



IMAGI INTERNATIONAL HOLDINGS LIMITED

意馬國際控股有限公司*

Stock Code: 585



ASTROBOY 2009
GATCHAMAN 2008

TMNT 2007

INTERIM REPORT 2006/2007

* For identification purpose only

BOARD OF DIRECTORS

Executive Directors

Mr. KAO Cheung Chong, Michael (*Chairman*)

Mr. KAO Wai Ho, Francis (*Deputy Chairman and Co-chief Executive Officer*)

Mr. Douglas Esse GLEN (*Co-chief Executive Officer*)

Mr. TSE Chi Man, Terry

Mr. YIP Kar Hang, Raymond

Mr. Thomas Knox GRAY

Non-executive Director

Mr. LAM Pak Kin, Phillip

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

QUALIFIED ACCOUNTANT

Mr. YIP Kar Hang, Raymond

REGISTERED OFFICE

Rosebank Centre

11 Bermudiana Road

Pembroke

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

23rd Floor

Eight Commercial Tower

8 Sun Yip Street

Chai Wan

Hong Kong

BERMUDA RESIDENT REPRESENTATIVE

Butterfield Fund Services (Bermuda) Limited

LEGAL ADVISORS

As to Hong Kong law:

Preston Gates & Ellis
Deacons
To, Lam & Co

As to USA law:

Weissmann Wolff Bergman Coleman Grodin & Evall LLP

As to Bermuda law:

Conyers Dill & Pearman

AUDITORS

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank (HK) Limited
City National Bank

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
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Pembroke
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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Secretaries Limited
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INTERNET WEBSITE

www.imagi.com.hk

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	–	(4,625)
Administrative and other operating expenses		(11,946)	(33,637)
Finance costs		(2,141)	(5)
Loss before taxation	6	(11,426)	(40,874)
Income tax expense/credit	7	(61)	145
Loss for the period from continuing operation		(11,487)	(40,729)
Discontinued operation			
Results for the period from discontinued operation	15	–	–
		(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	9	(0.92 HK cents)	(3.48 HK cents)

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30th September 2006 HK\$'000 (unaudited)	31st March 2006 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	10	62,141	57,191
CG animation pictures		304,302	219,576
Goodwill		2,799	2,799
Interest in an associate	11	–	–
Available-for-sale investments		3,201	1,201
		372,443	280,767
Current assets			
Inventories		7	–
Trade and other receivables	12	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 borrowing – due after one year	13	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	14	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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company									
	Share capital	Share premium	Merger reserve	Translation reserve	Convertible notes equity reserve	Share option reserve	Retained profits/ (Accumulated losses)	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000 (Note)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April 2005	116,958	64,227	909	1,413	-	-	16,865	200,372	96	200,468
Exchange differences arising on translation of overseas operations and recognised directly in equity	-	-	-	(1,529)	-	-	-	(1,529)	-	(1,529)
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 payments	-	-	-	-	-	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
Exchange differences arising on translation of overseas operations and recognised directly in equity	-	-	-	14	-	-	-	14	-	14
Loss for the period	-	-	-	-	-	-	(31,500)	(31,500)	(23)	(31,523)
Total recognised income and expenses for the period	-	-	-	14	-	-	(31,500)	(31,486)	(23)	(31,509)
Recognition of equity-settled share-based payments	-	-	-	-	-	2,568	-	2,568	-	2,568
Exercise of share options	4,957	5,337	-	-	-	-	-	10,294	-	10,294
Transfer of reserve upon exercise of share options	-	3,778	-	-	-	(3,778)	-	-	-	-
Share options cancelled during the period	-	-	-	-	-	(3,562)	3,562	-	-	-
Recognition of equity component of convertible notes	-	-	-	-	11,930	-	-	11,930	-	11,930

