
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

This circular is for information purposes only and does not constitute an invitation or offer to acquire or subscribe for securities.

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Milkyway Image Holdings Limited (the “Company”), you should at once hand this circular to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected, for transmission to the purchaser or transferee.

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Milkyway Image Holdings Limited

銀河映像控股有限公司*

(incorporated in the Cayman Islands with limited liability)

GENERAL MANDATE TO ISSUE AND REPURCHASE SHARES

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market (“GEM”) of the Stock Exchange of Hong Kong Limited (“Stock Exchange”) (“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:

- (a) the information contained in this circular is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this circular misleading; and
- (c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

The notice convening the annual general meeting of the Company to be held at 1st Floor, No.77 Hung To Road, Kwun Tong, Kowloon, Hong Kong on 6 August 2003 at 11:00 a.m. (the “Annual General Meeting”) is set out on pages 54 to 58 of the annual report of the Company for the financial year ended 31st March 2003 (the “Annual Report 2003”).

A form of proxy for the Annual General Meeting is enclosed with this circular. Whether or not you intend to be present at the annual general meeting, you are requested to complete the form of proxy and return it to the branch share registrar of the Company, that is Secretaries Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time fixed for the meeting. The completion of a form of proxy will not preclude you from attending and voting at the meeting in person.

30 June 2003

This circular will remain on the GEM website at www.hkgem.com on the “Latest Company Announcements” page for at least 7 days from the date of its posting.

** For identification only*

CHARACTERISTICS OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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LETTER FROM THE CHAIRMAN



Milkyway Image Holdings Limited

銀河映像控股有限公司*

(incorporated in the Cayman Islands with limited liability)

Executive Directors:

Mr. TO Kei Fung (*Chairman*)

Mr. NG Hung Keung

Ms. CHAN Dao Ho

Independent Non-Executive Directors:

Mr. TAM Kwok Fai, Jasper

Ms. HO Mei Yee

Registered office:

Century Yard

Cricket Square

Hutchins Drive

P. O. Box 2681 GT

George Town

Grand Cayman

British West Indies

Head office and principal

place of business in Hong Kong:

1/F No.77

Hung To Road

Kwun Tong

Kowloon

Hong Kong

30 June 2003

To shareholders of the Company

Dear Sir or Madam,

GENERAL MANDATE TO ISSUE AND REPURCHASE SHARES

INTRODUCTION

The purpose of this circular is to provide you with information regarding resolutions to be proposed at the Annual General Meeting. These include the ordinary resolutions granting the Directors general mandate to issue and repurchase shares of the Company (the “General Mandate”).

GENERAL MANDATE TO ISSUE SHARES

At the Annual General Meeting, an ordinary resolution as set out as resolution no.4(A) will be proposed to give the Directors a general unconditional mandate to allot, issue and deal

* For identification only

LETTER FROM THE CHAIRMAN

with shares of the Company not exceeding 20% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing of such resolution (the “Issue Mandate”).

GENERAL MANDATE TO REPURCHASE SHARES

At the Annual General Meeting, an ordinary resolution will be proposed to give the Directors a general unconditional mandate to repurchase shares of the Company not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing of such resolution (the “Repurchase Mandate”).

An explanatory statement containing information relating to the Repurchase Mandate and as required pursuant to the GEM Listing Rules of the Stock Exchange is set out in the schedule to this letter. The information in the explanatory statement is to provide you with the information reasonably necessary to enable you to make an informed decision on whether to vote for or against the resolution relating to the Repurchase Mandate.

ANNUAL GENERAL MEETING

The notice convening the annual general meeting of the Company to be held at 1st Floor, No.77 Hung To Road, Kwun Tong, Kowloon, Hong Kong on 6 August 2003 at 11:00 a.m. is set out on pages 54 to 58 of the Annual Report 2003. Ordinary resolutions as set out as resolution no. 4(A) in respect of granting a general mandate to the Directors to allot and issue new shares, resolution no. 4(B) in respect of granting a general mandate to the Directors to repurchase shares and resolution no. 4(C) to extend the general mandate to allot and issue new shares will be proposed as ordinary resolutions at the Annual General meeting for your consideration and approval.

A form of proxy for the Annual General Meeting is enclosed with this circular. Whether or not you intend to be present at the Annual General Meeting, you are requested to complete the form of proxy and return it to the Company’s branch share registrar, Secretaries Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time fixed for the meeting. The completion and delivery of a form of proxy will not preclude you from attending and voting at the meeting in person.

RECOMMENDATION

The Directors believe that the granting of the general mandates referred to in this circular is in the best interests of the Company and its shareholders. Accordingly, the Directors recommend the shareholders to vote in favour of the resolutions relating to the general mandates to be proposed at the Annual General Meeting.

