

IMAGI INTERNATIONAL HOLDINGS LIMITED

意馬國際控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 585)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2004

The Board of Directors ("the Board") of Imagi International Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th September 2004 together with the unaudited comparative figures for the corresponding period in 2003 as follows:

Condensed Consolidated Income Statement

For the six months ended 30th September 2004

•	Notes	(Unaudited) Six months ended 30th September	
		2004 HK\$'000	2003 <i>HK</i> \$'000
Turnover Cost of sales	2	64,714 (40,539)	5,876 (10,378)
Gross profit (loss) Other operating income Bank interest income Distribution costs Administrative and other operating expenses		24,175 12 499 (92) (13,389)	(4,502) 1,201 505 (136) (9,228)
Profit (loss) from operations Finance costs Gain on disposal of discontinuing operations Share of profits of an associate	3	11,205 (14) - 21,388	(12,160) (1) 5,889 22,266
Profit before taxation Taxation	4	32,579 (789)	15,994 (1,572)
Profit before minority interests Minority interests		31,790 31	14,422 73
Net profit for the period		31,821	14,495
Dividends	5	_	-
Earnings per share Basic	6	HK\$0.154	HK\$0.098
Diluted		HK\$0.152	HK\$0.098

Basis of preparation and principal accounting policies

The unaudited interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended $31st\ March\ 2004$.

Segment Information

For identification purpose only

Business segments

During the period, the Group is organised into two operating divisions which form the basis on which the Group reports its primary segment information

Computer graphics ("CG") animation pictures - production, licensing and sales of CG animation pictures

Management consultancy services - provision of management consultancy services Segment information about these businesses is presented below

For the six months ended 30th September 2004

	CG animation pictures HK\$'000	Management consultancy services HK\$'000	Consolidated HK\$'000
TURNOVER External sales	60,514	4,200	64,714
RESULTS Segment results	23,795	288	24,083
Other operating income Bank interest income Unallocated corporate expenses			12 499 (13,389)
Profit from operations Finance costs Share of profit of an associate			11,205 (14) 21,388
Profit before taxation Taxation			32,579 (789)
Profit before minority interests			31,790

For the six months ended 30th September 2003	CG animation pictures HK\$'000	Management consultancy services HK\$'000	Consolidated HK\$'000
TURNOVER External sales	1,676	4,200	5,876
RESULTS Segment results	(5,278)	640	(4,638)
Other operating income Bank interest income Unallocated corporate expenses			1,201 505 (9,228)
Loss from operations Finance costs Gain on disposal of discontinuing operations Share of profit of an associate			(12,160) (1) 5,889 22,266
Profit before taxation Taxation			15,994 (1,572)
Profit before minority interests			14,422

Profit (loss) from operations

	Six months ended 30th September	
	2004 HK\$'000	2003 HK\$'000
Profit (loss) from operations has been arrived at after charging:		
Depreciation and amortisation of property, plant and equipment Less: amounts capitalised in CG animation pictures and inventories	4,558 (3,999)	2,526 (2,136)
Amortisation of goodwill (included in administrative expenses) Amortisation of CG animation pictures (included in cost of sales)	559 227 6,743	390 227 6,743
and after crediting: Amortisation of discount on held-to-maturity debt securities		1,057
Taxation		
	For the six months ended 30th September	
	2004 HK\$'000	2003 HK\$'000
The charge comprises:		
Overprovision of overseas tax in prior years Share of taxation of an associate	(142) 931	1,572
	789	1,572

A portion of the Group's profit neither arises in, nor is derived from, Hong Kong. Accordingly, that portion of the Group's profit is not subject to Hong Kong Profits Tax.

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits for the current

Overseas tax is calculated at the tax rates prevailing in the respective jurisdictions.

Certain subsidiaries and a former subsidiary of the Company (collectively the "Subsidiaries") are under a tax audit by the Hong Kong Inland Revenue Department ("IRD"). Up to the balance sheet date, the IRD has issued estimated assessments to respective Subsidiaries and demanded for tax payments of HK\$127,678,801 covering the years of assessment of 1994/95 to 2000/01. The Subsidiaries are not in agreement with the estimated assessments and have lodged objections with the IRD. Unconditional holdovers of the tax in disputes of HK\$82,748,801 have been granted by the IRD while the balance of tax in disputes are heldover with the conditions of the placing with IRD of a cash deposit, purchase of tax reserve certificates and the provision of a bank guarantee, which is secured by a deposit from the Group.

The Company's management considers that the IRD's focus on this tax audit is the taxability of the profits of certain overseas subsidiaries and a former overseas subsidiary of the Company. The management is of the opinion that the profits of these overseas subsidiaries and the former overseas subsidiary are not subject to Hong Kong Profits Tax and is considering appealing further and professional advice is being sought on the issue. As the outcome of the tax audit is uncertain at this stage, the amounts placed by cash deposits and by the purchase of tax reserve certificates up to the balance sheet date have been recorded as taxation recoverable and no provision for additional tax payable in relation to this tax audit has been made in the interim financial report.

