



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 2004

OPERATING RESULTS

The Board of Directors (“the Board”) of Imagi International Holdings Limited (the “Company”) announces audited consolidated results of the Company and its subsidiaries (the “Group”) for the financial year ended 31st March 2004 together with comparative figures for the corresponding year in 2003 as follows:

Consolidated Income Statement

		2004 HK\$'000	2003 HK\$'000
Turnover	2	19,212	502,906
Cost of sales		(26,441)	(323,958)
Gross (loss) profit		(7,229)	178,948
Other operating income		8,105	5,678
Bank interest income		632	2,272
Distribution costs		(145)	(52,520)
Administrative expenses		(16,648)	(55,835)
(Loss) profit from operations	3	(15,285)	78,543
Finance costs		(7)	(1,717)
Gain on disposal of discontinuing operations	4	6,812	176,881
Gain on dilution of interest in an associate		–	6,136
Share of (loss) profit of an associate		(10,123)	3,342
(Loss) profit before taxation		(18,603)	263,185
Taxation	5	1,120	7,152
(Loss) profit before minority interests		(19,723)	256,033
Minority interests		136	(36)
Net (loss) profit for the year		(19,587)	255,997
Dividends	6	–	894,641
(Loss) earnings per share of HK\$0.50 each Basic	7	(HK\$0.14)	HK\$1.86
Diluted		N/A	HK\$1.86

Consolidated Balance Sheet

		2004 HK\$'000	2003 HK\$'000
Non-current assets			
Property, plant and equipment		33,671	17,976
CG animation pictures		50,026	52,447
Goodwill		3,253	3,707
Interest in an associate		21,806	32,715
Investments in securities		9,065	19,248
		117,821	126,093

Current assets

Inventories		27,972	–
Trade and other receivables	8	8,817	5,400
Amount due from an associate		5,774	8,348
Taxation recoverable		20,760	20,760
Pledged bank deposits		39,800	24,200
Bank balances and cash		25,396	107,149
		128,519	165,857

Current liabilities

Other payables		9,265	4,769
Unearned revenue		13,260	–
Taxation payable		3,628	7,505
Obligations under finance leases – due within one year		870	2,605
Bank borrowings – due within one year		805	39,038
		27,828	53,917

Net current assets

		100,691	111,940
Total assets less current liabilities		218,512	238,033
Minority interests		143	279

Non-current liabilities

Obligations under finance leases – due after one year		356	647
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NET ASSETS

		218,013	237,107
CAPITAL AND RESERVES			
Share capital		68,937	68,819
Reserves		149,076	168,288
		218,013	237,107

Notes:

1. Basis of Preparation and Accounting Policies

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 2003, except that the Group has adopted SSAP 12 (Revised) “Income Taxes” which is effective for accounting periods commencing on or after 1st January 2003. The adoption of SSAP 12 (Revised) had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

2. Segmental Information

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 sales of CG animation pictures
Management consultancy services	–	Provision of management consultancy services

Until, and including, 22nd August 2002, the Group was also engaged in the manufacture and sales of artificial Christmas festive products and leisure furniture, these two operations were disposed of on 23rd August 2002.

Segmental information about these businesses is presented below.

For the year ended 31st March 2004

	CG animation pictures HK\$'000	Management consultancy services HK\$'000	Consolidated HK\$'000
TURNOVER			
External sales	7,976	11,236	19,212
RESULTS			
Segment results	(9,058)	1,684	(7,374)
Other operating income			8,105
Bank interest income			632
Unallocated corporate expenses			(16,648)
Loss from operations			(15,285)
Finance costs			(7)
Gain on disposal of discontinuing 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)

For the year ended 31st March 2003

	Continuing operations		Discontinuing Operations		
	CG animation pictures HK\$'000	Management consultancy services HK\$'000	Christmas trees HK\$'000	Leisure furniture HK\$'000	Consolidated HK\$'000
TURNOVER					
External sales	15,316	11,270	420,863	55,457	502,906
RESULTS					
Segment results	7,573	1,719	109,611	7,525	126,428
Other operating income					5,678
Bank interest income					2,272
Unallocated corporate expenses					(55,835)
Profit from operations					78,543
Finance costs					(1,717)
Gain on disposal of discontinuing operations					176,881
Gain on dilution of interest in an associate					6,136
Share of profit of an associate					3,342
Profit before taxation					263,185
Taxation					(7,152)
Profit before minority interests					256,033

