total assets, was 120% (2006: 122.2%).

## **Contingent Liabilities**

As at 31 March 2007, the Group did not have any material contingent liabilities.

## **BUSINESS REVIEW**

### **Segment Information**

For the year ended 31 March 2007, the Group's total turnover amounted to approximately HK\$62.3 million (2006: 17.3 million), of which approximately HK\$40.3 million (2006: 9.3 million) or 65% (2006: 54%) was derived from film distribution and the remaining of approximately HK\$22 million (2006: 7.9 million) or 35% (2006: 46%) was derived from film production.

During the year, the Group continued to devote more resources to investments in its own productions for distribution purpose. As a consequence, the revenue from film distribution overtook that from provision of production services to outsiders. The outcome was appealing as the gross profit attributable to the film distribution business accounted for 65% of the overall gross profit of the Group.

For the year ended 31 March 2007, the Group did not produce any television movies. Nevertheless, the Group will continue to explore business opportunities in this segment in the future.

### **Sales and Marketing**

With the aim of raising public awareness and enhancing the sales potential of the films produced by the Group, the Group continued to actively promote and market its films by participating in both local and international film festivals and it became an integral part of the Group's marketing strategy.

The Group has not only earned praises and achieved encouraging box office receipts in local market for the films produced by itself, but has also proven its competitiveness in international film market. Details of awards and acclains received by the Group in the year are set out below:

<b>Name of Films</b>	<b>Film Festivals</b>	<b>Awards and Acclains</b>
Eye in the Sky	The 31st Hong Kong Film Festival	Opening Film
	The 9th Udine Fareast Film Festival	Official Entry
	The 10th Shanghai Film Festival	Opening Film
	The 25th Cognac Film Festival	Official Entry
Exiled	The 2006 Hong Kong Asia Film Festival	Closing Film
	The 39th Sitges International Film Festival of Catalonia	Best Film (Young Jury Award)
	The 43rd Taipei Golden Horse Award	Best Action Choreography
	The 13th Hong Kong Film Critics Society Award	Best Director
		Recommended Film
		Opening Film
Election	The 39th Auckland Film Festival	Official Entry
	The 8th Jeonju Film Festival	Closing Film
	The 51st Asia-Pacific Film Festival	Official Entry
	The 7th Tokyo Filmex Film Festival	Official Entry
	The 31st Toronto International Film Festival	Official Entry
Election 2	The 2006 Munich Asia Filmfest	Official Entry
	The 44th New York Film Festival	Official Selection
	The 24th Torino Film Festival	Official Selection
	The 30th Hong Kong International Film Festival	Opening Film (World Premiere)
	The 2006 Cannes International Film Festival	Out of Competition
		Official Selection
	The 7th Tokyo Filmex Film Festival	Official Entry
	The 31st Toronto International Film Festival	Official Entry
Triangle	The 2006 Munich Asia Filmfest	Official Entry
	The 13th Hong Kong Film Critics Society Award	Best Film
	The 60th Cannes Film Festival	Official Selection

The Group's film directors also received acclains during the year, out of which Mr. To Kei Fung was granted the title "Filmmaker In Focus" at the 36th International Film Festival Rotterdam. He was also granted "Best Director" (based on the Group's previous production entitled "The Mission") at The 10th Anniversary of the Establishment of HKSAR Film Election.

### **Film Investment**

During the year, the Group completed the production of three film projects entitled, "Election 2" 「黑社會以和為貴」, "love@first note" 「戀愛初歌」 and "Fatal Contact" 「黑拳」. The Group owns the film rights of these films for distribution. The corresponding distribution income was recognized during the year in accordance with the Group's revenue recognition policy. At the balance sheet date, several other film projects to which the Group will solely or partially own the film rights are in the production phases or in their pre-production phases. One of these films, titled "Triangle" 「鐵三角」 has completed subsequent to the balance sheet date and pending for release. It was selected as the Official Selection at

The 60th Cannes Film Festival. The Directors are confident in the Group's productions and believe that by investing in the film projects produced by the itself, the Group is able to broaden its recurrent income base and will benefit the shareholders in the long-run. The encouraging results of film distribution during the year supported this move.

### **Film Production**

During the year, the Group continued in the provision of film production services to other film companies. It completed the production of two film projects entitled "Exiled"「放・逐」and "Eye in the Sky"「跟蹤」。The films were completed and delivered during the year. At the date of this report, the Group has entered into production agreements with several film companies, to produce and/or to provide production resources for a number of films. The productions of some of these films have commenced at the balance sheet date.

