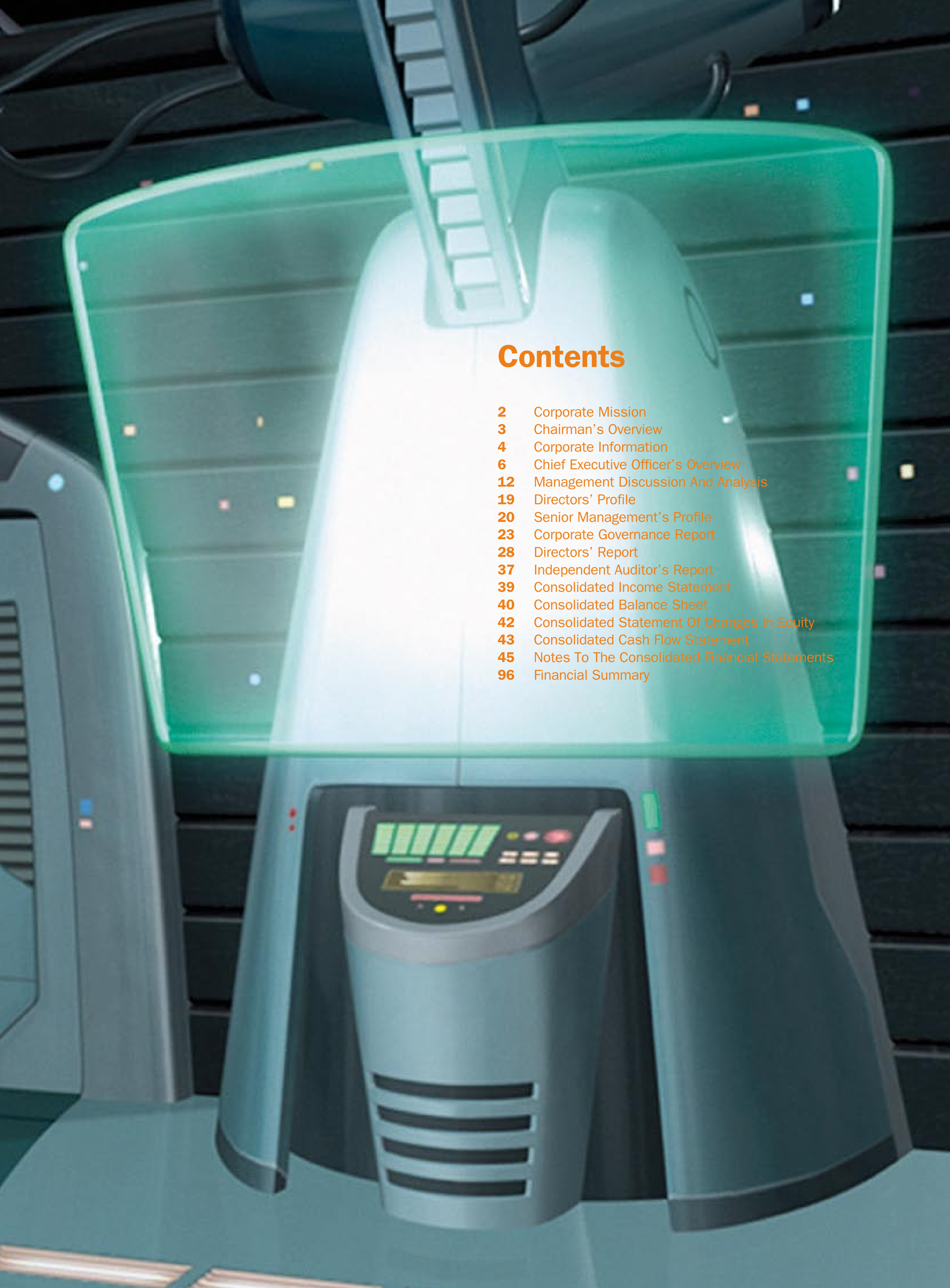
IMAGI INTERNATIONAL HOLDINGS LIMITED 意馬國際控股有限公司* STOCK CODE 股份代號：00585

ANNUAL REPORT 2007/2008 年年報

* For identification only 僅供識別



Contents

Corporate Mission

Our mission is to create a library of high-quality CG-animated feature films to entertain global audiences and build enduring brand franchises.

Chairman's Overview

Following on the success of Imagi's first theatrical release, *TMNT (Teenage Mutant Ninja Turtles)*, the company has been hard at work producing our next two movies, *Astro Boy* (scheduled for release in 2H-09) and *Gatchaman* (scheduled for release in 2H-10). As with *TMNT*, our objective has been to deliver world-class production values in movies with universal appeal to mass-market audiences around the globe.

To achieve our goal, Imagi has recruited teams of the finest and most experienced storytellers, creative executives, animators and voice talent in the world.

For example, *Astro Boy* is directed by David Bowers (*Flushed Away, Shark Tale, Wallace & Gromit: The Curse of the Were-Rabbit*), produced by Maryann Garger (*Flushed Away, Madagascar, Spirit: Stallion of the Cimarron*), and written by Timothy Harris (*Twins, Trading Places, Space Jam, Kindergarten Cop*). English-language voice talent includes Freddie Highmore, Nicolas Cage, Donald Sutherland, Bill Nighy, Nathan Lane and Eugene Levy.

Imagi continues on its path to become Asia's first truly global film studio. On behalf of the board of directors and management team, I would like to thank our investors, strategic partners and consumers for their support and encouragement.

Kao Wai Ho, Francis
Chairman

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. KAO Wai Ho, Francis *(Chairman and Chief Creative Officer)*
Mr. Douglas Esse GLEN *(Chief Executive Officer)*

Independent Non-Executive Directors

Mr. NG See Yuen
Mr. OH Kok Chi

AUDIT COMMITTEE

Mr. OH Kok Chi *(Chairman)*
Mr. NG See Yuen

COMPANY SECRETARY

Mr. TAM Wing Kin, Vincent

QUALIFIED ACCOUNTANT

Mr. TAM Wing Kin, Vincent

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:
Kirkpatrick & Lockhart Preston Gates Ellis
Deacons
To, Lam & Co

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

As to Bermuda law:
Conyers Dill & Pearman

AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

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

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

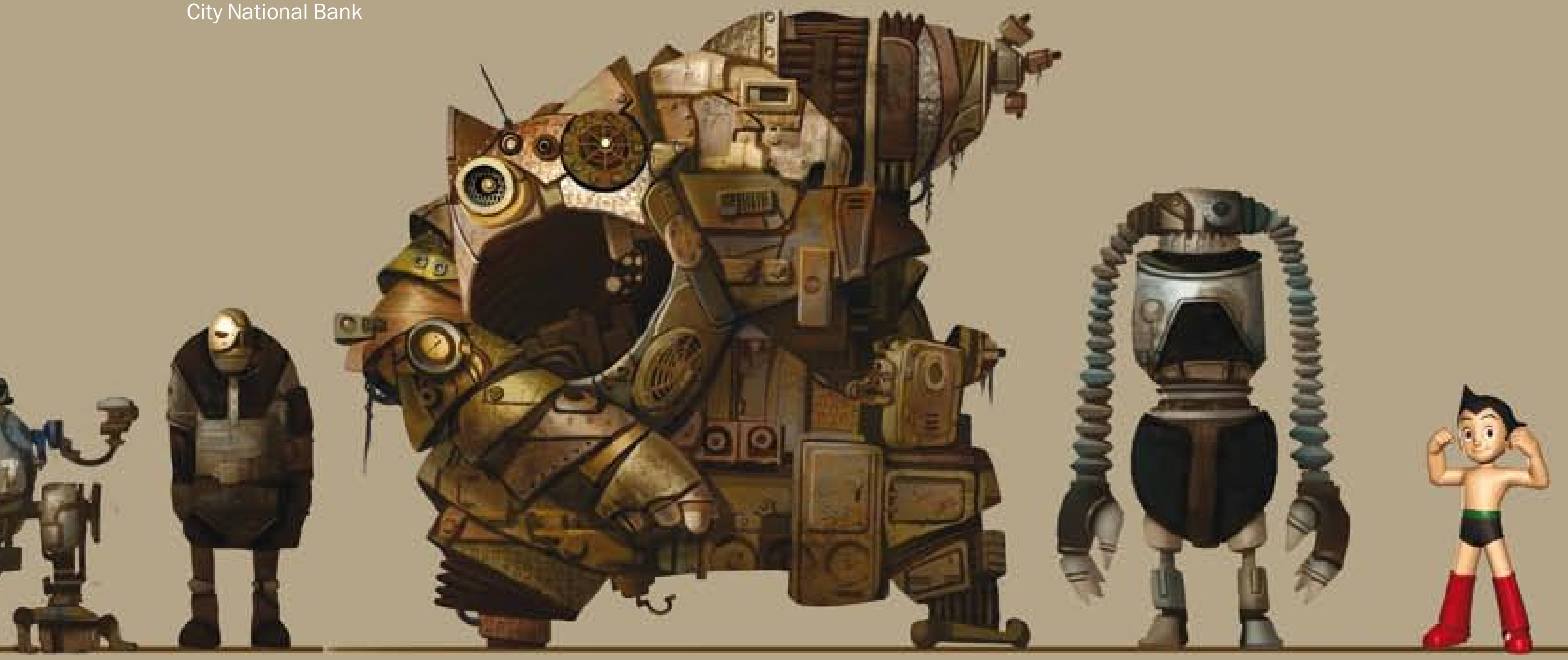
Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Hong Kong

