



IMAGI INTERNATIONAL HOLDINGS LIMITED

意馬國際控股有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 585)

ANNUAL RESULTS ANNOUNCEMENT FOR THE FINANCIAL YEAR ENDED 31ST MARCH 2005

OPERATING RESULTS

The Board of Directors (“the Board”) of Imagi International Holdings Limited (the “Company”) hereby announces the audited consolidated results of the Company and its subsidiaries (the “Group”) for the financial year ended 31st March 2005 together with comparative figures for the corresponding year in 2004 as follows:

Consolidated Income Statement

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Turnover	2	101,134	19,212
Cost of sales		(83,397)	(26,441)
Gross profit (loss)		17,737	(7,229)
Other operating income		9,362	8,737
Distribution costs		(103)	(145)
Impairment loss recognised in respect of CG animation pictures		(15,250)	–
Administrative and other operating expenses		(49,699)	(16,648)
Loss from operations	3	(37,953)	(15,285)
Finance costs		(34)	(7)
Gain on disposal of discontinuing operations		–	6,812
Share of loss of an associate		(20,735)	(10,123)
Loss before taxation		(58,722)	(18,603)
Taxation	4	(71,595)	(1,120)
Loss before minority interests		(130,317)	(19,723)
Minority interests		47	136
Net loss for the year		(130,270)	(19,587)
Dividends	5	–	–
Basic loss per share	6	(HK\$0.591)	(HK\$0.133)

Consolidated Balance Sheet

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Non-current assets		
Property, plant and equipment	45,123	33,671
CG animation pictures	86,196	50,026
Goodwill	2,799	3,253
Interest in an associate	–	21,806
Investments in securities	1,201	9,065
	135,319	117,821
Current assets		
Inventories	–	27,972
Trade and other receivables	5,298	8,817
Amount due from an associate	1,586	5,774
Taxation recoverable	20,776	20,760
Pledged bank deposit	39,800	39,800
Bank balances and cash	99,496	25,396
	166,956	128,519
Current liabilities		
Other payables	27,530	9,265
Unearned revenue	–	13,260
Taxation payable	73,917	3,628
Obligations under finance leases		
– due within one year	238	870
Bank overdraft	–	805
	101,685	27,828
Net current assets	65,271	100,691
Total assets less current liabilities	200,590	218,512
Minority interests	96	143
Non-current liability		
Obligations under finance leases		
– due after one year	122	356
Net assets	200,372	218,013
Capital and reserves		
Share capital	116,958	68,937
Reserves	83,414	149,076
	200,372	218,013

Notes:

1. Basis of Preparation and Accounting Policies

The financial statements have been prepared under the historical cost convention and in accordance with the accounting principles generally accepted in Hong Kong. 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.

During the year, the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (“HKFRS(s)”) (herein collectively referred to as “new HKFRS(s)”) which are effective for accounting periods beginning from or after 1st January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st March 2005, and considered that the adoption of these new HKFRSs will have no material effect on how the results of operations and financial position are prepared and presented except that the adoption of “HKFRS 3 Business Combination” in the financial year commencing 1st April 2005 may result in an increase in the net profit for the financial year then ending 31st March 2006.

* For identification purpose only

2. Segmental Information

Analysis of the Group’s turnover and contribution to operating results by business segments is as follows:

Business segments

During the year, the Group is organised into two operating divisions which form the basis on which the Group reports its primary segmental information:

Computer graphics (“CG”) animation pictures	–	Production, licensing and sale of CG animation pictures
Management consultancy services	–	Provision of management consultancy services

Segmental information about these businesses is presented below.

For the year ended 31st March 2005

	CG animation pictures <i>HK\$'000</i>	Management consultancy services <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER			
External sales	90,638	10,496	101,134
RESULTS			
Segment results	2,035	349	2,384
Other operating income			9,362
Unallocated corporate expenses			(49,699)
Loss from operations			(37,953)
Finance costs			(34)
Share of loss of an associate			(20,735)
Loss before taxation			(58,722)
Taxation			(71,595)
Loss before minority interests			(130,317)

