



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 2006

OPERATING RESULTS

The Board of Directors (the “Board”) of Imagi International Holdings Limited (the “Company”) hereby announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th September 2006 together with the unaudited comparative figures for the corresponding period in 2005 as follows:

Condensed Consolidated Income Statement

		Six months ended 30th September	
	Notes	2006 HK\$'000 (unaudited)	2005 HK\$'000 (unaudited) (as restated)
Continuing operation			
Turnover	3	259	243
Cost of sales		(541)	(6,004)
Gross loss		(282)	(5,761)
Other income		2,943	3,582
Distribution costs		–	(428)
Impairment loss recognised in respect of computer graphics (“CG”) animation pictures		–	(4,625)
Administrative and other operating expenses		(11,946)	(33,637)
Finance costs		(2,141)	(5)
Loss before taxation	4	(11,426)	(40,874)
Income tax expense/credit	5	(61)	145
Loss for the period from continuing operation		(11,487)	(40,729)
Discontinued operation			
Results for the period from discontinued operation	6	–	–
		(11,487)	(40,729)
Attributable to:			
Equity holders of the Company		(11,476)	(40,714)
Minority interests		(11)	(15)
		(11,487)	(40,729)
Basic loss per share	7	(0.92 HK cents)	(3.48 HK cents)

Condensed Consolidated Balance Sheet

		30th September 2006 HK\$'000 (unaudited)	31st March 2006 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment		62,141	57,191
CG animation pictures		304,302	219,576
Goodwill		2,799	2,799
Interest in an associate		–	–
Available-for-sale investments		3,201	1,201
		372,443	280,767
Current assets			
Inventories		7	–
Trade and other receivables	8	9,507	6,882
Amount due from an associate		–	350
Tax recoverable		745	67
Bank balances and cash		56,735	105,156
		66,994	112,455
Current liabilities			
Other payables		9,017	12,358
Unearned revenue		4,253	3,976
Tax payable		69	862
Obligations under finance lease		–	–
– due within one year		–	122
Bank borrowings – due within one year		50,000	50,000
		63,339	67,318
Net current assets		3,655	45,137
Total assets less current liabilities		376,098	325,904
Non-current liabilities			
Bank borrowings – due after one year		144,893	94,463
Convertible notes		61,448	59,748
Deferred taxation		363	–
		206,704	154,211
NET ASSETS		169,394	171,693
Capital and reserves			
Share capital		125,573	122,035
Reserves		43,774	49,600
Equity attributable to equity holders of the Company		169,347	171,635
Minority interests		47	58
TOTAL EQUITY		169,394	171,693

Notes:

1. Basis of Preparation

The unaudited condensed consolidated 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 with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

* For identification purpose only

2. Principal Accounting Policies

The unaudited condensed consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments, which are measured at fair values.

The accounting policies used in the unaudited condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31st March 2006, except as described below.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by the HKICPA, which are either effective for accounting periods beginning on or after 1st December 2005, 1st January 2006 or 1st March 2006. The adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC)-INT 8	Scope of HKFRS 2 ²
HK(IFRIC)-INT 9	Reassessment of Embedded Derivatives ³
HK(IFRIC)-INT 10	Interim Financial Reporting and Impairment ⁴

¹ Effective for annual periods beginning on or after 1st January 2007.

² Effective for annual periods beginning on or after 1st May 2006.

³ Effective for annual periods beginning on or after 1st June 2006.

⁴ Effective for annual periods beginning on or after 1st November 2006.

3. Segment Information

Business segments

No business segment analysis is presented for the six months ended 30th September 2006 as the Group’s turnover and results were wholly contributed by activities from production, licensing and sales of CG animation pictures.

During the period ended 30th September 2005, the Group was organised into two operating divisions which formed the basis on which the Group reported its primary segment information.

Principal activities are as follows:

CG animation pictures	–	Production, licensing and sales of CG animation pictures
Management consultancy services	–	Provision of management consultancy services

Subsequent to 31st March 2006, the Directors of the Company resolved to cease the Group’s management consultancy services operations (see note 6).