Geographical segments

Analysis of the Group's turnover by geographical market is as follows:

	Total turnover		Contribution to Operating results	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
North America	6,240	359,136	2,836	92,005
United Kingdom and Continental Europe	–	103,618	–	23,665
Asia Pacific	12,972	37,292	(10,210)	9,868
Others	–	2,860	–	890
	19,212	502,906	(7,374)	126,428
Other operating income			8,105	5,678
Bank interest income			632	2,272
Unallocated corporate expenses			(16,648)	(55,835)
(Loss) profit from operations			(15,285)	78,543

* For identification purpose only

3. (Loss) profit from operations

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

	2004 HK\$'000	2003 HK\$'000
Directors' remuneration	10,171	12,331
Other staff costs	32,842	106,036
Total staff costs	43,013	118,367
Less: amounts capitalised in CG animation pictures and inventories	(21,281)	(13,896)
	21,732	104,471
Depreciation and amortisation of property, plant and equipment		
– assets owned by the Group	4,121	19,578
– assets held under finance leases	2,117	1,884
	6,238	21,462
Less: amounts capitalised in CG animation pictures and inventories	(5,364)	(3,440)
	874	18,022
Rentals in respect of premises under operating leases	1,992	2,689
Less: amounts capitalised in CG animation pictures and inventories	(1,538)	(1,183)
	454	1,506
Auditors' remuneration:		
Current year	640	1,040
Underprovision in previous year	11	98
Amortisation of goodwill (included in administrative expenses)	454	392
Amortisation of CG animation pictures (included in cost of sales)	13,486	7,653
Loss on disposal of property, plant and equipment	–	247
Cost of inventories recognised as cost of sales	3,342	–
and after crediting:		
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	1,301

4. Gain on disposal of discontinuing operations

On 23rd August 2002, the Group disposed of its Christmas festive products and leisure furniture businesses to Boto International Holdings Limited (“BIHL”) (the “Disposal”) and made a gain of approximately HK\$176,881,000 for the financial year ended 31st March 2003. Immediately subsequent to the Disposal, the Group acquired equity interest in BIHL and thereafter BIHL became an associate of the Group. Pursuant to the relevant Disposal agreements, in the event that BIHL or any of the disposed subsidiaries receives any tax relief or refund of any tax paid which is referable to the above disposed businesses and to any period prior to 23rd August 2002, BIHL or such respective subsidiary shall pay to the Group a sum equal to such tax relief or refund. During the financial year ended 31st March 2004, an aggregate amount of approximately HK\$6,812,000 in respect of such refund of tax was received and receivable from the Group's associate, and such amount has been recognized in the current year as a further gain on the Disposal.

5. Taxation

	2004 HK\$'000	2003 HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
The Company and its subsidiaries	18	5,912
Associate	–	323
	18	6,235
Overseas taxation		
The Company and its subsidiaries	316	403
Associate	786	786
	1,102	1,189
Deferred taxation		
The Company and its subsidiaries	–	(518)
Associate	–	246
	–	(272)
	1,120	7,152

Hong Kong Profits Tax is calculated at 17.5% (2003: 16%) on the estimated assessable profits for the year. In June 2003, the Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the year of assessment 2003/2004. The effect of this increase has been reflected in the calculation of current and deferred tax balances at 31st March 2004.

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 deferred taxation has been recognised in the financial statements as the amount involved is insignificant.

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

The income tax expenses for the year can be reconciled to the (loss) profit per consolidated income statement as follows:

	2004 HK\$'000	2003 HK\$'000
(Loss) profit before taxation	(18,603)	263,185
Tax at the Hong Kong Profits Tax rate of 17.5% (2003: 16%)	(3,256)	42,110
Tax effect of expenses not deductible for tax purpose	3,788	241
Tax effect of income not taxable for tax purpose	(3,361)	(39,090)
Tax effect of additional tax losses not recognised	1,239	583
Utilisation of tax losses previously not recognised	–	1,915
Effect of different tax rates of subsidiaries operating in other jurisdictions	152	572
Tax effect of share of result of an associate	2,558	821
Income tax expenses for the year	1,120	7,152

During the period from March 2001 to March 2004, in connection with a tax field audit, the Inland Revenue Department in Hong Kong (“IRD”) issued Notices of Additional/Estimated Assessment (“Tax Notices”) to two subsidiaries relating to the tax years of 1994/95 to 2000/01 and 1996/97 to 1997/98, respectively, and to one former subsidiary of the Company relating to the tax years of 1996/97 to 1997/98 (the “Subsidiaries”). Objections were lodged by the Subsidiaries and holdovers of taxes in dispute were granted by the IRD pending determination of the tax field audit result. The Additional/Estimated Assessments were mainly relating to the Group's income derived from its operations in the manufacture and sales of artificial Christmas festival products and leisure furniture performed outside of Hong Kong.