Dividends

The directors do not recommend the payment of an interim dividend for the periods ended 30th September 2004 and 2003. No dividend was paid during the period.

Six months ended

Earnings Per Share

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

	30th September	
	2004 HK\$'000	2003 HK\$'000
Earnings:		
Net profit for the period	31,821	14,495
Number of shares:		
Weighted average number of ordinary shares		
for the purposes of basic earnings per share	206,940,352	147,465,218
Effect of dilutive potential ordinary shares in respect of share options	2,922,705	360,055
Weighted average number of ordinary shares for the purposes of diluted earnings per share	209,863,057	147,825,273

The weighted average number of ordinary shares for the purposes of calculating both the basic and diluted earnings per share for 2004 and 2003 has been adjusted for the effects of the rights issue of the Company on 6th May 2004.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the period ended 30th September

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30th September 2004, the Group achieved a turnover of HK\$64.7 million (2003: HK\$5.9 million). Profit attributable to shareholders amounted to HK\$31.8 million (2003: HK\$14.5 million), representing a significant increase of 119.5% as compared with prior period. If the share of before-tax profit from an associate is excluded, the core businesses of the Group recorded a turnaround with a profit before taxation of HK\$11.2 million versus a loss before taxation of HK\$12.1 million during the same period.

The very positive performance of the Group for the period was principally attributed to the progressive recognition of revenues derived from the provision of CG animation services and the licensing fee generated over the Group's first CG animation production, $Zentrix^{TM}$, which in aggregate contributed HK\$60.5 million, approximately 93.5%, to the Group's total turnover. Share of after-tax profit from the Group's associate, Boto International Holdings Limited ("BIHL"), which is engaged in the manufacture and sale of Christmas festive products and leisure furniture, dropped slightly by 1.1% from that of the prior period to HK\$20.5 million.

On the financial side, to cope with the Group's rapid expansion in production capacity and to facilitate its strategic business developments in the CG animation industry, the Company conducted two fund raising exercises during the period.

The first one was a rights issue on 6th May 2004, where 68,936,500 shares were allotted at an issue price of HK\$1.08 per rights share on the basis of one (1) share for every two (2) existing shares held by shareholders on the register of members on 16th April 2004. Total cash proceeds, before share issue expenses, of approximately HK\$74.5 million were received.

Then, on 19th July 2004, the Company underwent a placing and top-up subscription exercise where 26,000,000 shares were placed and subscribed. The total net proceeds amounted to approximately HK\$39.7 million.

The rights issue and the placing and subscription transactions served to strengthen the financial position of Group as well as to enlarge the shareholders' base and the capital base of the Company

CG Animation Pictures During the period, the Group continued with the co-production with Bandai Co., Limited and Toei Animation Co., Limited in connection with the CG animated direct-to-video feature film titled *Digital Monster X-Evolution* ("*Digimon*") and the provision of CG animation services to DreamWorks Television Animation LLC ("DreamWorks") relating to *Father of the Pride* ("*FOTP*"), a 13-episode CG animation TV Series. As of 30th September 2004, 9 episodes of *FOTP* had been completed and delivered to DreamWorks and corresponding production service income was thus recognised in current period. On its debut on 31st August 2004, 12.3 million viewers tuned into this animated show with feature quality CG that was unprecedented on major network prime time, which was the highest rating for any non-sports program in the 18-49 category on any network in the USA since

May 2004. As Digimon was completed in October 2004 and the remaining episodes of FOTP were delivered in November 2004, respective turnover generated therefrom will be recorded and reflected in the annual results of the Group for the financial year ending 31st March 2005.

In addition to production service income, the Group continued to earn royalty income from the licensing of distribution rights over $Zentrix^{TM}$ from the United States of America and Canada during the period.

Management Consultancy Services

Turnover from this segment represented fee income generated from the provision of management consultancy services by the Group in both Hong Kong and outside of Hong Kong to its associate, BIHL, under a management consultancy agreement. The interim turnover of HK\$4.2 million was in line with that from the same segment in the same period last year.

Prospects

With the expertise and experience gained from its own production and cooperation with international industry leaders, the Group continues to build on its reputation as one of Asia's leading CG animation studios.

The synergy created through cooperation with international industry leaders is indisputable. The Group is confident that the injection of state-of-the-art CG animation into well-established animation franchises, as demonstrated in *Digimon*, which is slated for launch in early 2005, shall prove inspiring to animation fans worldwide and is destined to be a trend in the animation market. On the other hand, DreamWorks's *FOTP* has proven to international studios and viewers the Group's capability in providing and delivering top quality CG animation services.

The Group is currently in active discussions with industry leaders to explore opportunities in similar cooperation arrangements, which provide the Group with continued exposure to technological advancements around the world as well as a steady and robust source of income.