For the year ended 31st March 2004

	CG animation pictures <i>HK\$'000</i>	Management consultancy services <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER			
External sales	7,976	11,236	19,212
RESULTS			
Segment results	(9,058)	1,684	(7,374)
Other operating income			8,737
Unallocated corporate expenses			(16,648)
Loss from operations			(15,285)
Finance costs			(7)
Gain on disposal of discontinued operations			6,812
Share of loss of an associate			(10,123)
Loss before taxation			(18,603)
Taxation			(1,120)
Loss before minority interests			(19,723)

3. Loss from operations

Loss from operations has been arrived at after charging:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Directors’ emoluments	15,516	10,171
Other staff costs	61,840	32,842
Total staff costs	77,356	43,013
Less: amounts capitalised in CG animation pictures and inventories	(46,757)	(21,281)
	30,599	21,732
Depreciation and amortisation of property, plant and equipment	9,795	6,238
Less: amounts capitalised in CG animation pictures and inventories	(8,711)	(5,364)
	1,084	874
Rentals in respect of premises under operating leases	4,379	1,992
Less: amounts capitalised in CG animation pictures and inventories	(3,645)	(1,538)
	734	454
Auditors’ remuneration:		
Current year	750	640
Underprovision in previous year	20	11
Amortisation of goodwill (included in administrative expenses)	454	454
Amortisation of CG animation pictures (included in cost of sales)	13,486	13,486
Allowance for amount due from an associate	3,488	–
Loss on disposal of property, plant and equipment	5,417	–
Cost of inventories recognised as expenses	56,140	3,342
Tax surcharge	19,683	–
and after crediting:		
Bank interest income	1,451	632
Gain on disposal of investment in securities	7,818	–
Gain on redemption of held-to-maturity debt securities	–	5,612
Gain on disposal of property, plant and equipment	–	328
Amortisation of discount on held-to-maturity debt securities	–	2,044

4. Taxation	2005 HK\$'000	2004 HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
The Company and its subsidiaries		
– Current tax	44	18
– Overprovision in prior years	(3,417)	–
– Underprovision in prior years	73,917	–
	<u>70,544</u>	<u>18</u>
Overseas tax		
The Company and its subsidiaries		
– Current tax	115	316
– Overprovision in prior year	(135)	–
Associate	1,323	786
	<u>1,303</u>	<u>1,102</u>
Deferred tax attributable to an associate	<u>(252)</u>	<u>–</u>
Total	<u>71,595</u>	<u>1,120</u>

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profits for both years. Overseas tax is calculated at the tax rates prevailing in the respective jurisdictions.

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.

Certain overseas subsidiaries and a former overseas subsidiary of the Company (collectively the “Subsidiaries”) are under a tax audit by the Hong Kong Inland Revenue Department (“IRD”). The Company’s management had been of the opinion that the profits of the Subsidiaries should not be subject to Hong Kong Profits Tax as these profits were not derived from or arising in Hong Kong, and the management was prepared to take all necessary actions, including legal proceedings, to defend the Subsidiaries’ position in this regard.

However, having taken into account the precious effort and time of its senior management and the overall interest of the Company and its shareholders, the Company’s management is inclined to negotiate a compromised settlement of the tax audit with the IRD. After various detailed discussions between the Group’s tax advisors and senior tax officers of the IRD, an offer was made to the IRD in early July 2005 for a compromised settlement of the tax audit on the terms that the Subsidiaries will be subject to additional tax liabilities of HK\$73,917,000 for the years of assessments 1994/95 to 2002/03 and a compound penalty of HK\$12,800,000 (the “Offer”). The Offer is currently being considered by the Commissioner of the IRD (“Commissioner”).

If the Offer is ultimately accepted by the Commissioner, additional and/or revised tax assessments will be issued to the Subsidiaries and the additional tax liabilities can be offset by (i) the cash amount of HK\$5,000,000 deposited with the IRD, and (ii) the tax reserve certificates of HK\$15,730,000 purchased by the Company. In addition, interest on the tax previously heldover under the estimated assessments amounting to approximately HK\$6,883,000 will also be payable upon settlement.

Based on the progress of negotiation with the IRD on the tax audit as mentioned above, a full provision for additional tax liabilities of HK\$73,917,000 has been made for settling the tax audit. The aggregate amount of compound penalty and interest of HK\$19,683,000 was accrued as tax surcharge and was included in the administrative and other operating expenses for the current year.