Attributable to equity holders of the Company

	Share capital	Share premium	Merger reserve	Translation reserve	Convertible notes equity reserve	Share option reserve	Retained profits/(Accumulated losses)	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000 (Note)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31st March 2006	122,035	73,449	909	(102)	11,930	15,201	(51,787)	171,635	58	171,693
Exchange differences arising on translation of overseas operations and recognised directly in equity	-	-	-	(84)	-	-	-	(84)	-	(84)
Loss for the period	-	-	-	-	-	-	(11,476)	(11,476)	(11)	(11,487)
Total recognised expenses for the period	-	-	-	(84)	-	-	(11,476)	(11,560)	(11)	(11,571)
Recognition of equity-settled share-based payments	-	-	-	-	-	1,456	-	1,456	-	1,456
Exercise of share options	3,538	4,278	-	-	-	-	-	7,816	-	7,816
Transfer of reserve upon exercise of share options	-	3,226	-	-	-	(3,226)	-	-	-	-
At 30th September 2006	125,573	80,953	909	(186)	11,930	13,431	(63,263)	169,347	47	169,394

Note: Merger reserve represents the difference between the nominal value of shares of subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition at the time of a previous corporate reorganisation.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30th September 2006*

	Six months ended 30th September 2006	
	HK\$'000	2005 HK\$'000
	(unaudited)	(unaudited)
Net cash used in operating activities	(16,878)	(54,974)
Net cash used in investing activities		
Cost incurred in CG animation pictures	(70,400)	(57,197)
Decrease in pledged bank deposits	-	39,800
Other investing activities	(13,046)	(12,229)
	(83,446)	(29,626)
Net cash from financing activities		
Proceeds from bank borrowing	46,597	29,020
Net proceeds on issue of shares	7,811	-
Other financing cash flows	(2,509)	(116)
	51,899	28,904
Net decrease in cash and cash equivalents	(48,425)	(55,696)
Cash and cash equivalents at beginning of the period	105,156	99,496
Effect of foreign exchange rate changes	4	(1,070)
Cash and cash equivalents at the end of the period	56,735	42,730

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th September 2006

1. Basis of Preparation

The 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").

2. Principal Accounting Policies

The 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 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 15).

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	Management consultancy services	Consolidated
	HK\$'000	HK\$'000	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. Impairment Loss Recognised in respect of CG Animation Pictures

During each period, the Directors conducted a review of the Group's CG animation pictures in light of their current market conditions with reference to the existing operating plan and budget. As a result of such reviews, an impairment loss of HK\$4,625,000 was identified and recognised in the condensed consolidated income statement for the period ended 30th September 2005 while no impairment loss was identified for the period ended 30th September 2006. The determination of impairment loss was estimated with reference to the value in use of specific animation picture.

5. 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.

The number of share options granted has been adjusted to reflect the share subdivision as set out in note 14. The following table discloses movements in the Company's share options during the period:

Date of grant	Vesting period	Exercisable period	Exercise price per share after adjustment		Number of share options								
			Exercise price per share prior to rights issue HK\$	for the effect of rights issue HK\$ (note)	Exercise price per share after share subdivision	At 31st March 2006	Granted during the period	Exercised during the period before share subdivision	Lapsed/cancelled during the period	Adjustment on share subdivision	Exercised during the period after share subdivision	At 30th September 2006	
Category 1: Directors													
Mr. Kao Cheung Chong, Michael	13th February 2006	N/A	13th February 2006 to 12th February 2009	-	2.675	0.535	1,800,000	-	-	-	7,200,000	-	9,000,000
Mr. Kao Wai Ho, Francis	13th February 2006	N/A	13th February 2006 to 12th February 2009	-	2.675	0.535	1,800,000	-	-	-	7,200,000	-	9,000,000
Mr. Tse Chi Man, Terry	19th April 2004	N/A	19th April 2004 to 18th April 2009	-	1.500	0.300	1,300,000	-	-	-	5,200,000	-	6,500,000
	27th July 2005	N/A	27th July 2005 to 26th July 2010	-	1.000	0.200	500,000	-	-	-	2,000,000	-	2,500,000
Mr. Yip Kar Hang, Raymond	24th May 2005	N/A	24th May 2005 to 23rd May 2010	-	0.980	0.196	1,300,000	-	-	-	5,200,000	-	6,500,000
							6,700,000	-	-	-	26,800,000	-	33,500,000
Category 2: Employees													
	13th August 2003	N/A	13th August 2003 to 12th August 2006	1.246	1.111	N/A	2,756,000	-	(2,696,000)	(60,000)	-	-	-
	19th April 2004	N/A	19th April 2004 to 18th April 2009	-	1.500	0.300	200,000	-	(200,000)	-	-	-	-
	24th May 2005	N/A	24th May 2005 to 23rd May 2010	-	0.980	0.196	6,500,000	-	(3,750,000)	-	11,000,000	(900,000)	12,850,000
	7th June 2005	N/A	7th June 2005 to 6th June 2010	-	0.974	0.195	2,000,000	-	-	-	8,000,000	-	10,000,000
	13th February 2006	N/A	13th February 2006 to 12th February 2011	-	2.675	0.535	1,400,000	-	(250,000)	-	4,600,000	-	5,750,000
							12,856,000	-	(6,896,000)	(60,000)	23,600,000	(900,000)	28,600,000
Category 3: Supplier of services													
	25th May 2006	25th May 2006 to 24th May 2007	25th May 2007 to 24th May 2009	-	8.810	1.762	-	1,000,000	-	-	4,000,000	-	5,000,000
Total							19,556,000	1,000,000	(6,896,000)	(60,000)	54,400,000	(900,000)	67,100,000