### **Future Plans for Material Investments**

Save as the aforementioned film investment activity, the Group does not have any concrete future plans for material investments.

### **Prospects**

Despite of the drastic increase of turnover for the year, the Group still recorded a net loss of approximately HK\$16 million. The Group considers the overhead of two wholly-owned subsidiaries, namely, Milkyway Image (Hong Kong) Limited and Luminous Star Limited has been at a consistently high level which is one of the major underlying reasons for the operating loss. With the decision made in disposing of the Group's interest in these two subsidiaries, the Group believes that the overall overhead in future can be significantly reduced and it will be in the best interests of the Group and the shareholders as a whole.

Following the conversions of nearly all the convertible bonds issued during the year and subsequent to the balance sheet date, the capital base of the Group has strengthened and the gearing ratio further reduced. As a consequence, the Group can be more responsive to any emerging business opportunities. The board of directors may invite talents to join the management of the Group in order to bring new thoughts and expertise to the Group.

Meanwhile, the name of the Company will be changed from "Milkyway Image Holdings Limited" to "Brilliant Arts Multi-Media Holding Limited". The Group considers the current principal activities undertaken by the Group only relate to the media of film whereas the new name indicate multi-media which including various kinds of media and is to reflect the nature of the business of the Group in future.



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

At 31 March 2007, the interests and short positions of the directors and chief executive 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 of Hong Kong Limited (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 Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of the Stock Exchange (the "GEM Listing Rules"), were as follows:

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

Name of director	Personal interests	Family interests	Corporate interests	Other interests	Total number of shares held	% of the Company's issued share capital
Mr. Law Sau Yiu, Dennis	–	–	37,376,000 (Note)	–	37,376,000	35.19%
Ms. Teng Chia Lin, Chialina	–	–	37,376,000 (Note)	–	37,376,000	35.19%

*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.

### b) Long positions in shares options

Name of chief executive	Personal interests	Family interests	Corporate interests	Other interests	Total number of options held	Number of underlying shares
Mr. To Kei Fung	6,440,000	–	–	–	6,440,000	6,440,000

Save as disclosed above, at 31 March 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 Part XV of the SFO (including interests or short positions which they have taken or deemed to have taken under such provision 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.

## SHARE OPTION SCHEMES

Pursuant to the written resolutions of the shareholders of the Company dated 2 August 2002, a share option scheme (“Share Option Scheme”) was approved and adopted.

### Share Option Scheme

The major terms of the Share Option Scheme are summarised as follows:

- a) The purpose of the Share Option Scheme is to enable the Group to grant share options to selected participants as incentives or rewards for their contribution to the Group.
- b) The participants include:
  - i) (1) any employee or proposed employee of the Company, any of its subsidiaries or any entity (“Invested Entity”) in which the Group holds an equity interest, including any executive director of the Company, any of such subsidiaries or any Invested Entity;
  - (2) any non-executive director (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;
  - (3) any supplier of goods or services to any member of the Group or any Invested Entity;
  - (4) any customer of the Group or any Invested Entity;
  - (5) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;
  - (6) any shareholder of any member of the Group or any Invested Entity or any holder or any securities issued by any member of the Group or any Invested Entity; and
  - (7) any joint venture partner or counter-party to business transactions of the Group.
  - ii) any company wholly owned by one or more persons belonging to any of the above classes of participants.
- c) The exercise price of a share option shall be a price determined by the directors and shall at least be the higher of:
  - i) the closing price of a share of the Company as stated in the Stock Exchange’s daily quotations sheet on the date of grant, which must be a business day; and
  - ii) the average closing price of a share of the Company as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the date of grant.

d) Maximum number of shares:

- i) The total number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the shares in issue from time to time; and
  - ii) The total number of shares which may be issued upon exercise of all share options to be granted under the Share Option Scheme and any other schemes must not in aggregate, exceed 10% of the shares in issue at any time of the Share Option Scheme (the “Limit”) provided that share options lapsed in accordance with the terms of the Share Option Scheme will not be counted for the purpose of calculating the Limit.
- e) The total number of shares issued and to be issued upon the exercise of share options granted and to be granted to each participant (including both exercised and outstanding options) in any 12-month period up to and including the date of grant must not exceed 1% of the shares in issue.
- f) The exercisable period should be determined by the board of directors upon grant of the share option but in any event should not exceed 10 years from the date of grant of the share option.