Segment information about these two operating divisions is presented below for the six months ended 30th September 2005:

	Continuing operation	Discontinued operation	
	CG animation pictures HK\$'000	Management consultancy services HK\$'000	Consolidated HK\$'000
TURNOVER			
External sales	243	3,809	4,052
RESULTS			
Segment results	(24,179)	–	(24,179)
Other income			3,582
Unallocated corporate expenses			(20,272)
Finance costs			(5)
Loss before taxation			(40,874)
Income tax credit			145
Loss for the period			(40,729)

4. Loss Before Taxation

	Six months ended 30th September	
	2006 HK\$'000	2005 HK\$'000
Loss before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	7,736	6,328
Less: amounts capitalised in CG animation pictures and inventories	(7,105)	(5,744)
	631	584
Amortisation of CG animation pictures (included in cost of sales)	–	5,619

5. Income Tax Expense/Credit

	Six months ended 30th September	
	2006 HK\$'000	2005 HK\$'000
The charge (credit) comprises:		
Taxation in other jurisdictions	46	45
Overprovision in prior years		
– Hong Kong	–	(190)
– Other jurisdictions	(348)	–
Deferred taxation		
– Current year	363	–
	61	(145)

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 had no assessable profits for the period.

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

6. Discontinued Operation

On 4th May 2006, the Directors of the Company approved a deed of termination in respect of the consultancy services agreement entered into by the Company and Boto International Holdings Limited (“Boto”), an associate of the Group. During the period, the Group ceased to provide management consultancy services to Boto.

The results of management consultancy services for the interim reporting period were as follows:

	Six months ended 30th September	
	2006 HK\$'000	2005 HK\$'000
Turnover	–	3,809
Cost of sales	–	(3,809)
Results for the period	–	–

The results of management consultancy services did not make any significant contribution to the results and cash flows of the Group during the interim period.

7. **Loss Per Share**
The calculation of the basic loss per share attributable to the equity holders of the Company for the period is based on the following data:

	Six months ended 30th September	
	2006	2005
Loss for the period attributable to equity holders of the Company	(HK\$11,476,000)	(HK\$40,714,000)
Number of shares: Weighted average number of ordinary shares of HK\$0.10 each for the purpose of calculating basic loss per share	1,246,428,264	1,169,788,160

For the purpose of calculating basic loss per share, the weighted average number of ordinary shares for 2005 has been adjusted for the effect of the share subdivision.

No diluted loss per share is presented as the exercise of share options and the conversion of convertible notes during the period would result in a decrease in loss per share.

From discontinued operation
No basic earnings/loss per share is presented as there was no earnings contributed from discontinued operation for both periods.

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 the balance sheet dates is stated as follows:

	30th September 2006 HK\$'000	31st March 2006 HK\$'000
0 to 30 days	144	–
Over 60 days	–	39
	<hr/>	<hr/>
Total trade receivables	144	39
Other receivables and prepayments	9,389	6,843
	<hr/>	<hr/>
	9,533	6,882

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the periods ended 30th September 2006 and 2005. No dividend was paid during the period.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 30th September 2006, the Group reported a loss attributable to shareholders of HK\$11.5 million, an improvement of HK\$29.2 million, as compared to HK\$40.7 million for the same period of last year. The improvement is largely attributable to cost control measures leading to a reduction in administrative and other operating expenses and the non-recurrence of impairment losses and one-time share options expenses which were recognized during the corresponding period last year.

The low turnover for the period can be attributed to i) turnover from the Group’s current projects are not recognised until their completion and delivery and ii) cessation of management consultancy services with effect from the current period. Therefore, the Board believes that loss for the interim period would only be transitional and the final results will see the recognition of the corresponding turnover and results in relation to the Group’s current projects upon their delivery.

CG Animation Pictures On Hand

Both *The Highlander* (“*Highlander*”) and *Teenage Mutant Ninja Turtles* (“*TMNT*”) are in their final stages of production. The production of *Highlander* at MadHouse in Japan under the direction of anime master Yoshiaki Kawajiri was completed in November 2006 and delivery to distributors is currently underway.

