IMAGI INTERNATIONAL HOLDINGS LIMITED
意馬國際控股有限公司*

INTERIM REPORT 2005/2006

* For identification purpose only

BOARD OF DIRECTORS

Executive Directors

Mr. KAO Cheung Chong, Michael *(Chairman)*
Mr. KAO Wai Ho, Francis *(Deputy Chairman and Chief Executive Officer)*
Mr. TSE Chi Man, Terry
Mr. YIP Kar Hang, Raymond

Non-executive Director

Mr. LAM Pak Kin, Philip

Independent Non-executive Directors

Mr. LAI Chi Kin, Lawrence
Mr. NG See Yuen
Mr. OH Kok Chi

AUDIT COMMITTEE

Mr. OH Kok Chi *(Chairman)*
Mr. LAI Chi Kin, Lawrence
Mr. NG See Yuen

COMPANY SECRETARY

Mr. YIP Kar Hang, Raymond

REGISTERED OFFICE

Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units 1909-12, 19th Floor
Eight Commercial Tower
8 Sun Yip Street
Chai Wan
Hong Kong

BERMUDA RESIDENT REPRESENTATIVE

Butterfield Fund Services (Bermuda) Limited

LEGAL ADVISERS

As to Hong Kong law:
Deacons
Preston Gates & Ellis
To, Lam & Co

As to Bermuda law:
Conyers Dill & Pearman

As to USA law:
Weissmann Wolff Bergman Coleman Grodin & Evall LLP

AUDITORS

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Standard Chartered Bank (HK) Limited

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
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Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Secretaries Limited
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56 Gloucester Road
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INTERNET WEBSITE

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The Board of Directors ("the Board") of Imagi International Holdings Limited (the "Company") hereby announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th September 2005 together with the unaudited comparative figures for the corresponding period in 2004 as follows:

Condensed Consolidated Income Statement

	Notes	(Unaudited) Six months ended 30th September **2005** **HK$'000**	2004 HK$'000 (as restated)
Turnover	4	**4,052**	64,714
Cost of sales		**(9,813)**	(40,539)
Gross (loss) profit		**(5,761)**	24,175
Other operating income		**3,001**	12
Bank interest income		**581**	499
Distribution costs		**(428)**	(92)
Impairment loss recognised in respect of CG animation pictures	5	**(4,625)**	–
Expense in relation to share options granted to employees	6	**(19,973)**	–
Administrative and other operating expenses		**(13,664)**	(13,389)
Finance costs		**(5)**	(14)
Share of profit of an associate		**–**	20,457
(Loss) profit before taxation	7	**(40,874)**	31,648
Income tax expense	8	**145**	142
(Loss) profit for the period		**(40,729)**	31,790
Attributable to:			
Equity holders of the Company		**(40,714)**	31,821
Minority shareholders		**(15)**	(31)
		(40,729)	31,790
(Loss) earnings per share	10		
– basic		**(HK$0.174)**	HK$0.154
– diluted		**N/A**	HK$0.152

Condensed Consolidated Balance Sheet

	Notes	30th September 2005 (unaudited) HK$'000	31st March 2005 (audited) HK$'000
Non-current assets			
Property, plant and equipment	11	**50,581**	45,123
CG animation pictures		**139,858**	86,196
Goodwill		**2,799**	2,799
Investments in securities		**–**	1,201
Available-for-sale investments		**1,201**	–
		194,439	135,319
Current assets			
Inventories		**276**	–
Trade and other receivables	12	**4,940**	5,298
Amount due from an associate		**923**	1,586
Taxation recoverable		**67**	20,776
Pledged bank deposits		**–**	39,800
Bank balances and cash		**42,769**	99,496
		48,975	166,956
Current liabilities			
Other payables and receipts in advance		**6,521**	27,530
Taxation payable		**29,182**	73,917
Obligations under finance lease - due within one year		**242**	238
Bank borrowings	13	**29,059**	–
		65,004	101,685
Net current (liabilities) assets		**(16,029)**	65,271
Total assets less current liabilities		**178,410**	200,590
Non-current liabilities			
Obligations under finance lease - due after one year		**–**	122
		178,410	200,468
Capital and reserves			
Share capital	14	**117,078**	116,958
Reserves		**61,251**	83,414
Equity attributable to equity holders of the Company		**178,329**	200,372
Minority interests		**81**	96
Total equity		**178,410**	200,468