Up to balance sheet date, the taxes demanded under the Tax Notices amounted in aggregate to HK\$127,678,801. However, objections were lodged by the Subsidiaries and the IRD granted both conditional and unconditional holdovers of the total taxes so demanded. The IRD granted an unconditional holdover in the sum of HK\$82,748,801. The conditions of the conditional holdover included: (A) the Group placing with the IRD a sum of HK\$5,000,000 by cash deposit, (B) the purchase by the Group of tax reserve certificates in the sum of HK\$15,730,000, and (C) the provision by the Group of further security in the sum of HK\$24,200,000 by way of the issue of a bank guarantee to the IRD, which is secured by a deposit from the Group of the same amount.

Although the outcome of this matter cannot be determined with reasonable certainty at this stage, the Company's directors consider that the Group has properly reported all of its taxable income derived in Hong Kong to the IRD previously and therefore are not in agreement to the Additional/Estimated Assessments. Accordingly, the amount placed by cash deposit and by the purchase of tax reserve certificates up to the balance sheet date has been recorded as taxation recoverable and no provision for additional tax in relation to this tax field audit has been made in the financial statements.

6. Dividends

No dividends were paid during the year ended 31st March 2004.

On 4th September 2002, a special cash dividend of HK\$0.26 per share of HK\$0.02 each was paid to shareholders whose names appeared on the Register of Members of the Company on the record date of 30th August 2002.

7. (Loss) Earnings Per Share

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

	2004 HK\$'000	2003 HK\$'000
(Loss) profit for the purposes of basic and diluted (loss) earnings per share	(19,587)	255,997
Weighted average number of ordinary shares of HK\$0.50 each for the purposes of basic (loss) earnings per share	137,696,990	137,623,521
Effect of dilutive potential ordinary shares of HK\$0.50 each in respect of share options	1,181,530	5,365
Weighted average number of ordinary shares of HK\$0.50 each for the purposes of diluted (loss) earnings per share	138,878,520	137,628,886
(Loss) earnings per share of HK\$0.50 each		
Basic	(HK\$0.14)	HK\$1.86
Diluted	N/A	HK\$1.86

The computation of diluted earnings per share for the year ended 31st March 2004, does not assume the conversion of the Group's outstanding share option since their exercise would result in a decrease in net loss per share from continuing ordinary operations.

8. Trade and Other Receivables

The Group allows its trade customers a credit period in accordance with the terms specified in the contracts, normally ranging from 30 days to 90 days.

The aged analysis of trade receivables at balance sheet date is stated as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
0 to 30 days	4,700	–
31 to 60 days	1,579	305
61 to 90 days	–	1,591
Over 90 days	–	181
Total trade receivables	6,279	2,077
Other receivables	2,538	3,323
	8,817	5,400

FINAL DIVIDEND

The Board does not recommend the payment of a dividend for the year ended 31st March 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Following the disposal of Christmas festive products and leisure furniture businesses on 23rd August 2002, the Group recorded a turnover of HK\$19.2 million for the year (2003: HK\$502.9 million). If the turnover from these two discontinuing operations for the applicable period prior to the Disposal was not accounted, the comparable turnover for the previous year would be HK\$26.6 million, from which there was a decrease of 27.8% recorded this year. The decrease is reflective of the development stage of the Group's current projects, of which revenues will be booked at their respective completions. The revenue generated from CG animation this year was mainly attributable to licensing revenue in relation to “Zentrix™”, the Group's first CG animation production, and revenue relating to the initial delivery of certain CG animation services for contracting parties.