INTERNET WEBSITE

www.imagi.com.hk



Chief Executive Officer's Overview

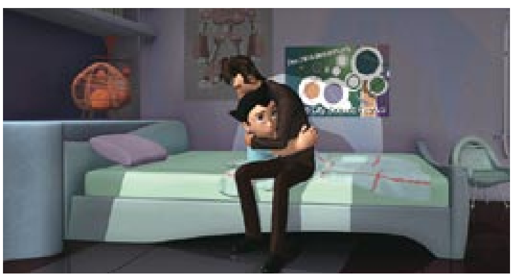
IMAGI has stayed tightly focused on five core strategies

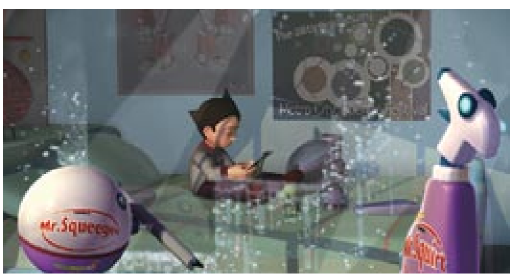
During the past year, Imagi has stayed tightly focused on five core strategies: (i) targeting feature animation, historically the most reliably profitable segment of the movie industry; (ii) producing world-class animation more efficiently than our U.S.-based competition; (iii) implementing distribution and marketing programs designed to optimize top- and bottom-line performance; (iv) minimizing the inherent risks of the feature film business in every way possible; and (v) building a sound financial foundation for the company's growth.

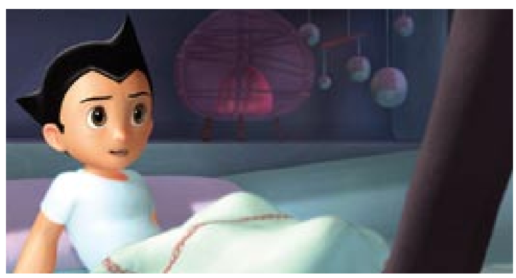
Where We Fit In The Feature Film Business

Imagi has focused on what we consider the most financially attractive segment of feature films.

Each year, there are approximately 600 films distributed to major worldwide markets, comprising a US$50 billion global industry. Within that US$50 billion, the top 25 films account for about three-quarters of the revenues and are consistently the most profitable.



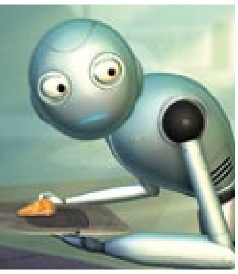
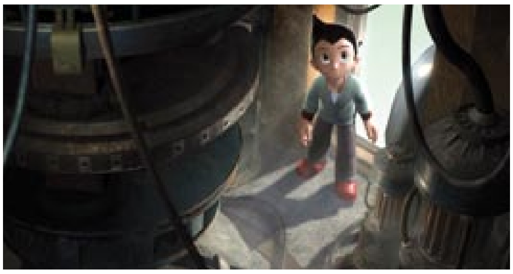




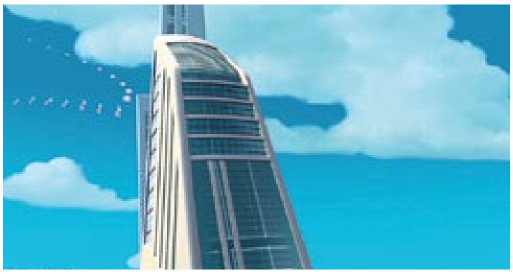
Chief Executive Officer's Overview *(continued)*

Among those top-performing films, the most consistently profitable have been computer graphics (CG) animation. Of the 49 CG-animated feature films with budgets of US$70+ million (e.g. production values similar to Imagi's *Astro Boy*) released from 1997 to 2006, the average worldwide box office topped US$340 million and gross profit topped US$325 million. In contrast, the average gross profit of 1997-2007 action films with similar budgets was just half that of CG animation.

Why has CG animation consistently outperformed the rest of the film industry? Scarcity is one factor. There are only a handful of quality CG-animated features released each year. Broad demographic appeal is another factor. CG animation attracts kids, teens, young adults and parents more consistently than other genres. Superior entertainment value is a third factor. CG animation is a fresh, visually exciting new cinematic art form.

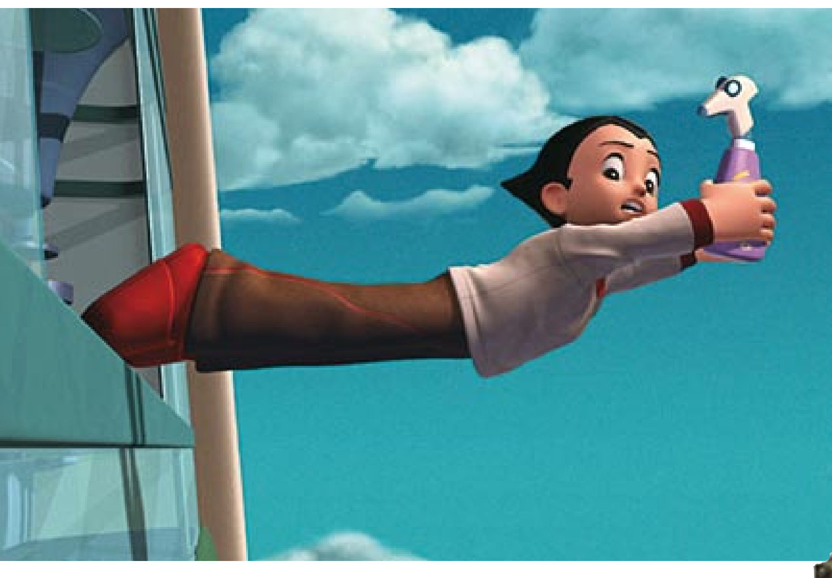


Building A More Efficient Hollywood-Style Studio

In some ways, Imagi is a traditional Hollywood movie studio. Like the other studios, our Los Angeles-based team of producers, directors, writers and artists create mainstream mass-market entertainment for global audiences. They work with our Los Angeles-based marketing team to build movie-driven consumer brands. In this regard, we are no different than other Hollywood studios.

Where we differ is in production efficiency, which translates into more attractive margin structures than our U.S.-based competition. One big factor is our Hong Kong CG production line, delivering world-class animation quality at a cost substantially below that of its California counterparts. Another significant factor is Hong Kong-style overhead efficiency, enabling Imagi to put a larger proportion of our production budgets "on the screen" for consumers to enjoy.



Chief Executive Officer's Overview *(continued)*

Optimized Distribution And Marketing Programs

For the release of *TMNT*, Imagi contracted with Warner Bros. and The Weinstein Company for worldwide distribution and marketing. The film was successfully released, but the terms enabled little of the upside potential of the film to go to Imagi, and provided Imagi very little control of the marketing efforts.