Condensed Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company								
	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000	Translation reserve HK$'000	Share option reserve HK$'000	Retained profits/ (Accumulated loss) HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1st April 2004	68,937	327	909	705	–	147,135	218,013	143	218,156
Exchange differences on translation of overseas operations and recognised directly in equity	–	–	–	(45)	–	–	(45)	–	(45)
Net profit for the period	–	–	–	–	–	31,821	31,821	(31)	31,790
Total recognised income and expenses for the period	–	–	–	(45)	–	31,821	31,776	(31)	31,745
Exercise of share options	448	712	–	–	–	–	1,160	–	1,160
Rights issue of shares	34,468	39,983	–	–	–	–	74,451	–	74,451
Shares issued at premium	13,000	28,080	–	–	–	–	41,080	–	41,080
Share issue expenses	–	(4,979)	–	–	–	–	(4,979)	–	(4,979)
At 30th September 2004	116,853	64,123	909	660	–	178,956	361,501	112	361,613
Exchange differences on translation of overseas operations and recognised directly in equity	–	–	–	753	–	–	753	–	753
Net loss for the period	–	–	–	–	–	(162,091)	(162,091)	(16)	(162,107)
Total recognised income and expenses for the period	–	–	–	753	–	(162,091)	(161,338)	(16)	(161,354)
Exercise of share options	105	104	–	–	–	–	209	–	209
At 31st March 2005	116,958	64,227	909	1,413	–	16,865	200,372	96	200,468
Exchange differences on translation of overseas operations and recognised directly in equity	–	–	–	(1,529)	–	–	(1,529)	–	(1,529)
Net loss for the period	–	–	–	–	–	(40,714)	(40,714)	(15)	(40,729)
Total recognised expenses for the period	–	–	–	(1,529)	–	(40,714)	(42,243)	(15)	(42,258)
Exercise of share options	120	107	–	–	–	–	227	–	227
Recognition of equity settled share based payment (note 6)	–	–	–	–	19,973	–	19,973	–	19,973
At 30th September 2005	117,078	64,334	909	(116)	19,973	(23,849)	178,329	81	178,410

Condensed Consolidated Cash Flow Statement

	Six months ended 30th September 2005 HK$'000 (unaudited)	2004 HK$'000 (unaudited)
Net cash (used in) from operating activities	**(54,974)**	20,312
Net cash used in investing activities		
Cost incurred in CG animation pictures	**(57,197)**	(13,283)
Decrease in pledged bank deposits	**39,800**	–
Other investing activities	**(12,229)**	(9,882)
	(29,626)	(23,165)
Net cash from financing activities		
Proceeds from bank borrowings	**29,020**	6,000
Repayment of bank borrowings	**–**	(6,757)
Proceeds on issue of shares	**–**	112,821
Other financing cash flows	**(116)**	(1,147)
	28,904	110,917
Net (decrease) increase in cash and cash equivalents	**(55,696)**	108,064
Cash and cash equivalents at beginning of the period	**99,496**	24,591
Effect of foreign exchange rate changes	**(1,070)**	(1,333)
Cash and cash equivalents at end of the period	**42,730**	131,322

Notes to the Condensed Financial Statements

For the six months ended 30th September 2005

1. Basis of Preparation

The condensed 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 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. Principal Accounting Policies

The condensed financial statements have been prepared under the historical cost convention except for available-for-sale investments/investments in securities, which are measured at fair values.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st March 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1st January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of tax of an associate have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has also resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are presented:

(i) Business Combinations

In the current period, the Group has applied the transitional provisions of HKFRS 3 "Business Combinations" and the principal effects are summarised below:

Goodwill

In the previous periods, goodwill arising on acquisitions prior to 1st April 2001 was held in reserves, and goodwill arising on acquisitions after 1st April 2001 was capitalised and amortised over its estimated useful life.