At the Group’s Hong Kong studio, *TMNT* also enters into its final few months of production and the film is planned for a major theatrical release worldwide in March 2007.

New Feature Film Contracts

Consistent with the Group’s strategy in bringing the best CG animation into action hero animation feature films, the Group obtained the license option rights to produce new CG animated feature length motion pictures of two famous action hero franchises during the period.

In June 2006, the Group obtained the license option rights from Tatsunoko Production Co. Ltd. for *Science Ninja Team Gatchaman* (“*Gatchaman*”), one of the longest running anime franchises and pioneering Japanese anime franchises to gain international popularity.

In August 2006, a similar agreement was reached with Tezuka Productions Co. Ltd. (“Tezuka”) in relation to *Astro Boy* (“*Astro Boy*”), one of the best known and the most revered Japanese anime franchises of all time.

Gatchaman and *Astro Boy* are currently scheduled to be released in 2008 and 2009 respectively.

To facilitate the best implementation and production of these and many more exciting projects coming through the Group’s pipeline, the Group has expanded its facilities both in Hong Kong and Los Angeles. The Group’s Los Angeles studio had been relocated to new facilities of approximately 14,000 square feet and provisioned to accommodate the Hollywood-based creative teams working on the Group’s projects. In November 2006, the Group’s Hong Kong production studio added an additional floor to accommodate the increased workload from the CG film slate. After the expansion, the Group’s Hong Kong studio has its floor area enlarged by 12,500 square feet to 69,400 square feet and is ready to house another over 100 studio staff members, readying the Group for further expansion in production capacity.

Share Subdivision

During the period, the Company has successfully completed the Share Subdivision, which became effective on 22nd September 2006. Under the Share Subdivision, the issued and unissued Shares of HK\$0.50 each in the share capital of the Company was subdivided into 5 Subdivided Shares of HK\$0.10 each. The Board believes the Share Subdivision can improve the liquidity in trading of shares of the Company and thereby would attract more investors and widen the Shareholder’s base. As there will be no change to the board lot size, the Share Subdivision would enable investors to reduce the investment amount in trading for one board lot of Subdivided Shares.

Prospects

The current financial year is of extraordinary significance in the Group’s history, as the Group’s first two animation feature films, *TMNT* and *Highlander*, are both nearing completion and delivery, and will both make their debut before the end of the financial year.

As *Highlander* is launched to anime fans around the world after its delivery to international distributors beginning in December 2006, we believe the western-cult series favorite, *Highlander*, combined with Japanese director Yoshiaki Kawajiri’s masterful anime, will cut a new path in animation history by creating an entertainment hybrid that will no doubt appeal to legions of fans everywhere.

TMNT is entering its final stages of production and is expected to release to worldwide audiences in March 2007, distributed by Warner Bros. Pictures, Inc. and The Weinstein Company LLC. *TMNT* is a significant milestone for the Group as well as for Hong Kong’s creative industry, as it represents the first top-tier CG animated feature film produced in Hong Kong for global distribution. *TMNT* showcases the Group’s storytelling, artistic, technical prowess and takes CG animation into a new market segment: fun-packed action movies for audiences of all ages.

To continue the growth of the Group’s animation portfolio, the Group continues to seek and acquire new and exciting franchises for transforming into its next animation feature films. After obtaining the license option rights to *Gatchaman* in June 2006, the Group has produced a teaser and pre-marketing materials for presentation to potential distributors with the goal of securing international distribution arrangements. Certain pre-production and design work have also begun. It is expected that the film will feature a unique and exciting look that will pleasantly surprise fans of this long-running franchise as well as animation fans seeking an action-packed CG animation film. The film is currently intended for theatrical release in 2008.