Details of share options outstanding under the Company’s Share Option Scheme and movements during the year were as follows:

	2007	2006
At beginning of the year	64,400,000	–
Issued during the year	–	64,400,000
Adjustments during the year (Note a)	<u>(57,960,000)</u>	–
At the end of year	<u><u>6,440,000</u></u>	<u><u>64,400,000</u></u>
Options vested during the year	<u><u>–</u></u>	<u><u>64,400,000</u></u>

Chief executive officer	Date of grant	Outstanding at 01/04/2005	Granted during year at 31/03/2006	Adjustments during the year (Note a)	Outstanding at 31/03/2007	Exercisable at 31/03/2007	Vesting period	Exercise period	Exercise price (Note a)
Mr. To Kei Fung	16/09/2005	– 64,400,000	64,400,000	(57,960,000)	6,440,000 (note b)	6,440,000	N/A	20/09/2005 to 19/09/2015	HK\$0.4

Notes:

- a) The exercise prices and numbers of options which remained outstanding during the year have been adjusted due to the completion of share consolidation during the year.
- b) At 31 March 2007, the 6,440,000 outstanding shares (2006: 64,400,000 outstanding shares) represented approximately 6% (2006: approximately 8%) of the total issued share capital of the Company.

- c) 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\$0.4, after adjusting the share consolidation of the Company) 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.

The options outstanding at the end of the year have a remaining contractual life of 8.5 years (2006: 9.5 years).

During the year ended 31 March 2006, 64,000,000 options were issued and their estimate fair value were calculated using The Black–Scholes pricing model. Exceptions of early exercise are incorporated into the model. The inputs into the model were as follows:

	2006
Share price	HK\$0.04
Exercise price	HK\$0.04
Expected volatility	17%
Expected life	10 years
Risk fee rate (based on Exchange Fund Notes)	4.4%
Expected dividend yield	Nil

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 3 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

The Group recognised total expenses related to equity-settled share-based payment transactions during the year ended 31 March 2006 of approximately HK\$1,030,000.

## **ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES**

Other than the share option schemes disclosed above and in note 32 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## **DIRECTORS' INTEREST IN CONTRACTS**

During the year, private companies of which Mr. Law Sau Yiu, Dennis and Ms. Teng Chia Lin, Chialina are directors and shareholders, advanced HK\$34,500,000 (2006: HK\$15,000,000) to the Group. The loans are unsecured, bear interest at commercial rates and are repayable within one year from the date of advance.

Save as disclosed above, no contracts of significance to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## COMPETING INTERESTS

At 31 March 2007, none of the directors, the substantial shareholders nor 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.

## SUBSTANTIAL SHAREHOLDERS

At 31 March 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 in the ordinary shares of HK\$0.1 each of the Company

Name of shareholder	Capacity	Number of shares held	% of the Company's issued share
China Star Entertainment Limited	Interest of controlled corporation (Note 1)	75,757,575	71.33%
China Star Entertainment (BVI) Limited	Interest of controlled corporation (Note 1)	75,757,575	71.33%
Classical Statue Limited	Beneficial owner	75,757,575	71.33%
Right Opportune Limited	Beneficial owner (Note 2)	37,376,000	35.19%
Grand Sum Assets Limited	Beneficial owner	5,950,000	5.60%
Ms. Lee Po Yi, Shirley Anne	Interest of controlled corporation (Note 3)	5,950,000	5.60%

*Notes:*

- (1) Classical Statue Limited is a company wholly owned by China Star Entertainment (BVI) Limited which in turn is a wholly owned subsidiary of China Star Entertainment Limited.
- (2) Please refer to note disclosed above in respect of Directors and chief executive's interests or short positions in shares, underlying shares and debentures.

- (3) 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 5,950,000 shares held by Grand Sum Assets Limited.

Save as disclosed above, at 31 March 2007, the Company has not been notified of any persons (other than the Directors and 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.

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

During the year ended 31 March 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Company's articles of association and there is no restriction against such rights under the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## **AUDIT COMMITTEE**

The Company has established an audit committee on 2 August 2002 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. During the year, the audit committee held our meetings to review the Group's annual report, half-year report and quarterly reports.

## **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.

## **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 than 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 throughout the year ended 31 March 2007.

## **CONFIRMATION OF INDEPENDENCE**

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

## **BOARD OF DIRECTORS**

As at the date of this announcement, 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.

## **PUBLICATION OF ANNUAL REPORT ON THE GEM WEBSITE**

The annual report of the Company contains all the information required by the GEM Listing Rules will be published on the GEM website in due course.

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

Hong Kong, 27 June 2007

*This announcement will remain on the “Latest Company Announcements” page of the GEM website at [www.hkgem.com](http://www.hkgem.com) for at least 7 days from the date of its posting.*