The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1st April 2005 onwards and goodwill is tested for impairment at least annually or in the financial year in which the acquisition takes place. Goodwill arising on acquisition after 1st April 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated (see note 3 for the financial impact).

(ii) Share-based Payments

In the current period, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Group, determined at the date of grant of the share options, over the vesting period.

Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st April 2005. In relation to share options granted before 1st April 2005, the Group has not applied HKFRS 2 to share options granted on or before 7th November 2002 and share options that were granted after 7th November 2002 and had been vested before 1st April 2005 in accordance with the relevant transitional provisions. Because there were no unvested share options as at 1st April 2005, comparative figures for 2004 have not been restated. As a result of this change in accounting policy, the Group has recognised the shared-based payment in respect of options granted during the six months ended 30th September 2005 of HK$19,973,000 which has caused a corresponding increase to the Group's loss for the period (see note 3 for the financial impact).

(iii) Financial Instruments

In the current period, HKAS 32 "Financial Instruments: Disclosure and Presentation" requires retrospective application whereas HKAS 39 "Financial Instruments: Recognition and Measurement", which is effective for accounting periods beginning on or after 1st January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effects on the Group as a result of the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31st March 2005, the Group classified and measured its investments in debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 "Accounting for Investments in Securities" issued by the HKICPA ("SSAP 24"). Under SSAP 24, the Group's investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses while "other investments" are measured at fair value, with unrealised gains or losses included in profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1st April 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1st April 2005, the Group classified and measured its investments in securities in accordance with the transitional provisions of HKAS 39. Club debentures previously accounted for as "investments in securities" with carrying amounts of approximately HK$1,201,000 were reclassified to "available-for-sale investments".

Financial assets and financial liabilities other than debt and equity securities

From 1st April 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss". "Other financial liabilities" are carried at amortised cost using the effective interest method. The adoption of HKAS 39 has had no material effect on the Group in the current and prior accounting periods.

The HKICPA has also issued the following standards and interpretations ("INT") that are not yet effective. The Group has considered these standards and INT but is not yet in a position to determine whether these standards and INT would have a material effect on how the results of operations and financial position of the Group are prepared and presented:

HKAS 1 (Amendment)	Capital Disclosure [1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 and HKFRS 4 (Amendments)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an Arrangement Contains a Lease[2]
HK(IFRIC) – INT 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
HK(IFRIC) – INT 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment[3]

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

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

3 Effective for annual periods beginning on or after 1st December 2005.

3. Summary of the Effects of the Changes in Accounting Policies

The effects of the changes in the accounting policies described in note 2 on the results of the Group for the current and prior periods are as follows:

	Six months ended 30th September	
	2005	2004
	HK$'000	HK$'000
Decrease in amortisation of goodwill	**227**	–
Expenses in relation to share options granted to employees	**(19,973)**	–
Increase in loss for the period	**(19,746)**	–

Analysis of increase in (loss) profit for the period by line items presented according to their function:

	Six months ended 30th September	
	2005	2004
	HK$'000	HK$'000
Expenses in relation to share options granted to employees	**(19,973)**	–
Administrative and other operating expenses	**227**	–
Decrease in income tax expense	**–**	931
Decrease in share of profit of an associate	**–**	(931)

4. Segment Information

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 sale 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 2005

	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 operating income			**3,001**
Bank interest income			**581**
Unallocated corporate expenses			**(20,272)**
Finance costs			**(5)**
Loss before taxation			**(40,874)**
Income tax expense			**145**
Loss for the period			**(40,729)**

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			12
Bank interest income			499
Unallocated corporate expenses			(13,389)
Finance costs			(14)
Share of profit of an associate			20,457
Profit before taxation			31,648
Income tax expense			142
Profit for the period			31,790

5. Impairment Loss Recognised in respect of CG Animation Pictures

During the period, the directors conducted a review of the Group's CG animation pictures in light of the current market condition with reference to the existing operating plan and budget, impairment loss of HK$4,625,000 has been identified and recognised in the consolidated income statement accordingly.