In the case of *Astro Boy*, Imagi has partnered with Summit Entertainment for distribution in most worldwide markets. The Summit-Imagi agreement provides for wide release in the key North American market, considerable Imagi control over marketing and promotional programs, and a much larger share of the rewards to be retained by Imagi.

This enhanced distribution and marketing program underscores Imagi's growth and maturation as a movie studio. With *TMNT*, the company demonstrated that it can make films that compete successfully in global consumer markets. With *Astro Boy*, we will demonstrate that we can deliver a level of financial performance that puts us on a par with, or even ahead of, our competitors.

Creative Risk Mitigation

Investing in films has not historically been a domain for the faint-hearted. Movies are big, chunky risks with a wide range of possible outcomes. Even the biggest, most established Hollywood studios have sharply varying year-over-year results, often driven by one or two big successes or disappointments.

Imagi's business model does much to mitigate many of the risks inherent in our industry. We work with proven "above the line" creative talent – writers, producers and directors who have delivered commercially successful pictures on a consistent basis. We make films based on characters and stories with proven consumer appeal, such as *Astro Boy* and *Teenage Mutant Ninja Turtles*. We ally ourselves with marketing partners, such as quick service restaurant chains, soft drink brands and automotive manufacturers, to reach out more effectively to consumers, and to leverage our marketing budgets.

Establishing A Solid Financial Foundation

Astro Boy marks Imagi's evolution to a business model that is similar to that of DreamWorks Animation, or of Pixar prior to its merger with Disney. *Astro Boy* also marks Imagi's first real opportunity for significant financial success, if the film performs anywhere near the historical average of peer movies.

The first cash flows from *Astro Boy* will arrive near Imagi's 10th birthday as a company. While that seems like a long wait, it's reflective of the patience required to perfect a CG feature animation production line. It is worth noting that Imagi's timeline is quite similar to that of Pixar, whose first commercial success came in its 10th year.

During Imagi's first eight years, we methodically built Asia's first high-end CG animation studio, produced Asia's first #1 opening U.S. animation film release (*TMNT*) and initiated a production cycle that will yield a feature film release every nine to twelve months.

The building process has been financed through a combination of work-for-hire revenue, receipts from *TMNT*, equity sales and debt financing. Until cash flows from *Astro Boy* and subsequent films are sufficient to cover our operating costs, the company will continue to seek the most favorable financing available.

Thanks to Imagi's production efficiencies, low overhead and favorable distribution economics, our films become financially successful at box office levels of less than half the average of comparable competitive product. Thus the company and its investors have every reason to look forward to an attractive and sustainably bright future.

It only remains for us to extend our heartfelt thanks to all our investors, partners and consumers for joining us on our journey.

Douglas Esse Glen
Chief Executive Officer

Management Discussion and Analysis

BUSINESS REVIEW

For the current year under review, turnover was HK$17.2 million (2007: HK$243.5 million) and mainly represented by the one CG animation film, namely *TMNT* and one 2D anime film, namely *Highlander: The Search for Vengeance* which were released in the last financial year. As new CG films are under production, the Group recorded a drop in turnover by HK$226.3 million or 93% in comparison with that of last year.

With the corresponding decrease in film amortization, loss attributable to equity holders for the year reduced to HK$57.8 million (2007: HK$138.9 million), a decrease of 58% as compared with last year. The surge up of administrative and other operating expenses for the year mainly reflected the increase in expenses of HK$8 million recognised in relation to share options granted to employees as part of its incentive scheme by the Group.

Corporate

Conversion of Convertible Notes

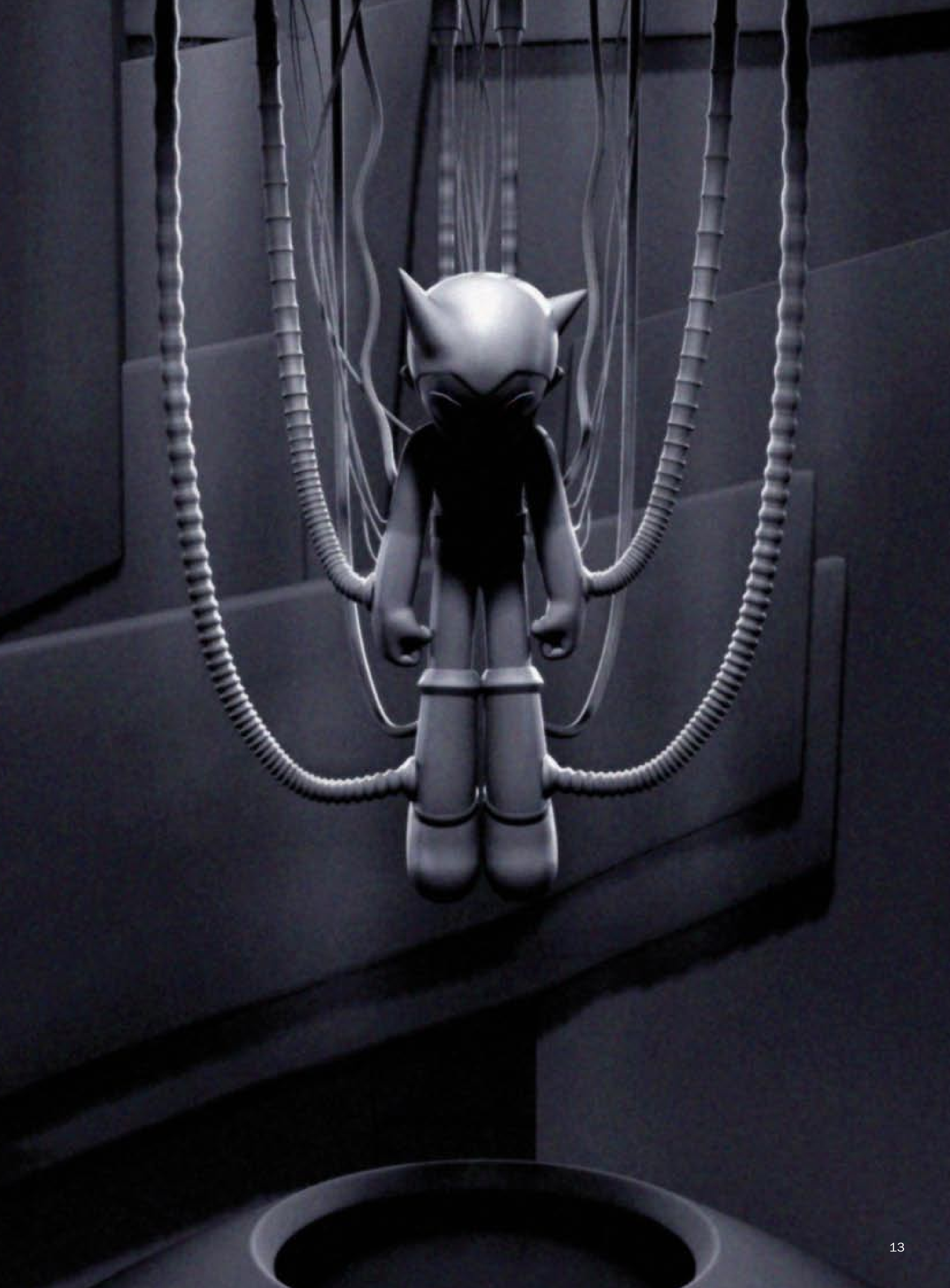
On 28th September 2007, principal amount of the convertible notes of HK$50 million were converted into 147,058,824 shares of HK$0.10 each in the capital of the Company at the conversion price of HK$0.34. On 3rd October 2007, the remaining principal amount of HK$10 million convertible notes were also converted into 29,411,764 shares at the conversion price of HK$0.34. After such conversion, all principal amounts of the then convertible notes issued during the year ended 31st March 2006 had been fully converted into shares of the Company.