During the year, the Group incurred a loss of 19.6 million. The loss is mainly attributable to i) a decrease in turnover from the CG animation segment as minimum guaranteed licensing revenue from developed projects were mostly received and accounted in the previous year while current projects are in progress and most revenues have yet to be booked; ii) full year amortisation charges attributable to the Group's developed projects mismatching with the transitional stage of the projects' revenue profile; and iii) the sharing of a pre-tax loss of HK\$10.1 million of BIHL, the Group's associate which engages in the manufacturing and sales of Christmas festive products and leisure furniture.

The financial performance of the Group of the year is representative of the transitional period of the Group's business development, whereas a number of projects are actively being produced. As the corporate brand “Imagi” progressively establishes in the international CG animation industry, a number of leading, world-renowned studios has approached or engaged the Group for business co-operation for CG animation productions for internationally distributed titles.

CG Animation Pictures

In October 2003, the Group reached a co-production agreement with Bandai Co. Ltd (“Bandai”), a global leading Japanese toy company, and Toei Animation Co. Ltd (“Toei”), a prominent film company in Japan, for the production of a full CG animated direct-to-video feature film titled “Digital Monster X-Evolution”. The story originated from a portable electronic game “Digital Monster” (also known as “Digimon”) developed by Bandai, whose popular game characters were subsequently produced into a popular and long-running TV animation series by Toei and broadcasted at Fuji TV channel in Japan from March 1999 through to March 2001. The direct to video CG animation film, a first for the “Digimon” franchise, is 80.5 minutes in length and is directed by Mr. Hiroyuki Kakudou, the director of TV animation series “Digimon Adventure” and “Digimon Adventure 2”. The film is expected to be completed by October 2004 and is scheduled for release in early 2005. Accordingly, revenue from this co-production will be reflected in the annual results for the financial year ending 31st March 2005.

In early December 2003, the Group entered into an exclusive agreement with DreamWorks Television Animation LLC (“DreamWorks”), a top Hollywood animation studio who has won the first-ever *Academy Award*® for the Best Animated Feature with “*Shrek*®” and produced the recent box-office record-breaking animated film *Shrek 2*®. The agreement engaged the Group for the provision of CG services, including modeling, character animation, lighting, effects, compositing and rendering, in connection with the production of an animated television series “*Father of the Pride*” (“FOTP”), a family comedy series about a pride of white lions who perform in the world famous Las Vegas act of the illusionists Siegfried & Roy. Starring the voices by the likes of John Goodman and Cheryl Hines, with guests such as Eddie Murphy and Lisa Kudrow getting in on the act, the series comprises an initial run of 13 episodes of half-hour each. The entire series will be completed and delivered to DreamWorks in November 2004 and be broadcasted on the NBC television network in the USA this Fall. Pursuant to the agreement, there is an option for DreamWorks to engage the Group for further production of additional episodes and other optional projects.

The Group continued to license the distribution rights over “Zentrix™” during this year. In May 2003, licensing agreement was reached with Jade Multimedia International B.V. in connection with the television broadcasting and other ancillary rights in video and merchandising in Asia (except for Japan and Oceanic countries). In November 2003, another licensing agreement was entered with Bandai for the distribution of “Zentrix™” in the United States of America and Canada.

Management Consultancy Services

Turnover generated from the provision of consultancy services by the Group in both Hong Kong and outside of Hong Kong to its associate, BIHL, under a management consultancy agreement was stable and continued to be a healthy source of income for the Group.

Prospects

Having been aired in France, Japan, Germany and England since September 2002 with encouraging viewers' ratings and received various international awards, including the “Gold Prize Award (Computer Animation)” in the first Hong Kong Digital Entertainment Excellence Awards in May 2003, “Zentrix™”, the Group's first 26-episode quality CG animation television series, will premiere in Hong Kong on TVB Jade from 3rd July 2004 at 10:20 a.m. every Saturday. “Zentrix™” on DVD has already been available in French since September 2003 and English version DVDs and console game are expected to be released in the USA and Japan respectively in calendar year 2004. The Board expects that, following the TV broadcasting and distributions in most international markets, more royalty and ancillary income will be generated over “Zentrix™” for the Group in the ensuing years.