6. Share Options

The Company has a share option scheme for the primary purpose of providing incentives to employees, executives or officers, directors of the Company or any of its subsidiaries and any business consultants, agents, legal or financial advisers of the Company or any of its subsidiaries for their contribution to the Group. Details of the share options granted to employees of the Group outstanding during the current period are as follows:

	Number of share options
Outstanding at the beginning of the period	11,390,000
Granted during the period	20,500,000
Lapsed during the period	(2,020,000)
Exercised during the period	(240,000)
Outstanding at the end of the period	29,630,000

As mentioned in note 2, the Group has, for the first time, applied HKFRS 2 "Share-based Payment" to account for its share options in the current period. In accordance with HKFRS 2, fair value of share options granted to employees determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the Group's share option reserve. In the current period, share option expense of approximately HK$19,973,000 has been recognised in the income statement and a corresponding adjustment is made to the Group's share option reserve.

In the current period, share options were granted on 24th May 2005, 7th June 2005 and 27th July 2005.

The closing prices of the Company's shares immediately before the dates of grant of the 2005 options were HK$0.97, HK$0.99 and HK$1.00 respectively.

The closing prices of the Company's shares immediately before the dates on which the options were exercised ranged from HK$1.13 to HK$1.45.

The fair values of the options determined at the dates of grant using the Black-Scholes option pricing model were HK$0.9737, HK$0.9868 and HK$0.9672 respectively.

The following assumptions were used to calculate the fair values of share options:

	24th May 2005	7th June 2005	27th July 2005
Share price on 30th September 2005	HK$1.48	HK$1.48	HK$1.48
Share price on date of grant	HK$0.98	HK$0.94	HK$1.00
Expected life of options	5 years	5 years	5 years
Expected volatility	62.92%	62.92%	62.92%
Expected dividend yield	0%	0%	0%
Risk free rate	3.986%	3.986%	3.986%

For the purposes of calculating the fair value, no adjustment has been made in respect of options expected to be forfeited due to lack of historical data.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

7. (Loss) Profit Before Taxation

	Six months ended 30th September	
	2005	2004
	HK$'000	HK$'000
(Loss) profit before taxation has been arrived at after charging:		
Depreciation and amortisation of property, plant and equipment	**6,328**	4,558
Less: amounts capitalised in CG animation pictures and inventories	**(5,744)**	(3,999)
	584	559
Amortisation of goodwill (included in administrative and other operating expenses)	**–**	227
Amortisation of CG animation pictures (included in cost of sales)	**5,619**	6,743

For the six months ended 30th September 2004, the share of profit of an associate included the share of taxation of an associate amounted to approximately HK$931,000.

8. Income Tax Expense

	Six months ended 30th September 2005 HK$'000	2004 HK$'000
The charge comprises:		
Taxation in other jurisdictions	**45**	–
Overprovision in prior years		
– Hong Kong	**(190)**	–
– Other jurisdictions	**–**	(142)
	(145)	(142)

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 period.

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

9. Dividends

The directors do not recommend the payment of an interim dividend for the periods ended 30th September 2005 and 2004. No dividend was paid during the period.