The action-hero orientation of the Group’s CG animation films shall continue with *Astro Boy*. The Group optioned rights for *Astro Boy* from Tezuka of Japan in August 2006 to produce a new CG animated feature length motion picture intended for theatrical release in 2009. Considered Asia’s equivalent of North America’s *Mickey Mouse*, the *Astro Boy* franchise has garnered enormous success around the world in animation, comics, merchandising and toys. *Astro Boy*’s induction into the Robot Hall of Fame in 2004 is further testament to its significance in animation history. The Group seeks to once again demonstrate its technical and creative leadership in bringing comic-based action heroes to life in feature animation through *Astro Boy*’s production. Similar to the Group’s other feature film productions, the Group’s US studio will create a completely new adventure story for the boy-sized robot “Atom” and the Group’s Hong Kong animation studio will produce the CG animation for this exciting new film.

To continuously uphold the Group’s highest management quality as it briskly develops, the Group continues to strengthen the management team through the addition of veterans of the media and entertainment industry. With the collaboration of the Group’s key management staff and these extensively experienced professionals, the Group seeks to continue to strengthen its core competence in CG animation feature films, as well as to further explore opportunities in other synergistic business segments such as video games, visual effects and merchandising.

With the many action-packed CG animation feature films going into production and many more to come, the Group is well on its way to not only being a comprehensive world-class animation studio, but one with unique strengths that set it apart from peers around the world.

Liquidity and Capital Resources

The Group generally finances its operations with internally generated cash flows and banking facilities. As at 30th September 2006, the Group had available aggregate banking facilities of HK\$80.0 million of which approximately HK\$50.0 million had been utilized. As at the same date, US\$18.6 million had been drawn from the film financing provided by City National Bank with a completion guarantee from cineFinance Insurance Services, LLC. and was used to finance the production of *TMNT*. The Group’s cash deposits and bank balances as at that date amounted to approximately HK\$56.7 million. 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 1.1 and a gearing ratio of 44.35% (being total borrowings to total assets) as of the period 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 period. 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.

Pledge of Assets

At 30th September 2006, a CG animation picture of the Group (the “Picture”) and all rights associated with or relating to the Picture, with aggregate carrying value of HK\$204,803,000 (at 31st March 2006: HK\$147,710,000) were pledged as securities, in order of priorities, to (i) a bank (the “Bank”) for the credit facilities granted to the Group; (ii) an insurance company for the guarantee granted to the Bank in favour of the Group; and (iii) two independent third parties for their distribution of and exploitation in the Picture according to certain agreements.

Contingent Liabilities

As at 30th September 2006, the Group had no significant contingent liabilities.

Human Resources

As at 30th September 2006, the Group employed over 450 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. Remuneration packages of Directors and senior management are reviewed and approved by the Remuneration Committee formed by two Independent Non-executive Directors and one Executive Director of the Company. 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.

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 meets regularly with the Group’s senior management and the external auditors to consider and review the Group’s financial statements, 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.

The said unaudited condensed consolidated financial statements for the period covered by the Announcement have also been reviewed by the Audit Committee & the Company’s external auditors, Deloitte Touche Tohmatsu, in accordance with the Statement of Auditing Standard 700 “Engagement to Review Interim Financial Reports” as issued by the HKICPA.

CORPORATE GOVERNANCE

The Company is committed to maintain good corporate governance standards and procedures to safeguard the interests of all shareholders and to enhance accountability and transparency. The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules during the six months ended 30th September 2006.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) of the Listing Rules as a code of conduct of the Company for Directors’ securities transactions. Having made specific enquiry of all Directors, the Directors has complied with the required standard set out in the Model Code and the Company’s code of conduct regarding Directors’ securities transactions throughout the period ended 30th September 2006.

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 2006 required by Appendix 16 of 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 & Co-chief Executive Officer

Hong Kong, 4th December 2006

Website: www.imagi.com.hk

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 Co-chief Executive Officer</i>) Mr. Douglas Esse Glen (<i>Co-chief Executive Officer</i>) Mr. Tse Chi Man, Terry Mr. Yip Kar Hang, Raymond Mr. Thomas Knox Gray
<i>Non-executive Director:</i>	Mr. Lam Pak Kin, Philip
<i>Independent Non-executive Directors:</i>	Mr. Lai Chi Kin, Lawrence Mr. Ng See Yuen Mr. Oh Kok Chi