Looking ahead, the financial year ending 31st March 2005 will be a year full of opportunities. The Group will continue to adopt a balanced strategy encompassing cooperation with international partners and production of our own proprietary titles. The inspiring and exciting production co-operation with world-leading players in the industry like DreamWorks and Bandai ensures stable cash inflow to the Group and takes the Group up along a steep learning curve, sharpening its technology, artistry, skills and knowledge in CG animation production as well as project management, which are all instrumental in elevating the Group to becoming a leading world-class animation studio in the Asia-Pacific region. On the other hand, the Group will also develop its own feature-length animated films so as to capture long-term value in intellectual property rights that can provide significant revenue-generating opportunities in areas including box office, video release and merchandising.

To fund the Group's long-term strategic plan, it has raised a total amount of approximately HK\$74.5 million through a rights issue at HK\$1.08 per rights share (in the proportion of one rights share for every two shares held) in May 2004, which was met with an overwhelming over-subscription of 28.35%.

In addition to its founding success in 3-Dimensional ("3D") CG animation productions, the Group also plans to exploit the profit potential in "Anime", Japan's unique and world renowned 2-Dimensional ("2D") animated film productions. Accordingly, it has evolved its strategic alliance (since June 2002) with Kabushiki Kaisha Mad House ("KK Mad House"), one of the top three Anime studios in Japan and a producer of numerous famous animated films and TV series, including the recent critically acclaimed feature film "Tokyo Godfathers", into a 15% equity investment in March 2004.

KK Mad House has conducted the pre-production work on the characters, storyboard and scripts of "XSI" (tentative title), one of the Group's proprietary projects. Initially conceptualized as a TV series, the Group is currently in negotiations with a number of distributors for the production of "XSI" as a full CG animation direct-to-video feature film.

In June 2004, the Group opened its second production studio in Chai Wan geared towards its own 2D or 3D feature film productions, including possible joint productions with KK Mad House.

Marketing of the Group's products is leveraged through the connections of the Group's overseas offices in Los Angeles, USA and Tokyo, Japan with international distributors in the industry. In particular, a number of selected titles currently under pre-production development will be marketed in international film festivals and exhibitions later this year with an aim to further enhance the Group's global industry presence and augment the quality of work and marketing capabilities of the Group through the gathering of market feedbacks.

Adding to the enhanced production and marketing capabilities is refreshed management composition through the joining of new board members and senior executives with distinguished international backgrounds and diverse experience in relation to management, film industry and distributions of intellectual property rights. With these strengths, the Board is confident that the establishment of the Group's branding in the industry will take an ever-stronger foothold, its performance will escalate and the Group will live up to its mission of becoming a leading digital animation and entertainment player in Asia demonstrating world leading innovation, quality and efficiency.

Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flows and banking facilities. As at 31st March 2004, the Group had available aggregate banking facilities of HK\$84.5 million of which approximately HK\$1.2 million had been utilised. The Group's cash deposits and bank balances as at that date amounted to approximately HK\$65.2 million (of which, an amount of HK\$39,800,000 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 4.6 and a gearing ratio of 12.9% (being total liabilities to shareholders' equity) at year end 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 2004, the Group had no charges on any of its assets.

Contingent Liabilities

As at 31st March 2004, the Group had no significant contingent liabilities.

Human Resources

As at 31st March 2004, the Group has more than 270 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.

Post Balance Sheet Event

On 6th May 2004, a right issue on the basis of one share for every two existing shares held by shareholders on the register of member on 16th April 2004 was allotted at an issue price of HK\$1.08 per rights share, resulting in the issue of 68,936,500 shares at HK\$1.08 each for a total cash consideration, before share issue expenses, of approximately HK\$74.5 million.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 4th August 2004 to 6th August 2004, 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 2004), 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. Alexander Reid Hamilton and Mr. Randy Harris.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed at a special general meeting held on 29th March 2004, the name of the Company was changed from "IMI Global Holdings Limited" to "Imagi International Holdings Limited" which took effect from 30th March 2004.

CODE OF BEST PRACTICE

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 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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 2004 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

The Board comprises:

Executive Directors:	Mr. Kao Cheung Chong, Michael (Chairman)	Mr. Kao Wai Ho, Francis (Deputy Chairman)
	Mr. Zhang Liping	Mr. Lam Pak Kin, Philip
Non-executive Director:	Mr. Ng See Yuen	
Independent Non-executive Directors:	Mr. Alexander Reid Hamilton	Mr. Oh Kok Chi
	Mr. Randy Harris	

Hong Kong, 29th June 2004

Website: www.imagi.com.hk