10. (Loss) Earnings Per Share

The calculation of the basic and diluted (loss) earnings per share attributable to the equity holders of the Company for the period is based on the following data:

	Six months ended 30th September 2005 HK$'000	2004 HK$'000
(Loss) profit for the period attributable to equity holders of the Company	**(40,714)**	31,821
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	**233,957,632**	206,940,352
Effect of dilutive potential ordinary shares in respect of share options	**N/A**	2,922,705
Weighted average number of ordinary shares for the purposes of diluted (loss) earnings per share	**N/A**	209,863,057

No diluted loss per share is presented for the period ended 30th September 2005 as the exercise of share options during the period would result in a decrease in loss per share.

11. Property, Plant and Equipment

During the six months ended 30th September 2005, the Group incurred approximately HK$12,018,000 (2004: HK$10,819,000) in the acquisition of property, plant and equipment mainly for the purpose of improving and expanding the production capability.

12. 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 and other receivables at the balance sheet dates is stated as follows:

	30th September 2005 HK$'000	31st March 2005 HK$'000
0 to 30 days	**105**	–
Over 90 days	**39**	1,123
Total trade receivables	**144**	1,123
Other receivables and prepayments	**4,796**	4,175
	4,940	5,298

13. Bank Borrowings

During the six months ended 30th September 2005, the Group obtained new bank loans in the aggregate amount of HK$29,020,000 to finance the Group's CG animation pictures production. The loans bear interest at market rates and are repayable by instalments over a period of 12 months.

14. Share Capital

	Number of shares	**Values** HK$'000
Authorised:		
Ordinary shares of HK$0.50 each at 31st March 2005 and 30th September 2005	500,000,000	250,000
Issued and fully paid:		
At 1st April 2005	233,915,500	116,958
Exercise of share options	240,000	120
At 30th September 2005	234,155,500	117,078

During the six months ended 30th September 2005, the Company issued 240,000 ordinary shares of HK$0.50 each in the Company for cash at HK$0.945 per share as a result of the exercise of share options.

All the shares issued during the period rank *pari passu* with the then existing shares in all respects.

15. Related Party Transactions

During the six months ended 30th September 2005, the Group received management consultancy income of approximately HK$3,809,000 (2004: HK$4,200,000) from Boto International Holdings Limited ("BIHL"), an associate of the Group. This transaction was carried out in accordance with the terms of the relevant consultancy service agreement.

16. Capital Commitments

At the balance sheet dates, the Group had the following commitments for capital expenditure in respect of CG animation pictures production:

	30th September 2005 HK$'000	31st March 2005 HK$'000
Authorised but not contracted for	**34,374**	37,033
Contracted for but not provided in the financial statements	**5,932**	513

17. Post Balance Sheet Events

On 8th November 2005, the Company entered into subscription agreements with Winnington Capital Limited, an independent third party, and Mr. Kao Cheung Chong, Michael ("Mr. Kao"), Chairman and an executive director of the Company, pursuant to which the Company agreed to issue, and Winnington Capital Limited and Mr. Kao agreed to subscribe for, convertible notes in the aggregate principal amounts of HK$50,000,000 and HK$20,000,000 respectively. The subscription transaction with Winnington Capital Limited was completed on 30th November 2005 but the subscription transaction with Mr. Kao has not yet been completed up to the date of this report. Details of the above two transactions are set out in the Company's announcement dated 10th November 2005 to all shareholders.

Management Discussion and Analysis

Business Review

For the six months ended 30th September 2005, the Group recorded a turnover of HK$4.1 million (2004: HK$64.7 million) and an operating loss for the period of HK$40.7 million (2004: profit of HK$31.8 million).

The decrease in turnover reflects the transitional stage of the Group's shifting of operational focus from the highly competitive outsourcing production operations to the production of its own proprietary projects in which there is more potential for return upside. The Group is currently developing two film productions, namely *Teenage Mutant Ninja Turtles* ("TMNT") and *The Highlander* ("Highlander"), of which promising revenues are expected and will be reflected in the annual results of the Group for the year ending 31st March 2007.