5. Dividends
- The directors do not recommend the payment of a dividend for the years ended 31st March 2005 and 2004. No dividend was paid in both years.
6. Loss per share
- The calculation of the basic loss per share is based on the loss attributable to shareholders for the year of HK\$130,270,000 (2004: HK\$19,587,000) and on the weighted average number of 220,364,919 (2004: 147,528,555) shares in issue during the year.
- The weighted average number of ordinary shares for the purpose of calculating basic loss per share for 2005 and 2004 has been adjusted for the effects of the rights issue of the Company on 6th May 2004.
- No diluted earnings per share is presented as the exercise of share options for the year ended 31st March 2005 and 2004 would result in a decrease in loss per share.

FINAL DIVIDEND

The Board does not recommend the payment of a dividend for the year ended 31st March 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the financial year ended 31 March 2005, the Group attained a turnover of HK\$101.1 million (2004: HK\$19.2 million) and a gross profit of HK\$17.7 million (2004: gross loss of HK\$7.2 million). Net loss for the year amounted to HK\$130.3 million (2004: HK\$19.6 million).

The increase in turnover of the Group for the year primarily resulted from the recognition of revenues derived from the provision of CG animation services and the licensing of the Group’s first CG animation production, *Zentrix*™, which in aggregate contributed HK\$90.6 million, approximately 89.6%, to the Group’s total turnover.

On the investment side, the Group disposed its entire 11.54% interest in Kabushiki Kaisha Mad House to an independent third party and achieved a gain of HK\$7.8 million during the financial year.

Net loss for the year mainly resulted from i) the provision for tax and related expenses of HK\$93.6 million relating to the past festive products manufacturing business that was disposed by the Group in August 2002; and ii) the share of after-tax loss from an associate of the Group, Boto International Holdings Limited (“BIHL”), which is engaged in the manufacture and sale of Christmas festive products and leisure furniture, of HK\$21.8 million.

During the year, the Group has rapidly expanded through the establishment of a new animation studio. The expanded studio occupies 3 storeys of the same commercial building in Chai Wan with a total area of over 51,000 square feet and is fully-equipped with the latest state-of-the-art technologies and equipment. This expansion, together with the pre-production development of various new projects which will be produced at the new studio, are mainly funded by two fund-raising exercises during the financial year:

- a)
- 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. A total cash consideration, before share issue expenses, of approximately HK\$74.5 million was raised; and

- b)
- a placing and top-up subscription on 19th July 2004, where 26,000,000 shares were placed and subscribed for and total net proceeds amounted to approximately HK\$39.7 million.

The strengthened financial position of the Group via the rights issue and the placing and subscription transactions has not only enabled the Group to further enhance its animation studio but also allowed it to pool better resources into the Group’s strategic business developments in the CG animation industry.

CG Animation Pictures

In late 2004, the Group completed the CG animated direct-to-video feature film titled *Digital Monster X-Evolution* (“*Digimon*”), a co-production with Bandai Co., Limited and Toei Animation Co., Limited. The 80.5 minutes of length *Digimon* film premiered on television in Japan on 3rd January 2005 and the graphics of which especially received applausive ratings.

Around the same time, the Group also completed and delivered the 13-episode CG animation TV Series titled *Father of the Pride* (“*FOTP*”) which DreamWorks Television Animation LLC (“DreamWorks”), a top Hollywood animation studio, exclusively engaged the Group for its provision of CG production services since early December 2003. *FOTP* was the first animated TV Series produced by DreamWorks and was first released in August 2004 on prime-time television network NBC of the United States of America. The DVD version of the show has been released in June 2005.

Accordingly, turnover and corresponding costs in relation to the two productions had been recognised in the annual results for the financial year ended 31st March 2005.

In addition to the production services income, the Group also earned royalty income from the licensing of distribution rights over *Zentrix*™ from the United States of America and Canada during the financial year.

Management Consultancy Services

Fee income generated from the provision of management consultancy services by the Group both in Hong Kong and outside of Hong Kong to its associate, BIHL, under a management consultancy agreement remained stable throughout the financial year.

Prospects

The Group’s cooperation with world leading studios has given the Group much valued experience and exposure. Building on these gains, the Group’s bright future lies in the worldwide release of its proprietary animation films.