The Winnington Subscription Agreement

On 4th December 2007, the Company and Winnington Capital Limited ("Winnington") entered into a subscription agreement (the "Winnington Subscription Agreement") pursuant to which the Company has agreed to issue, and Winnington has agreed to subscribe for the zero coupon convertible notes with three year maturities in an aggregate amount of HK$132 million subject to the terms and conditions set out in the Winnington Subscription Agreement (the "Winnington Convertible Notes"). The Winnington Convertibles Notes are convertible into up to an aggregate of 74,660,633 shares of the Company at initial conversion price at HK$1.768 per shares. The net proceeds of approximately HK$131 million would be used for a portion of development costs of four full length feature computer graphics imagery animation movies scheduled tentatively to be released during the year from 2009 to 2011. As Winnington is a connected person (as defined under the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange), a special general meeting of shareholders was held on 16th January 2008 and the resolution for that subscription was duly passed by the independent shareholders at the meeting. On 30th January 2008, the Winnington Subscription Agreement was completed.

The Subscription for the Oxley Convertible Notes

On 4th December 2007, the Company also entered into subscription agreements with various subscribers ("Subscription Agreement") for the subscription of zero coupon convertible notes with principal amounts of HK$274 million (the "Oxley Convertible Notes"). The principal terms of the Oxley Convertible Notes was identical to the Winnington Convertible Notes. On 31st March 2008, one of the subscribers, Good Biz Invest Limited (now known as Ninja Investments Ltd.) notified the Company that due to current unfavourable market conditions, it was unable to arrange sufficient funding to fulfill its payment obligations under the Subscription Agreement. Accordingly, the Company has terminated the Subscription Agreement.



Management Discussion and Analysis *(continued)*

Subscription of Shares

In July 2008, the Company entered into subscription agreement with Oxley Spring Media Limited, an independent third party, for the subscription of 362,790,698 shares priced at HK$0.86 per share. An initial tranche of approximately HK$156 million is expected to be completed on or before 31st July 2008. The second tranche of approximately HK$156 million is expected to close on fifth business date after approval from shareholders for the allotment and issue of the second tranche subscription shares at the coming special general meeting.

Interest in associate

In November 2007, receivers and managers were appointed to monitor the business of our 22.5% interest in associate. Its business engages in the development, manufacture, sales and distribution of artificial Christmas trees and accessories. The Group has discontinued recognition of its share of post-acquisition losses as the carrying value of the interest in associate is zero and the Group has no further obligation to assume additional commitments of the associate.

PROSPECTS

Following the release of *TMNT* in March 2007, the company embarked on a program to strengthen its creative, production and marketing teams in Hong Kong and Los Angeles.

Cecil Kramer joined Imagi as Executive Vice President of Production, based in Los Angeles. Among many other credits, Ms. Kramer produced *Flushed Away* and served as an executive producer on *Wallace & Gromit: The Curse of the Were-Rabbit*, which won the 2005 Academy Award® for Best Animated Feature Film. Previously, Ms. Kramer had been Co-Head of Production at DreamWorks Animation.

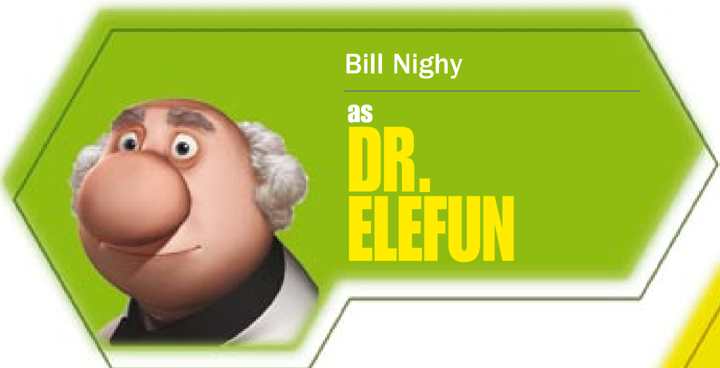
Ken Tsumura joined the company as Executive Vice President of Production, based in Hong Kong. Mr. Tsumura's production credits include *Curious George* and *Father of the Pride*, and he has worked on projects at such companies as DreamWorks Animation, Walt Disney Animation, Universal Pictures and Columbia Pictures. Most recently, he was Senior Vice President of Production & Technology with Mainframe Entertainment.

Erin Corbett was recruited as Senior Vice President of Global Marketing. Previously, Ms. Corbett held senior marketing positions with The Walt Disney Company and Warner Bros. Pictures, where she was responsible for global marketing and promotional partnerships for film franchises such as *Harry Potter* and *Batman*.

Cora Yim joined Imagi as our Hong Kong-based Director of Marketing & Strategic Planning. Ms. Yim formerly held similar positions with Golden Harvest and Media Asia overseeing the distribution and marketing of films.

Tim Cheung was recruited from DreamWorks, where he was directing animator, supervising animator and head of character animation, respectively, on the *Shrek* trilogy. Mr. Cheung is based at our Hong Kong production facility, where he has the title of Vice President of Animation and oversees the animation for all of Imagi's feature films.

Imagi's Los Angeles-based development group is headed by Paul Wang, Executive Vice President of Development. Mr. Wang and his team evaluate and develop candidate properties for future productions. Before joining Imagi, Mr. Wang was at PDI/DreamWorks, where he did pioneering work on animated motion pictures such as *Antz*, *Madagascar* and *Shrek*.



Management Discussion and Analysis *(continued)*

Imagi's next two feature film releases are *Astro Boy* (2H-2009) and *Gatchaman* (2H-2010).

Astro Boy has been one of the world's best-known and most loved superheroes for more than 50 years. Created in the early 1950s by the "god of manga" and "father of anime", Japan's Osamu Tezuka, the iconic character has found wide popularity as the hero of three acclaimed animated television series spanning over four decades, besides being one of the top licensed properties for merchandising.

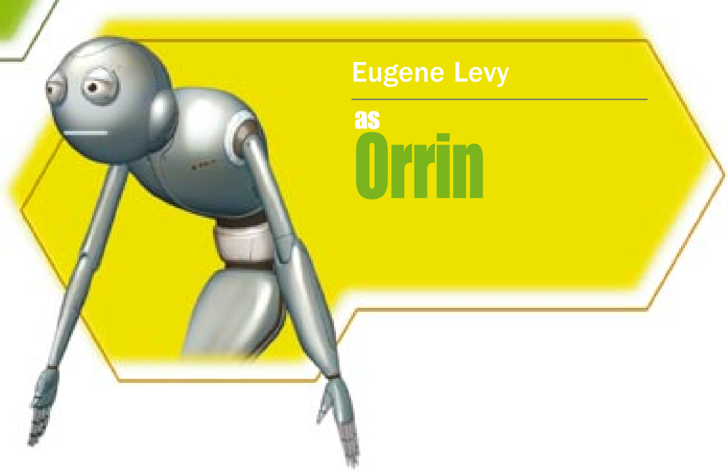
Set in futuristic Metro City and featuring a young robot with incredible powers, Imagi's *Astro Boy* is an action-adventure with comedy and heart. David Bowers *(Flushed Away)* is directing the CG-animated motion picture from a screenplay written by Timothy Harris *(Kindergarten Cop, Trading Places)*, with Maryann Garger producing. Makoto Tezuka, son of the legendary creator of *Astro Boy*, is serving as a consultant on the film.

Astro Boy will feature the voices of Academy Award® -winning actor Nicolas Cage, Donald Sutherland, Bill Nighy, Nathan Lane and Eugene Levy with Freddie Highmore *(The Spiderwick Chronicles, The Golden Compass)* in the title role.

Imagi Studios and Summit Entertainment have entered into a global alliance whereby Summit will distribute *Astro Boy* worldwide except for Imagi's reserved territories of Japan, Hong Kong and China.

Based on the successful 1970s television series, Imagi's *Gatchaman* is the heroic story of five unlikely teenage superheroes who must work together to save the world from an alien invasion. Each exceptional member of G5 embodies distinctive qualities with dynamic fighting styles as they explode onto the big screen.

Imagi's projects in development include *Tusker* (1H-2011) and *Cat Tale (tbd).* In addition to these announced projects, the development team is working on approximately 20 other feature film candidates.



Set against the backdrop of the beautiful but unforgiving landscape of India, *Tusker* is the saga of a young elephant's journey of discovery, heroism and redemption, which intersects with and renews the life of a reclusive old elephant who has long been an outsider. Brooke Breton *(Avatar, The Road to El Dorado)* will produce the inspiring adventure drama from a screenplay by Ted Tally *(All the Pretty Horses, Silence of the Lambs)*.