Loss for the period is mainly attributed to that i) current projects are still in progress and corresponding revenues are yet to be booked; ii) as a result of the recent change in accounting policies, expenses of approximately HK$20 million were recognised in relation to share options granted to employees by the Group as part of its incentive scheme; and iii) after-tax profit shared for the period from an associate of the Group, BIHL, which is engaged in the manufacture and sale of Christmas festive products and leisure furniture, has been set off against the unrecognised after-tax loss brought forward from previous year ended 31st March 2005, and thus no share of after-tax profit from an associate is reflected in current period's results.

In view of the rapid expansion of the pre-production studios, both in Hong Kong and the USA, called for by the dynamic growth of the Group's businesses in CG animation, visual effects production and game development, the Company has entered into two agreements in relation to the subscription for convertible notes in the Company subsequent to the balance sheet date.

On 8th November 2005, the Company entered into the Winnington subscription agreement with Winnington Capital Limited pursuant to which the Company agreed to issue and Winnington Capital Limited agreed to subscribe for, or procure the subscription of, the Winnington convertible note in an aggregate principal amount of HK$50 million. On the same day, the Company entered into the connected subscription agreement with Mr. Kao, the chairman and an executive director of the Company, pursuant to which the Company agreed to issue and Mr. Kao agreed to subscribe for the connected convertible note in an aggregate principal amount of HK$20 million. While the former transaction was completed on 30th November 2005, the latter constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to approval from shareholders other than Mr. Kao and his associates by way of poll at the special general meeting to be convened on 20th December 2005. Net proceeds from the issue of the convertible notes, after deduction of related expenses payable by the Company, will be approximately HK$68 million.

CG Animation Pictures

In addition to the continued development of its owned CG animated projects, during the period, the Group has started two new business streams, namely (i) visual effects, which involves the application of CG animation and visual effects into live-action movies; and (ii) game development, which involves the development of video game and arrangement of game publishing. These two new streams of business have begun generating turnover for the Group during the period.

Management Consultancy Services

Interim 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 had slightly decreased by HK$0.4 million, and it was due to the retirement and resignation of some senior executives previously providing consultancy services to BIHL.

Prospects

TMNT and *Highlander*, two of the Group's major feature film productions, are currently under full production in the Group's studios and in Kabushiki Kaisha Madhouse of Japan respectively.

As *Highlander* reaches audiences in late 2006, the Group believes that the artistry of acclaimed anime director Yoshiaki Kawajiri, combined with the well-established story line of *Highlander*, will give rise to a new genre of animated film fusing the East with the West.

Through *TMNT*, which will be completed in early 2007 and distributed by Warner Bros. Pictures, Inc. and The Weinstein Company LLC internationally, the Group is confident that its non-stop action and great humor would not only give audiences worldwide a new look and feel of the franchise, but would also create an unprecedented and exhilarating experience for CG animation fans.

The production model of *TMNT*, which leverages on both Hollywood creative talents via the Group's creative studio in Los Angeles and the proven efficiency and quality of the Group's Hong Kong production studio, continues to prove itself as a well fitted model as production progresses. The Group is actively sourcing and creating several new and exciting titles for the future and will continue to adopt this model through expanding its creative studio in USA and recruiting key Hollywood talents, as well as further strengthening and growing its production base in Hong Kong. To provide a steady and robust source of funding for the production of TMNT, the Group has completed a US$27.5 million film financing with City National Bank of the USA, with a completion guarantee from cineFinance Insurance Services, LLC, subsequent to the balance sheet date. The financing, which serves to minimize the Group's equity exposure, is one of the largest film financing ever completed for Asian film projects and sets a benchmark for the financing of the Group's film projects in the future.