Yours faithfully,
By Order of the Board
Milkyway Image Holdings Limited
To Kei Fung
Chairman

This is an explanatory statement given to all shareholders relating to a resolution to be proposed at the Annual General Meeting authorising the Repurchase Mandate.

This explanatory statement contains all the information required pursuant to Rule 13.08 and other relevant provisions of the GEM Listing Rules which is set out as follows:

1. EXERCISE OF THE REPURCHASE MANDATE

Exercise in full of the Repurchase Mandate, on the basis of 627,200,000 Shares in issue as at 27 June 2003 (being the latest practicable date (the “Latest Practicable Date”) for ascertaining certain information prior to the printing of this circular), would result in a maximum of 62,720,000 Shares (representing 10% of the issued share capital of the Company as at the Latest Practicable Date) being repurchased by the Company during the period prior to the earliest of: (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable laws to be held; and (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.

2. REASON FOR REPURCHASES

The Directors believe that it is in the best interests of the Company and its shareholders for the Directors to have a general authority from its shareholders to enable the Company to repurchase shares in the market at any appropriate time. Such repurchase may, depending on market conditions and funding arrangements at that time, lead to enhancement of the net asset value of the Company and/or its earnings per share and will only be made when the Directors believe that such repurchases will benefit the Company and its shareholders.

3. FUNDING OF REPURCHASES

Repurchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and Articles of Association of the Company, the GEM Listing Rules and the laws of the Cayman Islands and Hong Kong. The Company may not repurchase its shares on the GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

4. GENERAL

There might be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in the financial statements contained in the annual report of the Company for the year ended 31 March 2003) in the event that the proposed repurchase of shares was to be carried out in full at any time during the proposed repurchase period. However, the Directors expect to exercise such mandate if and to such extent only as they are satisfied that the exercise thereof will not have such a material adverse impact.

5. UNDERTAKING

The Directors have undertaken to the Stock Exchange that, they will exercise Repurchase Mandate in accordance with the GEM Listing Rules and the applicable laws of the Cayman Islands. As at the Latest Practicable Date and to the best of the knowledge of the Directors who have made all reasonable enquiries, none of the Directors or their associates has any present intention to sell any of the Company's shares to the Company in the event that the Repurchase Mandate is approved by the Company's shareholders.

No connected person (as defined in the GEM Listing Rules) has notified the Company that it has a present intention to sell any of the Company's shares to the Company, or has undertaken not to do so, in the event that the Repurchase Mandate is approved by the Company's shareholders.

6. TAKEOVER CODE

If, as a result of the repurchase of the Company's shares, a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "Takeover Code"). As a result, a shareholder, or a group of shareholders acting in concert (within the meaning under the Takeover Code), depending on the level of increase of shareholding interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rules 26 and 32 of the Takeover Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeover Code as a consequence of any repurchase pursuant to the Repurchase Mandate.

If the Repurchase Mandate were exercised in full, the percentage shareholding of the substantial shareholders of the Company before and after such repurchase would be as follows:

Substantial Shareholders	Shares held	Before repurchase	After repurchase
Pearl Rider Overseas Limited	285,600,000	45.54%	50.60%

Accordingly, Pearl Rider Overseas Limited will be obliged to make a mandatory offer under the Takeover Code.

However, the Directors have no present intention to exercise the Repurchase Mandate to such an extent as would result in takeover obligation.

7. PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Neither of the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares since the listing of the Company's shares on the GEM on 26 August 2002.

8. SHARE PRICES

The highest and lowest prices at which the Company's shares have traded on the Stock Exchange during each of the previous ten months since the listing of the shares of the Company on GEM on 26 August 2002 prior to the Latest Practicable Date were as follows:

	Highest <i>HK\$</i>	Lowest <i>HK\$</i>
2002		
August	0.330	0.200
September	0.350	0.150
October	0.197	0.149
November	0.188	0.150
December	0.167	0.131
2003		
January	0.188	0.145
February	0.190	0.175
March	0.189	0.112
April	0.180	0.098
May	0.099	0.040
June	0.062	0.030

9. SHARE REPURCHASES MADE BY THE COMPANY

No purchases of the Shares have been made by the Company in the previous six months, whether on the Stock Exchange or otherwise.

10. PROXY

A form of proxy for use at the Annual General Meeting is enclosed with this circular. Whether or not you intend to attend the meeting, you are requested to complete and return the form of proxy to the branch share registrar and transfer office of the Company, namely, Secretaries Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Annual General Meeting should you so desire.