Cat Tale is a heartwarming family movie about a cat – raised as a dog – who must travel to Catropolis in an effort to discover his true cat nature. Galen Walker *(TMNT, Highlander: The Search for Vengeance)* is producing from a screenplay by Aaron Mendelsohn *(Air Bud)*.

Imagi's marketing team is tasked with planning and carrying out strategies in promotions, licensing, advertising, publicity and public relations. The department presents projects in production to promotional partner candidates with the goal of securing marketing alliances that increase awareness among consumers around the world. Typical partner candidates are quick service restaurants, soft drink bottlers, automotive manufacturers, consumer electronics brands, apparel makers and food companies, among many others. To this end, Imagi's marketing team participates in trade conferences such as Toy Fair and Licensing Expo in the U.S., as well as toys and games shows in Asia.

Discussions are underway with potential licensees for games, toys, merchandising and other promotional partners on all of Imagi's upcoming titles.

Imagi's marketing team promotes early awareness of our films to consumers, and in particular, to consumers who tend to be opinion leaders. These outreach activities include participation in leading popular arts conventions such as Comic-Con and Anime Expo.

Imagi has secured the services of the William Morris Agency, the largest and most diversified talent and literary agency in the world. In concert with William Morris, Imagi is in negotiation with major studio partners for distribution of future movies.

Technologically, Imagi stays at the cutting edge of CG animation through development of proprietary software. Research and development continue to be essential elements in bringing innovative computer graphics to our movies. Through a presence at industry events such as Siggraph, Imagi is building upon its worldwide profile as a studio which continuously breaks new ground in CG animation.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flows and banking facilities. As at 31st March 2008, the Group had available aggregate banking facilities of HK$70 million, all of which were remained unutilized. The Group's cash deposits and bank balances as at that date amounted to approximately HK$175.5 million (31st March 2007: HK$367.6 million).

Further, the Group has maintained a sound capital structure, with a current ratio of 8.7 (31st March 2007: 10.1) and a gearing ratio, measured as total debts over total assets, of 15.5% (31st March 2007: 15.4%) as of the year end date.

FOREIGN EXCHANGE EXPOSURE

Transactions of the Group are predominately denominated in Hong Kong dollars, US dollars, Euros and Japanese Yen. No hedging or other instruments to reduce the currency risks have been implemented during the year. However, review of the Group's exposure to foreign exchange risk is conducted periodically and derivative financial instruments may be used to hedge against such risks when necessary.

PLEDGE OF ASSETS

At 31st March 2008, the Group did not pledge any of its assets.

CONTINGENT LIABILITIES

At 31st March 2008, the Group had no significant contingent liabilities.

HUMAN RESOURCES

As at 31st March 2008, the Group employed over 500 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 the 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.

The Group is committed to continually developing and deploying the potential of its staff to the fullest extent, by keeping them abreast with the latest technical, creative and business best practices. The Group's studio is well-equipped with in-house training facilities where structured training programs are regularly provided to staff in technical, creative and managerial disciplines. Besides internal training programs, the Group also provides customized training courses in collaboration with external training consultants and educational institutions. The Group believes that staff is its most valuable asset.

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 year ended 31st March 2008.

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, the effectiveness of the system of internal controls and compliance, and to make recommendations to the Board. The members of the Audit Committee are Mr. Oh Kok Chi (Chairman of the Committee) and Mr. Ng See Yuen.

Kao Wai Ho, Francis
Chairman & Chief Creative Officer

Directors' Profile

EXECUTIVE DIRECTORS

Mr. KAO Wai Ho, Francis, aged 31, is the Chairman and Chief Creative Officer of the Group. Mr. Kao is the founder of the Group's CG animation business and joined the Board in 2002. As Chairman, Mr. Kao oversees the Group's overall strategies, management policies and corporate initiatives. As Chief Creative Officer, Mr. Kao sets the creative vision for the company, and is the ultimate decision maker for its film slate. Mr. Kao is a graduate of California State University, Sacramento, holding a Bachelor of Science degree in Finance Management.

Mr. Douglas Esse GLEN, aged 61, is the Chief Executive Officer of the Group. Joining the Group in September 2006 and appointed as an Executive Director in October 2006, Mr. Glen is in charge of the Group's business development and investor relations. In addition, he jointly leads the strategic planning with Mr. Kao Wai Ho, Francis, Chairman and Chief Creative Officer of the Group. Mr. Glen joined the Group following a successful career in the entertainment, technology and media industries, including the position of Senior Vice President and Chief Strategic Officer of Mattel, and holding key positions at Sega of America and Lucas Arts Entertainment. Mr. Glen received his undergraduate education at the Massachusetts Institute of Technology, U.S..

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. NG See Yuen, aged 65, joined the Board in 2004 and is a renowned film-maker with over 35 years of experience in the film industry. Mr. Ng is the founder of Seasonal Film Corporation. Over the years, Mr. Ng has produced numerous films locally, in the United States and in the People's Republic of China. Mr. Ng is the Honorary Permanent President of Hong Kong Film Directors' Guild and the Chairman of Federation of Hong Kong Film Workers. Mr. Ng was decorated with a 'Bronze Bauhinia Star' in 1998 and was appointed Justice of the Peace in 2001.

Mr. OH Kok Chi, aged 56, joined the Board in 1997 and is a Certified Public Accountant. Mr. Oh is also a Corporate Consultant and acts as directors in various companies. He holds an Honour Bachelor's Degree in Accountancy and is a member of the Hong Kong Institute of Certified Public Accountants, the Chartered Institute of Management Accountants, the Institute of Chartered Accountants in England and Wales and the Association of Chartered Certified Accountants. He was a member of the eighth session of Guangdong Committee of the People's Political Consultative Conference of the People's Republic of China.

Senior Management's Profile

SENIOR MANAGEMENT

HONG KONG

Mr. TAM Wing Kin, Vincent, aged 43, is the Company Secretary and Acting Chief Financial Officer of the Group. He joined the Group as Company Secretary and Finance Director on 13th August 2007. He is a member of the Chartered Institute of Management Accountants, the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He is also a Certificate Public Accountant (Practising). Prior to joining the Company, he worked at one of the leading international accountancy firms and several listed companies in Hong Kong. He has over 18 years of experience in accounting field.

Mr. Ken TSUMURA, aged 46, is the Executive Vice President, Production, Hong Kong. Mr. Tsumura is responsible for all production and studio operations at Imagi headquarters in Hong Kong. Formerly Senior VP, Production & Technology, at Canada's Mainframe Entertainment, his production credits include *Curious George* (executive producer), *Father of the Pride* (producer) and *Adam Sandler's Eight Crazy Nights* (executive producer). During the past 22 years, Mr. Tsumura has worked on projects at such prominent companies as DreamWorks Animation, Walt Disney Animation, Universal Pictures and Columbia Pictures.

Ms. YIM Ka Nim, Cora, aged 37, joined Imagi as Director of Marketing & Strategic Planning in May 2008. With over 14 years experience in entertainment industry ranging from film distribution, marketing and multiplex operation, Ms. Yim is in charge of the Group's film marketing, licensing and strategic planning in Asia. She formerly held similar positions with Golden Harvest and Media Asia overseeing the distribution and marketing of films such as the *Infernal Affairs* series.

Mr. Tim CHEUNG, aged 35, is the Vice President, Animation of the Group. Mr. Tim Cheung oversees the animation for all of Imagi's CGI feature films and manages the studio's 400+ Hong Kong-based animators. Previously, during his 12 years with DreamWorks, Mr. Cheung earned a reputation as one of the world's top CGI animators, receiving kudos for his contributions to the *Shrek* trilogy where he was directing animator, supervising animator and head of character animation, respectively. Mr. Cheung was also a senior animator on *Antz*.

Mr. IP Wai Ching, Felix, aged 38, is the Worldwide Creative Director. Felix has been with Imagi since it was set up in 2000, serving as the director and production designer on the studio's first production, the television series *Zentrix*. Mr. Ip is in charge of art direction and new content development, and is also responsible for enhancing the creative and art teams. Previously, he worked for over 10 years in graphic design, multimedia development and games production.