Leveraging the artistic and technical strengths of the Group, the Group's video game development is steadily progressing. The Group is currently working with an experienced game industry consultant in the USA in developing an exciting game that will be demonstrated to prospective publishers in various industry exhibitions in the coming year.

iDream Production Limited, the Group's recently established visual effects production company, has gradually established its foothold in the booming market of visual effects production for live-action movies. Its visual effects productions, including those of the critically acclaimed movie "*Home Sweet Home*", "*Mob Sister*" and various commercials, were delivered at quality that was well received by its clients. Several new projects are currently under production or negotiations with various moviemakers and production companies. The Group is confident that the reputable quality of all of the Group's productions in both animation and visual effects can foster the continued success of this stream of business.

With the relentless development in the Group's core CG animation business and its new streams of business, the Group is well on its way to becoming a comprehensive world-class CG animation studio, creating art that pleases audiences worldwide and providing satisfaction for investors and stakeholders alike.

Major Customers and Suppliers

For the period ended 30th September 2005, sales attributable to the largest and the five largest customers accounted for 94.0% (2004: 87.2%) and 100% (2004: 100%) of the total turnover respectively. The only raw materials required by the Group's operations is digital audio tapes supplied by a few suppliers, purchase attributable to the largest and the five largest suppliers accounted for less than 1% (2004: less than 1%) of the total costs for the period.

Other than as disclosed in note 15 of to the financial statements, none of the directors, their respective associates (as defined in the Listing Rules), or any substantial shareholder of the Company (who or which, to the knowledge of the directors, owns more than 5 per cent of the issued share capital of the Company) has any interest in any of the Group's five largest customers and suppliers.

Liquidity and Capital Resources

The Group generally finances its operations with internally generated cash flows and banking facilities. As at 30th September 2005, the Group had available aggregate banking facilities of HK$105.7 million of which approximately HK$29.3 million had been utilized. The Group's cash deposits and bank balances as at that date amounted to approximately HK$42.8 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 0.8 and a gearing ratio of 26.7% (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.

Charges on Assets

As at 30th September 2005, the Group had no charges on any of its assets.

Contingent Liabilities

As at 30th September 2005, the Group had no significant contingent liabilities.

Human Resources

As at 30th September 2005, the Group employed over 350 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.

A Remuneration Committee has also been established with a particular responsibility 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 members of senior management.

Closure of Register of Members

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

Directors' and Chief Executives' Interest in Securities and Underlying Shares

As at 30th September 2005, the interests of the directors and chief executives and their associates in the securities and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Future Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") in the Listing Rules were as follows:

Long position

(A) Interests in the Company's securities

	Number of ordinary shares of HK$0.50 each held				
Name of directors	**Personal interest**	**Corporate interest**	**Other interest**	**Total interest**	**Percentage of issued share capital**
Mr. Kao Cheung Chong, Michael	5,583,000	1,874,604 *(note (i))*	119,563,298 *(note (ii))*	127,020,902	54.25%
Mr. Kao Wai Ho, Francis	194,400	1,230,000 *(note (iii))*	119,563,298 *(note (ii))*	120,987,698	51.67%
Mr. Lam Pak Kin, Philip	406,800	–	–	406,800	0.17%
Mr. Lai Chi Kin, Lawrence	72,300	–	–	72,300	0.03%

Notes:

(i) These shares are held by Kessuda Consultants Limited whose entire issued share capital is beneficially owned by Mr. Kao Cheung Chong, Michael.

(ii) 2,439,597 shares of the Company are beneficially owned by Happy Nation Limited, whose entire issued share capital is beneficially owned by China Link Holding Limited, whose entire issued share capital is in turn beneficially owned by HSBC International Trustee Limited, acting as trustee for The Cheerco Trust, of which Mr. Kao Cheung Chong, Michael and his family members, including Mr. Kao Wai Ho, Francis, are discretionary objects. The remaining 117,123,701 shares which represents 50.02% of issued share capital of the Company, are beneficially owned by Sunni International Limited, 54.67% of whose issued share capital is beneficially owned by Happy Nation Limited.

(iii) These shares are held by Asia Pacific Glory Limited whose entire issued share capital is beneficially owned by Mr. Kao Wai Ho, Francis.