While continuously perfecting its techniques and artistry through cooperation arrangements, the Group is also venturing into the development of its own titles. With its vision and reach in the international animation markets and the established relations in the Japanese animation industry through its investment in Kabushiki Kaisha Mad House ("Madhouse"), a leading Japanese animation studio that produced numerous critically acclaimed titles including *Metropolis*, *Millennium Actress*, *Tokyo Godfathers* and segments of *Animatrix*, amongst many others, the Group is also actively developing 2-dimensional animation projects. The first project is a Japanese anime adaptation of the famous western story Highlander. Highlander, originally starred by

Sean Connery and Christopher Lambert, has established an international fan following with its three live action movies and many TV series. In recent years, "anime", traditional Japanese animation with its unique aesthetics and style, has not only captured the eyes and hearts of Asian animation fans, but has also come into mainstream popularity in western countries. By combining Japanese anime with a well-known story of the West, *Highlander* embodies features that would appeal to both the West and the East. Japanese anime master Yoshiaki Kawajiri, writer and director of the *Program* and *Detective Story* segments of *Animatrix*, will direct the film. David Abramowitz, writer of the original *Highlander* series, will assume the scriptwriting role and production will be undertaken by Madhouse in Japan. The Group is currently concluding distribution/presale arrangements with several distributors worldwide, the considerations of which would cover majority of the movie's production costs, thus minimizing the risk exposure of the Group. In the Group's core expertise of CG animation, two movies are being developed for worldwide premiere in 2006 and 2007

respectively. One of them is a family-oriented story featuring humanised animal characters. Pre-production and post-production work, which include scriptwriting, voicing and music, amongst others, will be undertaken in the United States of America while main production shall take place in the Group's studio in Hong Kong. The movie had been launched for presale at the American Film Festival held at Santa Monica, USA in November 2004 and was very well received by international distributors. The other CG animation feature film will be based on a well-known comic franchise from which three live action feature films,

numerous traditional animation TV series and a very successful toy market have been derived. Its previous live action films, numerous traditional animation TV series and a very successful toy market have been derived. Its previous live action films have generated box office and video revenues in the range of several hundred millions of US dollars. The Group has secured the license from its original intellectual property owner to produce and commercialise a CG animation feature film based on this proven property. Based on the initial reactions of potential distributors, the Group is confident that this feature film will be a box office hit and will become another continuation of this franchise's unblemished legend of success. The upside potential from the exploitation of the Group's own proprietary titles, underpinned with steady service income provided by cooperation with industry leaders, sets a concrete foundation for Group to propel forward to joining the top ranks

of international animation studios. Liquidity and Capital Resources

The Group generally finances its operations with internally generated cash flows and banking facilities. As at 30th September 2004, the Group had available aggregate banking facilities of HK\$105.7 million of which approximately HK\$0.5 million had been utilized. The Group's cash deposits and bank balances as at that date amounted to approximately HK\$171 million (of which, an amount of HK\$39.8 million were Pledged Bank Deposits). The Board believes that the Group has sufficient financial resources to discharge its debts and finance its operations and capital expenditures. Further, the Group has maintained a sound capital structure, with a current ratio of 11.1 and a gearing ratio of 5.8% (being

total liabilities to shareholders' equity) as of the period end date.

As at 30th September 2004, the Group has more than 300 full-time employees. The Group's employees are remunerated according to the nature of their duties and the market trends, with incentives offered in the form of bonuses and share options based on individual performance.

CLOSURE OF REGISTER OF MEMBERS The Register of Members of the Company will not be closed for the current period under review.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the

period under review.

AUDIT COMMITTEE The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the unaudited interim consolidated financial statements for the six months ended 30th September 2004. The said unaudited interim consolidated financial statements for the period covered by this Announcement have also been reviewed by the Company's external auditors, Deloitte Touche Tohmatsu, in accordance with the Statement of Auditing Standard 700 "Engagements to Review Interim Financial Reports" as issued by

CORPORATE GOVERNANCE

the HKICPA.

None of the Company's Directors are aware of any information that would reasonably indicate that the Company is not, or was Appendix 14 of the Listing Rules.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

All information pertaining to the interim results of the Group for the period ended 30th September 2004 required by paragraphs 46(1) to 46(6) of Appendix 16 to the Listing Rules will also be published on the website of The Stock Exchange of Hong Kong Limited in due course

> On behalf of the Board Kao Wai Ho, Francis Deputy Chairman

Hong Kong, 2nd December 2004

Website: www.imagi.com.hk

As at the date of this Announcement, the Board comprises:

Mr. Kao Cheung Chong, Michael (Chairman) Mr. Kao Wai Ho, Francis (Deputy Chairman) Executive Directors: Mr. Tse Chi Man, Terry Mr. Lam Pak Kin, Philip

Mr. Zhang Liping Non-executive Director: Independent

dependent Mr. Randy Harris Non-executive Directors: Mr. Oh Kok Chi

Mr. Ng See Yuen