Note: Exercise price per share has been adjusted from HK\$1.246 to HK\$1.111 for the effect of the rights issue that took place on 6th May 2004.

On 25th May 2006, 1,000,000 share options were granted. The closing price of the Company's shares immediately before 25th May 2006 was HK\$8.65 (before adjustment on share subdivision).

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HK\$9.876 (HK\$1.975 after the effect of share subdivision). Exercise price per share has been adjusted for the effects of share subdivision that took place on 22nd September 2006, where appropriate, as follows:

Date of grant	Vesting period	Exercisable period	Exercise price per share before share subdivision	Exercise price per share after share subdivision
			HK\$	HK\$
19th April 2004	N/A	19th April 2004 to 18th April 2009	1.500	0.300
24th May 2005	N/A	24th May 2005 to 23rd May 2010	0.980	0.196
7th June 2005	N/A	7th June 2005 to 6th June 2010	0.974	0.195
27th July 2005	N/A	27th July 2005 to 26th July 2010	1.000	0.200
13th February 2006	N/A	13th February 2006 to 12th February 2009	2.675	0.535
13th February 2006	N/A	13th February 2006 to 12th February 2011	2.675	0.535
25th May 2006	25th May 2006 to 24th May 2007	25th May 2007 to 24th May 2009	8.810	1.762

The fair value of the options granted on 25th May 2006 using the Black-Scholes option pricing model was HK\$4.120 (HK\$0.824 after the effect of share subdivision). The following assumptions were used to calculate the fair value of the share options:

	Options exercisable from 25th May 2007 to 24th May 2009
Exercise price at date of grant	HK\$8.810
Expected life of options	3 years
Expected volatility	73%
Expected dividend yield	0%
Risk free rate	4.43%

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

6. Loss Before Taxation

	Six months ended 30th September	
	2006	2005
	HK\$'000	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)
Amortisation of CG animation pictures (included in cost of sales)	631	584
	-	5,619

7. Income Tax Expense/Credit

	Six months ended 30th September	
	2006	2005
	HK\$'000	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.

8. Interim Dividends

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

9. 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)	
<i>Number of shares:</i>			
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 as set out in note 14.

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.

10. Property, Plant and Equipment

During the six months ended 30th September 2006, the Group incurred approximately HK\$13,192,000 (2005: HK\$12,018,000) on the acquisition of property, plant and equipment mainly for the purpose of improving and expanding the Group's production capability.

11. Interest in an Associate

	30th September 2006 HK\$'000	31st March 2006 HK\$'000
Cost of investment in an associate	86,593	86,593
Less: Share of post-acquisition losses	(29,373)	(29,373)
Unrealised gain on disposal of businesses	(57,220)	(57,220)
	-	-

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 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
Total trade receivables	144	39
Other receivables and prepayments	9,389	6,843
	9,533	6,882

13. Bank Borrowing

During the six months ended 30th September 2006, the Group obtained new bank loan in the aggregate amount of HK\$46,597,000 to finance the Group's CG animation pictures production. The loan bear interest at LIBOR plus 1% and will be repayable by 1st December 2007, subject to certain mandatory repayment provisions.