(B) Share options of the Company

Name of directors	Capacity	Number of options held	Number of underlying shares
Mr. Tse Chi Man, Terry	Beneficial owner	3,300,000	3,300,000
Mr. Yip Kar Hang, Raymond	Beneficial owner	2,300,000	2,300,000

(C) Interests in associated corporations

Name of directors	Name of associated corporations	Class of shares	Number of shares (personal interest)	Percentage of issued share capital
Mr. Kao Cheung Chong, Michael	BIHL	Ordinary shares of US$1 each	7,705	6.93%
	Sunni International Limited	Ordinary shares of US$1 each	5,637	54.67%
Mr. Lam Pak Kin, Philip	BIHL	Ordinary shares of US$1 each	1,053	0.95%
	Sunni International Limited	Ordinary shares of US$1 each	310	3.00%

Other than as disclosed above and the interests in certain non-voting 5% deferred shares in a subsidiary of the Company, none of the directors or chief executives, or their associates, had any interests or short positions in any securities or underlying shares of the Company or any of its associated corporations as defined in the SFO as at 30th September 2005.

Substantial Shareholders

To the best knowledge of the directors and according to the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO, other than the interests disclosed above in respect of certain directors, the following shareholders were interested in 5 per cent or more of the issued share capital of the Company as at 30th September 2005:

Ordinary shares of HK$0.50 each of the Company

Name of shareholder	Capacity shares	Number of ordinary shares held	Percentage of the issued share capital of the Company
CITIC Group	Interest of controlled corporation	12,750,000	5.45% *(note)*
CITIC International Financial Holdings Limited	Interest of controlled corporation	12,750,000	5.45% *(note)*
CITIC Pacific Limited	Interest of controlled corporation	12,750,000	5.45% *(note)*
Forever Glory Holdings Limited	Interest of controlled corporation	12,750,000	5.45% *(note)*
Golden Gateway Enterprises Inc.	Interest of controlled corporation	12,750,000	5.45% *(note)*
CITIC Capital Markets Holdings Limited	Interest of controlled corporation	12,750,000	5.45% *(note)*

Note: To the best knowledge of the directors, having made all reasonable enquiries, all of these shares are held by Success Invest Developments Limited, a wholly owned subsidiary of CITIC Capital Active Partner Fund Limited, whose capital is 45.6% owned by CITIC Capital Markets Holdings Limited, whose capital is in turn 50% owned by Forever Glory Holdings Limited (a wholly owned subsidiary of Golden Gateway Enterprises Inc., whose entire issued share capital is held by CITIC Pacific Limited) and 50% owned by CITIC International Financial Holdings Limited (whose capital is in turn 56% owned By CITIC Group) respectively.

Share Option Scheme

As at 30th September 2005, there were 29,630,000 outstanding options to subscribe for shares under the Company's share option scheme.

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 the internal controls and financial reporting matters including the review of the unaudited interim consolidated financial statements for the six months ended 30th September 2005. 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 interim consolidated financial statements for the period covered by this interim report 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 the HKICPA.

Corporate Governance

Throughout the period, 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 interim report, in compliance with the Code of Corporate Governance Report as set out in Appendices 14 and 23 to 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.

Pursuant to the Model Code 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 period ended 30th September 2005.

Appreciation

On behalf of the Board, I would like to thank my fellow management and staff for their dedication and hard work during the past period, as well as our worldwide viewers, distributors, business partners and shareholders for their support.

On behalf of the Board
Kao Wai Ho, Francis
Deputy Chairman &
Chief Executive Officer

Hong Kong, 14th December 2005

Deloitte.
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Independent Review Report

TO THE BOARD OF DIRECTORS OF IMAGI INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have been instructed by Imagi International Holdings Limited (the "Company") to review the interim financial report as set out on pages 3 to 18.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors of the Company.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th September 2005.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 14th December 2005