Mr. Kim OOI, aged 29, is the Animation Director of the Group. Mr. Ooi has been with Imagi since its beginning in 2000, serving as an animation director for the company's first television series, *Zentrix*. A graduate of Vancouver Film School, he started his animation career in local television spots and subsequently worked on commercials at major advertising agencies in Shanghai and Hong Kong.

Mr. Yan CHEN, aged 31, is the Visual Effects Supervisor of the Group. Mr. Chen came to Imagi with more than a decade of experience at Hollywood studios including Walt Disney and DreamWorks Animation, working on feature films such as *Dinosaur*, *Treasure Planet*, *The Matrix Reloaded*, *Shark Tale* and *Everyone's Hero*, among many others. Born in Shanghai, Mr. Chen is a graduate of the University of California, Berkeley.

LOS ANGELES

Ms. Cecil KRAMER, aged 46, is the Executive Vice President, Production of the Group. With over 20 years of entertainment industry experience, Ms. Kramer most recently produced *Flushed Away*, winner of five Annie Awards. She also served as an executive producer on *Wallace & Gromit*: *The Curse of the Were-Rabbit*, which won the 2005 Academy Award® for Best Animated Feature Film. Previously Co-Head of Production for DreamWorks Animation, Mr. Kramer was integrally involved in the development and production of animated motion pictures such as *Antz*, *The Prince of Egypt*, *The Road to El Dorado*, *Chicken Run* and the Oscar® -winning *Shrek*.

Mr. Paul WANG, aged 44, is the Executive Vice President, Development of the Group. Mr. Wang has been involved in filmmaking and computer graphics for the last 20 years. After running Four-D, his own boutique animation house in New York, Mr. Wang entered the computer-generated visual effects industry where he created special visual effects for such movies as *Batman Forever* and *The Peacemaker*. Mr. Wang went on to PDI/DreamWorks where he did pioneering work on animated motion pictures such as *Antz*, *Shrek* and *Madagascar*. He also worked on the theme park ride *Shrek 4D* and DreamWorks Television's CG-animated TV series, *Father of the Pride*. Mr. Wang was a producer on Imagi's *TMNT*.

Ms. Erin CORBETT, aged 38, is the Senior VP, Global Marketing. With over 16 years of diverse experience in marketing, advertising and promotions, Ms. Corbett spent eight years at Warner Bros. Pictures, where she became Senior VP, National Promotions, Feature Film Marketing. In that position, she led a string of award-winning marketing partnership successes, and worked on nearly 30 Warner Bros. titles annually. Prior to joining Imagi, Ms. Corbett was VP, Brand Activation for Harrah's Entertainment in Las Vegas where she oversaw partnership marketing, promotions, live events, public relations and product development for Harrah's 40 properties. Ms. Corbett started her entertainment career in licensing and marketing at The Walt Disney Company.

Mr. H. Galen WALKER, aged 42, is the Senior VP, Development & Creative Production of the Group. During the past two decades, Mr. Walker has worked with leading filmmakers and talent in Hollywood, and has produced and directed thousands of hours of music and voiceovers. His credits as a sound designer and post-production sound supervisor include Sofia Coppola's *The Virgin Suicides and Blind Horizon*, starring Val Kilmer. Mr. Walker went on to set up his own independent post-production sound company and subsequently developed a joint venture known as Pacifica Media Affiliates (PMA), consisting of five Hollywood sound studio facilities, which was acquired by Technicolor in 2003. His credits as a producer include Imagi's *TMNT* and *Highlander*: *The Search for Vengeance*.

Ms. Echo CHEUNG, aged 47, is the Senior VP, Finance & Administration. With multinational experience in finance and administration, Ms. Cheung joined Imagi from Home Essentials (HK) Ltd., where she was Chief Financial Officer and Controller, overseeing corporate finance for group companies in Hong Kong, China, Dubai, Singapore, Spain and the U.S. Previously, she served in senior management roles directing financial operations at Cheung Kong Metal Fty. Ltd./Chit Hong Engineering Ltd. in Hong Kong and in the U.S. at RackSaver Inc./Verari Systems Inc., DZ Trading, Ltd. and H&C Headwear Inc. Fluent in English, Chinese (Cantonese & Mandarin) and Japanese, Ms. Cheung began her career at Coopers & Lybrand.

Senior Management's Profile *(continued)*

Mr. Andrew KOPPERUD, aged 44, is the Senior VP, Business Affairs & Operations of the Group. Mr. Kopperud joined Imagi Studios with over 15 years of experience in production, operations and finance. Starting his career in television at Paramount where he served as production supervisor on long-running shows such as *Entertainment Tonight*, he subsequently became Director of Production at Black Entertainment Television. Mr. Kopperud then segued into the animation industry as Head of Production Finance at DreamWorks Animation, with projects including *Shark Tale, Shrek 2*, *Madagascar* and *Over The Hedge*. In addition, Kopperud has worked as an executive in independent film and television production.

TOKYO

Mr. Shinichi KOBAYASHI, aged 60, is the Chief Executive Officer of Imagi International Japan Company Limited. Mr. Kobayashi is in charge of enhancing the Group's presence in Japan and positioning it for business opportunities within the Japanese entertainment industry. He has been involved in multimedia, game software development and animation for more than 30 years, and previously served as executive producer at leading Japanese animation company Madhouse.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

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 (the "Code") as set out in Appendix 14 of the Listing Rules during the year ended 31st March 2008, except the following deviations.

Under the Code Provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. During the year, none of the non-executive director and the independent non-executive directors of the Company was appointed for any specific fixed term. In accordance with the bye-laws, one-third of the directors for the time being (or, if their number is not three or a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every director shall be subject to retirement by rotation at least once every three years. The Board considers that sufficient measures will be taken to ensure the corporate governance practices of the Company are not less exacting than those in the Code.

Following the resignation of Mr. Lai Chi Kin, Lawrence on 14th July 2008 as independent non-executive director, a member of audit committee, the chairman and a member of remuneration committee, the Company currently has two independent non-executive directors and audit committee members which fall below the minimum number of three independent non-executive directors and three members in the audit committee as required under Rule 3.10(1) and Rule 3.21 of the Listing Rules . The Company currently has two remuneration committee members, consisting of one executive director and one independent non-executive director which fall below the requirement of (i) two independent non-executive directors and one executive director as required by the code of corporate governance of the Company and (ii) the majority of the members of the remuneration committee should be independent non-executive directors as required by the Code on Corporate Governance Practices under Listing Rules.

The Company will identify a suitable candidate to fill the vacancy as soon as possible. Further announcement will be made as and when appropriate.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules as a code of conduct of the Company for Directors' securities transactions. Employees who are deemed to be in possession of unpublished price sensitive information in relation to the Company or its shares are required to prohibit to deal in shares of the Company during the black-out period.

Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions throughout the year ended 31st March 2008.

BOARD OF DIRECTORS

As at 31st March 2008, the Board comprises four executive directors, one non-executive director and three independent non-executive directors.

The composition of the Board's members is as follows:

Executive Directors

Mr. KAO Cheung Chong, Michael *(Chairman)* (retired on 9th April 2008)
Mr. KAO Wai Ho, Francis
Mr. Douglas Esse GLEN
Mr. TSE Chi Man, Terry (resigned on 2nd June 2008)
Mr. Thomas Knox GRAY (resigned on 14th November 2007)

Non-executive Director

Mr. LAM Pak Kin, Philip (resigned on 1st May 2008)

Independent Non-executive Directors

Mr. LAI Chi Kin, Lawrence (resigned on 14th July 2008)
Mr. NG See Yuen
Mr. OH Kok Chi

During the financial year ended 31st March 2008, the Directors have made active contributions to the affairs of the Group and four Board meetings were held. Details of the attendance of individual directors at board meetings and committee meetings during the year are set out in the following table.

Name	Number of meetings held during the director's term of office	Number of meetings attended
Chairman		
Kao Cheung Chong, Michael	4	4
Executive Directors		
Kao Wai Ho, Francis	4	4
Douglas Esse Glen	4	4
Tse Chi Man, Terry	4	4
Thomas Knox Gray	1	–
Non-executive Director		
Lam Pak Kin, Philip	4	4
Independent Non-executive Directors		
Lai Chi Kin, Lawrence	4	4
Ng See Yuen	4	4
Oh Kok Chi	4	4

The Board is responsible for formulating policies and objectives of the Company, setting targets of the management and monitoring the management's performance. It delegates day-to-day operations of the Company to the executive committee and senior management within the control and authority framework set out by the Board.