14. Share Capital

	Number of ordinary shares	Values HK\$'000
Authorised:		
At 31st March 2006, at HK\$0.50 each	500,000,000	250,000
Share subdivision (note)	2,000,000,000	–
At 30th September 2006, at HK\$0.10 each	2,500,000,000	250,000
Issued and fully paid:		
At 31st March 2006, at HK\$0.50 each	244,069,500	122,035
Exercise of share options before share subdivision	6,896,000	3,448
Share subdivision (note)	1,003,862,000	–
Exercise of share options after share subdivision	900,000	90
At 30th September 2006, at HK\$0.10 each	1,255,727,500	125,573

Note: Pursuant to an announcement dated 29th August 2006 and a circular dated 4th September 2006, the Board of Directors proposed that each of the existing issued and unissued shares of HK\$0.50 each in the share capital of the Company be subdivided (the "Share Subdivision") into five shares of HK\$0.10 each in the share capital of the Company (the "Subdivided Shares"). Immediately before the Share Subdivision, the authorised share capital of the Company was HK\$250,000,000 which was divided into 500,000,000 shares, of which 250,965,500 shares were in issue. The Share Subdivision was approved by shareholders at a special general meeting on 21st September 2006 and became effective on 22nd September 2006.

15. 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	2005
	HK\$'000	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.

16. Related Party Transactions

(a) *Transactions with an associate*

During the six months ended 30th September 2005, the Group received management consultancy income of approximately HK\$3,809,000 from Boto, an associate of the Group. This transaction was carried out in accordance with the terms of the relevant consultancy service agreement. The Directors of the Company resolved to cease the Group’s management consultancy services operation after 31st March 2006, and accordingly, no management consultancy income was received by the Group for the six months ended 30th September 2006.

(b) Compensation of key management personnel

The remunerations of Directors and other members of key management during the period are as follows:

	Six months ended 30th September	
	2006 HK\$'000	2005 HK\$'000
Short-term benefits	10,268	12,450
Post-employment benefits	45	66
Equity-settled share-based payments expenses	–	3,036
	10,313	15,552

17. 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.

18. Capital Commitments

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

	30th September 2006 HK\$'000	31st March 2006 HK\$'000
Authorised but not contracted for	78,595	138,791
Contracted for but not provided in the condensed financial statements	3,854	173

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 Los Angeles 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.

Major Customers and Suppliers

For the period ended 30th September 2006, sales attributable to the largest and the five largest customers accounted for 38.5% (2005: 94.0%) and 100% (2005: 100%) of the total turnover respectively. Due to the nature of the Group's business, no supply of raw materials or finished products is required for carrying out the Group's business and no supplier is therefore required to be disclosed.

Other than as disclosed in note 16 to the financial statements, none of the Directors, their respective associates (as defined in the Listing Rules), or any shareholder of the Company (who or which, to the knowledge of the Directors, own more than five 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 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.

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.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES, UNDERLYING SHARES AND CONVERTIBLE NOTES

At 30th September 2006, the interests of the Directors and the Chief Executives and their associates in the shares, underlying shares and convertible notes of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "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 Companies in the Listing Rules were as follows:

Long position

(A) Ordinary shares of HK\$0.10 each of the Company

Name of Directors	Number of issued ordinary shares held				Percentage of issued share capital
	Personal interest	Corporate interest	Other interest	Total interest	
Mr. Kao Cheung Chong, Michael	27,915,000	9,373,020 <i>(note i)</i>	597,816,490 <i>(note ii)</i>	635,104,510	50.58%
Mr. Kao Wai Ho, Francis	972,000	6,150,000 <i>(note iii)</i>	597,816,490 <i>(note ii)</i>	604,938,490	48.17%
Mr. Lam Pak Kin, Philip	2,034,000	–	–	2,034,000	0.16%
Mr. Lai Chi Kin, Lawrence	361,500	–	–	361,500	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) 12,197,985 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 585,618,505 shares which represent 46.64% 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. Kao Cheung Chong, Michael	Beneficial owner	9,000,000	9,000,000
Mr. Kao Wai Ho, Francis	Beneficial owner	9,000,000	9,000,000
Mr. Tse Chi Man, Terry	Beneficial owner	9,000,000	9,000,000
Mr. Yip Kar Hang, Raymond	Beneficial owner	6,500,000	6,500,000

