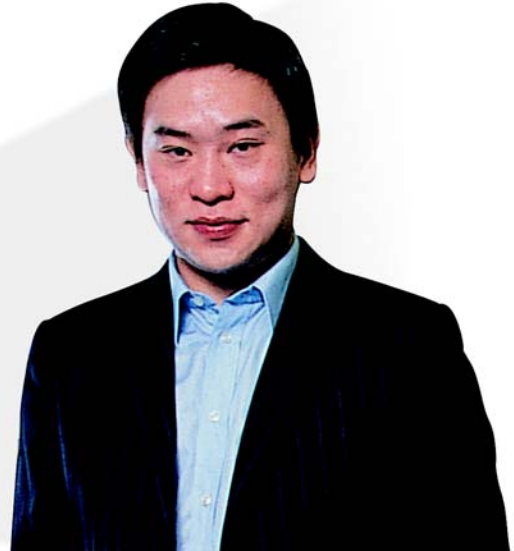




CEO'S REPORT



MR. FRANCIS KAO
Deputy Chairman and Chief Executive Officer

The financial year ended 31st March 2006 has been an “action-packed” year for Imagi.

This “action” is first represented by the two concurrent productions that are well underway. In the Group’s Hong Kong and US studios, around 400 CG talents are working days and nights to produce the *TMNT* CG animation movie, which would certainly set a new benchmark for Asia’s CG animation industry. Many new in-house developed techniques and technology have been employed in this film to give it a look and feel that competes with the very best that the industry has to offer. The film will be distributed by Warner Bros. Pictures, Inc. and The Weinstein Company LLC in 2007.

The production of the Group’s direct-to-video anime movie project, *The Highlander* (“*Highlander*”), is taking place in famous Japanese animation studio Kabushiki Kaisha Mad House in Tokyo under the direction of anime master Yoshiaki Kawajiri. This action anime film originating from the cult-followed western franchise *Highlander* will create a new genre of film that will amaze animation fans worldwide.

The Group’s strength has always been in producing cost efficient projects with quality that is on par with that of projects produced by top-end international studios. Through the development of our debut project *Zentrix™* and the Group’s current projects, the Group has gradually developed a unique quality that sets it apart from others in the ever more competitive computer animation market. Fun and exciting action is one of the qualities that have continued to remain in popularity from the movie viewer’s perspective. From the days of Bruce Lee and Jackie Chan movies and extending to the recent popularity of Kung-Fu-filled movies such as *Hero* and *Crouching Tiger, Hidden Dragon*, action has always been a forte of the Hong Kong creative



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industry. With the rich exposure to action and animation films from all around the world, particularly the countless interesting action films originating from the region, our animators have the ability to artfully infuse dramatic action into our animation projects. Intense and fun action is rarely found in animation projects from other studios. This "action", such as those that will be seen in *TMNT*, sets our projects apart from other animation films available and can effectively expand the horizon of target audience of our films.

In order to continually grow our portfolio and to mitigate development risk associated with new projects, the Group continues to seek valuable franchises that can be transformed into interesting animation projects. I believe that hero-based franchises can best leverage on our edge in producing animation projects in the "action" genre. *TMNT* and *Highlander* are good examples of such type of franchises. In June 2006, the Group obtained the license option from Tatsunoko Production Co., Ltd. ("Tatsunoko Production") of Japan to produce a new CG animation feature-length motion picture based on the long-running anime franchise *Science Ninja Team Gatchaman* ("*Gatchaman*"). Conceived in the early 70's, *Gatchaman* was one of the first Japanese anime TV programs that gained general popularity internationally. With over 205 TV episodes, one feature film, three direct to video films and its various releases and renditions internationally over a thirty-year span, *Gatchaman* is also one of the longest running anime franchises with a substantial international fan base. The film shall be scripted and directed by Mr. Kevin Munroe, the scriptwriter and director of *TMNT*. Explosive action and adventure can be expected throughout the new film. Using a strategy similar to *TMNT*, the Group is now producing a teaser and pre-marketing materials for presentation to potential distributors in due course with the goal of securing international distribution arrangements.

To support all the exciting "action", the Group continues to expand its operations. Later this year, the Group's US studio shall be relocated to a new studio in Los Angeles that can facilitate better interaction and operational logistics amongst the Hollywood artists there. In Hong Kong, the Group's production studio shall also expand by an additional floor of floorspace, which shall be used to accommodate the additional workforce required for the various projects undertaken by the Group. With the additional space, the area of the Group's Hong Kong studio shall aggregate approximately 70,000 square feet.

The animation industry is always evolving. Action must be taken at the right time and in the right way in order to be at the top of the game. At Imagi, we take our "action" seriously and I am confident that our actions will translate into handsome returns to all our investors and stakeholders.

KAO WAI HO, FRANCIS

Deputy Chairman and Chief Executive Officer

Hong Kong, 19th July 2006