The Board includes a balanced composition of executive and non-executive directors so that there is a strong independent element on the Board, which can effectively exercise independent judgments. Non-executive directors are of sufficient caliber and number for their views to carry weight.

The biographical details of the directors are provided on page 19 of this report.

CHAIRMAN AND CHIEF EXECUTIVE OFFICERS

The roles of chairman and chief executive officers are separate and are not performed by the same individual to further reinforce their independence and accountability. The chairman provides leadership for the Board and the chief executive officers have overall chief executive responsibility for the Group's business development and day-to-day management generally. The division of responsibilities between the chairman and the chief executive officers is clearly established and set out in writing.

NON-EXECUTIVE DIRECTORS

The non-executive directors of the Company were not appointed for any specific fixed term. In accordance with the Bye-laws, every director shall be subject to retirement by rotation at least once every three years.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 1st August 2005 with specific written terms of reference which deals clearly with its authority and duties. The principal duties of the Remuneration Committee include:

(i) making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management of the Group;

(ii) reviewing and approve performance-based remunerations;

(iii) determining the specific remuneration packages of all executive directors and senior management and making recommendations to the Board for the remunerations of non-executive director and independent non-executive directors;

(iv) reviewing and approve the compensations payable to executive directors and senior management and the compensation arrangements relating to dismissal or removal of directors for misconducts; and

(v) ensuring that no Directors or any of their associates are involved in deciding their own remuneration.

At 31st March 2008, the chairman of the Remuneration Committee was Mr. Lai Chi Kin, Lawrence, an independent non-executive director of the Company. The other members comprised an independent non-executive director of the Company, Mr. Oh Kok Chi, and an executive director Mr. Tse Chi Man, Terry. The independent non-executive directors of the Company constitute the majority of the committee.

During the year, the Remuneration Committee held three meetings were held. The attendance of individual members was set out in the following table.

Name	Number of meetings attended
Tse Chi Man, Terry	3
Lai Chi Kin, Lawrence	3
Oh Kok Chi	3

NOMINATION OF DIRECTORS

Appointment of new directors is a matter for consideration by the Board. The Board will review the profiles of the candidates before considering the appointment and re-nomination of directors.

According to the Bye-laws, any directors so appointed by the Board shall hold office, in the case of filling a casual vacancy, only until the next following general meeting of the Company or, in the case of an addition to their number, until the next following annual general meeting of the Company, who shall then be eligible for re-election at such annual general meeting.

AUDITORS' REMUNERATION

During the year, the remunerations paid to the Company's auditors, Messrs. Deloitte Touche Tohmatsu, are set out as follows:

Services rendered	Fee paid/payable HK$'000
Audit services	1,300
Non-audit services:	
Review on interim financial report	300
Taxation services	276
Diagnostic Risk Assessment	160

AUDIT COMMITTEE

The Company has an Audit Committee principal duties include, amongst other things,

(i) overseeing the relationship with the Company's auditors;

(ii) reviewing the interim and annual financial statements; and

(iii) reviewing the Company's financial reporting system and internal control procedures.

At 31st March 2008, Mr. Oh Kok Chi, an independent non-executive director of the Company, was the Chairman of the Audit Committee. Two other members comprised the other independent non-executive directors, namely Mr. Lai Chi Kin, Lawrence and Mr. Ng See Yuen. None of the members of the Audit Committee were former partners of the auditors of the Company.

During the year, the Audit Committee held two meetings and the attendance of individual members was set out in the following table.

Name	Number of meetings attended
Lai Chi Kin, Lawrence	2
Ng See Yuen	2
Oh Kok Chi	2

The Audit Committee has an explicit authority to investigate any activity within its terms of reference and an authority to obtain outside legal or other independent professional advice if it considers necessary. It is given access to and assistance from the employees and reasonable resources to discharge its duties properly.

During the financial year ended 31st March 2008, the Board had no disagreement with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditors.

INTERNAL CONTROLS AND INTERNAL AUDIT

The Board acknowledges its responsibility in maintaining sound and effective internal control system for the Group to safeguard investments of the shareholders and assets of the Group at all times.

The system of internal controls aims at achieving the Group's business objectives, safeguarding assets and maintaining proper accounting records for provision of reliable financial information. However, the design of the system is to provide reasonable, but not absolute, assurance against material misstatements in the financial statements or loss of assets and to manage rather than to eliminate risks of failure when business objectives are being sought.

The management has conducted regular reviews during the year on the effectiveness of the internal control system covering all material controls in areas of financial, operational and compliance controls, various functions for risks management as well as physical and information systems security.

The Chief Financial Officer ("CFO") has reported to the Audit Committee in conjunction with key findings identified by the external auditors and independent advisor, findings and actions or measures taken in addressing those existing and potential internal control. The Audit Committee in turn reports any material issues to the Board.

During the year, based on the continuous evaluations made by the management, the CFO, and external auditors, the Audit Committee was satisfied that nothing has come to its attention to cause the Audit Committee to believe that the system of internal control is inadequate. Moreover, the Group will continue to identify and closely monitor the potential significant risks faced by the Group.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors acknowledge their responsibilities for preparing financial statements of the Group which give a true and fair view of the state of affairs of the Group on a going concern basis and presenting the interim and annual financial statements, announcements and other financial disclosures required under the Listing Rules, the Directors aim to present a balanced, clear and understandable assessment of the Group's positions and prospects.

The statement of the auditors of the Company, Messrs. Deloitte Touche Tohmatsu, about their reporting responsibilities on the financial statements of the Group is set out in the Report of the Auditors on pages 37 to 38 of this annual report.

Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 31st March 2008.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in notes 36 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st March 2008 are set out in the consolidated income statement on page 39.

The Directors do not recommend the payment of a final dividend for the year ended 31st March 2008.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 96.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately HK$45,437,000 on additions to property, plant and equipment mainly for the expansion and enhancement of its production capability.

Details of movements in property, plant and equipment of the Group during the year are set out in note 18 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 28 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserve available for distribution to shareholders as at 31st March 2008 amounted to HK$474,048,000 (2007: HK$370,428,000).

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Kao Cheung Chong, Michael *(Note)*	(retired on 9th April 2008)
Mr. Kao Wai Ho, Francis *(Chairman and Chief Creative Officer) (Note)*	
Mr. Douglas Esse Glen *(Chief Executive Officer) (Note)*	
Mr. Tse Chi Man, Terry	(resigned on 2nd June 2008)
Mr. Thomas Knox Gray	(resigned on 14th November 2007)

Non-executive Director:

Mr. Lam Pak Kin, Philip	(resigned on 1st May 2008)

Independent Non-executive Directors:

Mr. Lai Chi Kin, Lawrence	(resigned on 14th July 2008)
Mr. Ng See Yuen	
Mr. Oh Kok Chi	

Note: Subsequent to the balance sheet date, the Chairman of the Group, Mr. Kao Cheung Chong, Michael was retired on 9th April 2008. On the same day, Mr. Kao Wai Ho, Francis was re-designated as the Chairman and Chief Creative Officer of the Group and Mr. Douglas Esse Glen was re-designated as the Chief Executive Officer of the Group.

In accordance with Article 87 of the Company's Bye-laws, Mr. Douglas Esse Glen and Mr. Ng See Yuen shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The term of office for each Non-executive Director and Independent Non-executive Director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

DIRECTORS' SERVICE CONTRACTS

An Executive Director of the Company has entered into a service contract with the Company on 1st April 2007 for a term of two years commencing 1st April 2007 and ending 31st March 2009, subject to termination either by a seven days, notice from the Company to that Executive Director or by one month's notice from that Executive Director to the Company. The contract was renewed on 2nd January 2008 for a term of two years commencing 2nd January 2008 and ending 1st January 2010, subject to termination by one month's notice from the respective party to the other party.