The Group has secured the license from Mirage Studios, Inc. and is currently developing the first CG animation movie of the famous *Teenage Mutant Ninja Turtles* (“*TMNT*”) franchise. Having entered into global distribution agreements with international film distributors Warner Bros. Pictures, Inc. and The Weinstein Company LLC for the worldwide release of *TMNT*, the movie is expected to give a new visual and aural experience to *TMNT* fans worldwide in early 2007. Warner Bros. Pictures, Inc. is one of the world’s leading film distribution companies. The Weinstein Company LLC is a film distribution company founded by Harvey and Bob Weinstein, co-chairmen of Miramax Film Corporation (“Miramax”) who led Miramax in distributing countless Oscar winners and successful films. Built on the historical success of *TMNT* in live-action movies, television series and toy collections, and compounded with the Group’s proven CG animation capabilities, the Group is confident that the *TMNT* CG animation movie will add another glorious chapter to the success story of the *TMNT* franchise.

A top title deserves a world-class production. *TMNT* will be produced in the Group’s new over 51,000 sq. ft. studio utilizing state-of-the-art hardware and software. The Group’s research and development team has also developed and will continue to develop new software and techniques, such as the life-like muscle and fur systems, in order to ensure that the movie will appear as vivid as it could possibly be. Kevin Munroe, who was ranked as one of Animation Magazine’s “Rising Stars of CGI!” and has worked on various projects for Disney, Warner Bros., Cartoon Network, Fox Kids, and Nickelodeon, etc., will be the screenplay writer and the director of the *TMNT* film. Munroe will also lead a group of Hollywood artists to spearhead the movie’s creative and art direction from the Group’s studio in Los Angeles, USA. The Group is confident that *TMNT* will not only be a breakthrough in the production quality of the Group, but will also set a benchmark for Asia’s animation industry.

The production of *The Highlander: The Search for Vengeance* (tentative title) (“*Highlander SV*”) is also well under way. The 2-dimensional animated direct-to-video movie will be based on the famous western *Highlander* franchise, which has established an international fan base via its many television series and three live-action movies, including that starred by Sean Connery and Christopher Lambert. Through *Highlander SV*, the Group is creating a new genre of animation film where a well accepted western epic is given life by the artistry of Japanese anime. The East meets West fusion takes place not only in the movie but also in the production of *Highlander*. Director Yoshiaki Kawajiri (*Animatrix*, *Ninja Scroll*) works closely with scriptwriter Adam Abromwitz (writer of the original *Highlander* television series) and producers in the USA and directs the production which the Group has outsourced to the leading Japanese animation studio Kabushiki Kaisha Mad House. Distribution agreements have already been entered into for territories of North America, United Kingdom and Japan. This global collaboration is scheduled to embrace worldwide audiences in the second half of 2006.

Concurrent with the development of the above two titles, the Group is sourcing and creating new and exciting concepts and stories that will be developed into new proprietary titles. One of the more advanced stories is a family-oriented movie featuring humanized animal characters. The Group has commenced initial presale marketing to international film distributors and responses have been encouraging.

To fully utilize the resources and diversify into synergistic businesses, the Group has started two new business streams – visual effects and game development.

The application of CG animation and visual effects into live action movies has been very popular in the film industry. With the Group’s established CG animation quality and technology, the Group has ventured into this line of business by way of various contract works from film makers. With initial target market set on Asia, the Group’s visual effects business will be undertaken under the Group’s subsidiary branding of iDream Production Limited (“iDream”). The first project of which it is responsible for all CG visual effects is a movie made by a renowned Hong Kong film company featuring many award winning actors and actresses slated for release in August 2005. Other projects are currently under discussion with filmmakers who share the Group’s prizing for quality. The Group will continue to work with renowned Asian studios to create top quality visual effects that can rival with the best. The same subsidiary branding shall also be applied for Asia-oriented animation projects contemplated by the Group. iDream will work with renowned local creative talents to craft a line of animation projects tailored for the Asian market, with a focus towards the huge market of The People’s Republic of China.

¹ CGI stands for Computer Graphics Imagery

With robust research and development support as well as a strong background in CG animation, the Group is also exploring opportunities in the lucrative video game market. The Group is currently discussing with various mainstream international video game publishers in relation to outsourced game development and game publishing arrangements.

With movies set for release in 2006, 2007 and more to come in the future, and a prudent diversification into synergistic businesses, the Group has the will and is confident of its ability to become Asia's top CG animation studio.

Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flows and banking facilities. As at 31st March 2005, the Group had available aggregate banking facilities of HK\$105.7 million. The Group's cash deposits and bank balances as at that date amounted to approximately HK\$139.3 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 1.6 and a gearing ratio of 0.12% (being total borrowings to total assets) at balance sheet date.

Foreign Exchange Exposure

Transactions of the Group are predominately denominated in Hong Kong dollars, US dollars, Euro and Japanese Yen, no hedging or other instruments to reduce the currency risks have been implemented during the year. However, review of the Group's exposure to foreign exchange risk is conducted periodically and derivative financial instruments may be used to hedge against such risks when necessary.

Charges on Assets

As at 31st March 2005, the Group had no charges on any of its assets.

Contingent Liabilities

As at 31st March 2005, except for that disclosed in note 4, the Group had no significant contingent liabilities.

Human Resources

As at 31st March 2005, the Group employed over 340 full-time staff worldwide. Remuneration policies are reviewed regularly to ensure that compensation and benefit packages are in line with the market in respective countries where the Group has operations. In addition to basic salary, incentives in the form of bonuses and share options may also be offered to eligible employees on the basis of individual performance and at the discretion of the Board.

The Board is proposed to establish a Remuneration Committee with effects from 1st August 2005. The function of the Remuneration Committee is to consider and recommend to the Board the Group's remuneration policy and structure and to review and determine the remuneration of executive directors and senior management.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 17th August 2005 to 19th August 2005, both days inclusive, during which period no transfer of shares will be effected.

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 meets regularly with the Group's senior management and the external auditors to consider and review the Group's financial statements (including the financial statements for the year ended 31st March 2005), the nature and scope of audit reviews, and the effectiveness of the system of internal control and compliance and to make recommendations to the Board. The members of the Audit Committee are Mr. Oh Kok Chi (Chairman of the Committee), Mr. Lai Chi Kin, Lawrence and Mr. Ng See Yuen.

CORPORATE GOVERNANCE

Throughout the year, none of the Company's Directors are aware of any information that would reasonably indicate that the Company is not, or was not, for any part of the period covered by this announcement, in compliance with the Code of Best Practice as set out in Appendix 14 (in force prior to 1st January 2005) to the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), save and except that all non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation at the annual general meeting of the Company in accordance with the Bye-laws of the Company.

The Code of Best Practice set out in Appendix 14 to the Listing Rules was replaced by the "Code of Corporate Governance Report" (the "New Code") as set out in Appendices 14 and 23 to the Listing Rules effective from 1st January 2005. The Company's compliance of the New Code will take place in the year ending 31st March 2006.

Pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules, the Company has made specific enquiries of all directors, and all directors confirmed that they have achieved full compliance with the required standards as set out in the Model Code throughout the year ended 31st March 2005.

PROPOSED AMENDMENT TO THE BYE-LAWS

The Stock Exchange has revised the Listing Rules concerning various corporate governance issues. Among other code provisions of the New Code set out in Appendix 14 to the Listing Rules, it is required that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

In their present form, the bye-laws of the Company provides that such Director holding office as the chairman of the Board and/or managing director of the Company will not be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year. As such, the Board considers that the bye-laws of the Company should be amended in line with the changes required under the revised Listing Rules and an amendment to the bye-laws of the Company will be proposed at the forthcoming annual general meeting of the Company to be held on 19th August 2005. A circular containing, among other matters, details of the proposed amendment to the bye-laws will be dispatched to shareholders shortly.

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

All information pertaining to the annual results of the Group for the year ended 31st March 2005 required by paragraphs 45(1) to 45(3) 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 and Chief Executive Officer

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

<i>Executive Directors:</i>	Mr. Kao Cheung Chong, Michael (<i>Chairman</i>) Mr. Kao Wai Ho, Francis (<i>Deputy Chairman and Chief Executive Officer</i>) Mr. Tse Chi Man, Terry
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<i>Non-executive Director:</i>	Mr. Lam Pak Kin, Philip
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<i>Independent Non-executive Directors:</i>	Mr. Lai Chi Kin, Lawrence Mr. Ng See Yuen Mr. Oh Kok Chi
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Hong Kong, 15th July 2005

Website: www.imagi.com.hk