(C) Interests in associated corporations

Name of Directors	Name of associated corporations	Class of shares	Number of shares held (personal interest)	Percentage of issued share capital
Mr. Kao Cheung Chong, Michael	Boto International Holdings Limited	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	Boto International Holdings Limited	Ordinary shares of US\$1 each	1,053	0.95%
	Sunni International Limited	Ordinary shares of US\$1 each	310	3.00%

(D) Convertible notes of the Company

Name of Director	Capacity	Amount of convertible notes held	Number of underlying shares
Mr. Kao Cheung Chong, Michael	Beneficial owner	HK\$20,000,000	58,823,529

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 nor their associates had any interests or short position in any shares or underlying shares of the Company or any of its associated corporations at 30th September 2006.

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 interest disclosed above in the section "Directors' and Chief Executives' Interests in Shares, Underlying Shares and Convertible Notes", the following shareholders were interested in the issued share capital of the Company as at 30th September 2006.

Ordinary shares of HK\$0.10 each of the Company

Name of shareholders	Capacity	Number of issued ordinary shares held	Percentage of issued share capital
Mr. Hung Kam Biu, Kenneth ("Mr. Hung")	Beneficial owner	50,400,000	4.01%
	Interest of controlled corporation (<i>note i</i>)	151,360,000	12.05%
Trophy Asset Management Limited ("Trophy Asset")	Beneficial owner (<i>note i</i>)	151,360,000	12.05%
Ms. Chu Jocelyn ("Ms. Chu")	Beneficial owner	2,080,000	0.16%

Note:

- (i) 151,360,000 shares of the Company are beneficially owned by Trophy Asset, whose entire issued share capital is beneficially owned by Mr. Hung.

Convertible notes of the Company

Name of shareholders	Capacity	Number of underlying shares (<i>note i</i>)
Goodyear Group Limited ("Goodyear")	Beneficial owner (<i>note ii</i>)	141,176,471
Trophy Fund	Interest of controlled corporation (<i>note ii</i>)	141,176,471
Trophy Asset	Beneficial owner	5,882,353
	Interest of controlled corporation (<i>note ii</i>)	141,176,471
Winnington Capital Limited ("Winnington")	Investment manager (<i>note ii</i>)	141,176,471
Mr. Hung	Interest of controlled corporation (<i>note ii</i>)	147,058,824
Ms. Chu	Interest of controlled corporation (<i>note ii</i>)	141,176,471

Notes:

- (i) The underlying shares represented the new shares to be issued upon full conversion of HK\$50,000,000 3% unsecured convertible notes due 2008 (the "Subscription Convertible Notes") held by respective holders of the convertible notes at a conversion price of HK\$1.68 per share (HK\$0.34 per share after the effect of share subdivision) issued by the Company on 8th November 2005.

- (ii) Goodyear beneficially owns HK\$48,000,000 Subscription Convertible Notes. Goodyear is wholly-owned by Trophy Fund which in turn is wholly-owned by Trophy Asset. Trophy Asset is wholly-owned by Mr. Hung who beneficially owns an additional HK\$2,000,000 Subscription Convertible Notes. Trophy Fund is managed by Winnington, an investment manager which is 50% owned by each of Mr. Hung and Ms. Chu. Accordingly, Trophy Fund, Trophy Asset and Winnington are deemed to be interested in HK\$48,000,000 Subscription Convertible Notes. Mr. Hung and Ms. Chu are deemed to be interested in HK\$26,000,000 and HK\$24,000,000 Subscription Convertible Notes, respectively.

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 condensed consolidated financial statements for the period covered by this interim report 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.

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 & Co-chief Executive Officer

Hong Kong, 4th December 2006

Deloitte.

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INDEPENDENT INTERIM 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 set out on pages 3 to 17.

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 2006.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong
4th December 2006