Another Executive Director of the Company has entered into a service contract with the Company for an initial term commencing 20th September 2006 and ending 19th September 2008, subject to termination either by a seven days' notice from the Company to that Executive Director or one month's notice from that Executive Director to the Company. The contract was renewed on 2nd January 2008 for a term of two years commencing 2nd January 2008 and ending 1st January 2010, subject to termination by one month's notice from the respective party to the other party.

Other than the Executive Directors whose contracts are described above, no Director being proposed for re-election at the forthcoming annual general meeting has a service contract with the Group which is not terminable by the Group within one year without payment of compensation, other than statutory compensation.

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

At 31st March 2008, 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 Rules Governing the Listing of Securities on the Stock Exchange (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 Personal interest	 Corporate interest	 Other interest	 Total interest	Percentage of issued share capital
Mr. Kao Cheung Chong, Michael	35,302,765	9,373,020 *(note (i))*	597,816,490 *(note (ii))*	642,492,275	39.23%
Mr. Kao Wai Ho, Francis	62,735,764	–	597,816,490 *(note (ii))*	660,552,254	40.33%
Mr. Douglas Esse Glen	424,000	–	–	424,000	0.03%
Mr. Lam Pak Kin, Philip	2,034,000	–	–	2,034,000	0.12%
Mr. Lai Chi Kin, Lawrence	361,500	–	–	361,500	0.02%

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 35.75% 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.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES, UNDERLYING SHARES AND CONVERTIBLE NOTES *(Continued)*

Long position *(Continued)*

(B) Share options of the Company

Name of Directors	Capacity	Number of options held	Number of underlying shares
Mr. Douglas Esse Glen	Beneficial owner	12,000,000	12,000,000
Mr. Tse Chi Man, Terry	Beneficial owner	5,000,000	5,000,000

(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%

Other than as disclosed above and the interest in certain non-voting 5% deferred shares in a subsidiary of the Company referred to note 36 to the consolidated financial statements, 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 as at 31st March 2008.

Directors' Report *(continued)*

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 30 to the consolidated financial statements.

The following table discloses movements in the Company's share options during the year:

	Date of grant	Vesting period	Exercisable period	Exercise price per share HK$	At 1st April 2007	Granted during the year	Granted with modification during the year	Cancelled with modification during the year	Exercised during the year	Cancelled during vesting period	Forfeited during the year	At 31st March 2008
Category 1: Directors												
Mr. Kao Cheung Chong, Michael	13th February 2006	Nil	3 years	0.535	9,000,000	–	–	–	(9,000,000)	–	–	–
Mr. Douglas Esse Glen	9th October 2006	Nil to 5 years	5 years	2.570	12,000,000	–	–	–	–	–	–	12,000,000
Mr. Tse Chi Man, Terry	19th January 2007	1 to 3 years	5 years	4.350	5,000,000	–	–	(5,000,000)	–	–	–	–
	25th September 2007	0.33 to 2.33 years	5 years	2.178	–	–	5,000,000	–	–	–	–	5,000,000
Mr. Thomas Knox Gray	7th June 2005	Nil	5 years	0.195	5,000,000	–	–	–	(5,000,000)	–	–	–
					31,000,000	–	5,000,000	(5,000,000)	(14,000,000)	–	–	17,000,000
Category 2: Employees												
	24th May 2005	Nil	5 years	0.196	8,050,000	–	–	–	(4,350,000)	–	–	3,700,000
	7th June 2005	Nil	5 years	0.195	5,000,000	–	–	–	–	–	–	5,000,000
	13th February 2006	Nil	3 years	0.535	4,000,000	–	–	–	(2,000,000)	–	–	2,000,000
	13th February 2006	Nil	5 years	0.535	300,000	–	–	–	–	–	–	300,000
	8th November 2006	Nil	5 years	3.070	1,256,000	–	–	–	–	–	–	1,256,000
	8th December 2006	Nil	5 years	3.270	1,000,000	–	–	–	–	–	(1,000,000)	–
	19th January 2007	1 to 3 years	5 years	4.350	52,520,000	–	–	(47,200,000)	–	(5,320,000)	–	–
	15th May 2007	0.67 to 3 years	5 years	2.178	–	5,385,000	46,540,000	–	–	(5,440,000)	–	46,485,000
	18th May 2007	0.67 to 2.67 years	5 years	2.146	–	–	260,000	–	–	(160,000)	–	100,000
	25th September 2007	0.33 to 3 years	5 years	2.178	–	6,650,000	400,000	–	–	–	–	7,050,000
	17th January 2008	1 to 3 years	5 years	2.178	–	1,000,000	–	–	–	–	–	1,000,000
					72,126,000	13,035,000	47,200,000	(47,200,000)	(6,350,000)	(10,920,000)	(1,000,000)	66,891,000
Category 3: Supplier of services	25th May 2006	1 year	2 years	1.762	5,000,000	–	–	–	–	–	(5,000,000)	–
Total					108,126,000	13,035,000	52,200,000	(52,200,000)	(20,350,000)	(10,920,000)	(6,000,000)	83,891,000

SHARE OPTIONS *(Continued)*

The closing prices of the Company's shares immediately before 15th May 2007, 18th May 2007, 25th September 2007 and 17th January 2008, the dates of grant of the options, were HK$2.17, HK$2.09, HK$1.52 and HK$1.80 respectively. The weighted average closing market price per share immediately before the dates on which the share options were exercised was HK$2.88.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the option holdings and convertible notes as disclosed above, at no time during the year was the Company, its holding company or any of its subsidiaries, a party to any arrangement to enable the Directors or Chief Executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than as disclosed in note 34 to the consolidated financial statements, no contracts of significance to which the Company, its holding company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31st March 2008, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO, shows that other than the interests disclosed above in the section "Directors' and Chief Executives' Interests in Shares, Underlying Shares and Convertible Notes", had notified the Company of relevant interests in the issued share capital of the Company.

(A) 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	74,598,000	4.55%
	Interest of controlled corporation *(note)*	329,756,824	20.13%
Trophy Asset Management Limited ("Trophy Asset")	Beneficial owner *(note)*	6,970,000	0.43%
Winnington Capital Limited ("Winnington")	Investment Manager *(note)*	329,756,824	20.13%
Ms. Chu Jocelyn ("Ms. Chu")	Interest of spouse	74,598,000	4.55%
	Interest of controlled corporation *(note)*	329,756,824	20.13%
Citigroup Inc.	Custodian corporation	3,181,000	0.19%
	Person having a security interest in shares	170,471,475	10.41%
	Interest of controlled corporation	80,000	0.005%

Note: To the best knowledge of the Directors, having made all reasonable enquiries, 267,321,259 shares out of Winnington are held by Trophy Fund whose capital is managed by Trophy Asset, which in turn is wholly owned by Mr. Hung. Trophy Fund is advised by Winnington (delegated management by Trophy Asset) which is 50% owned by each of Mr. Hung and his wife, Ms. Chu.

SUBSTANTIAL SHAREHOLDERS *(Continued)*

(B) Convertible notes of the Company

Name of shareholders	Capacity	Number of underlying shares *(note i)*
Goodyear Group Limited ("Goodyear")	Beneficial owner *(note ii)*	53,167,421
Trophy Fund	Interest of controlled corporation *(note ii)*	53,167,421
Trophy Asset	Interest of controlled corporation *(note ii)*	74,660,633
Winnington	Investment manager *(note ii)*	74,660,633
Mr. Hung	Interest of controlled corporation *(note ii)*	74,660,633
Ms. Chu	Interest of controlled corporation *(note ii)*	74,660,633

Notes:

(i) The underlying shares represented the new shares to be issued upon full conversion of HK$132,000,000 convertible notes due 2008 (the "Subscription Convertible Notes") held by respective holders of the convertible notes at a conversion price of HK$1.768 per share issued by the Company on 30th January 2007.

(ii) Goodyear beneficially owns HK$94,000,000 Subscription Convertible Notes. Goodyear is wholly-owned by Trophy Fund which in turn is wholly-owned by Trophy Asset. Trophy Asset owns an additional HK$38,000,000 Subscription Convertible Notes and is wholly-owned by Mr. Hung. 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$132,000,000 Subscription Convertible Notes.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the Independent Non-Executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the Independent Non-Executive Directors are independent.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st March 2008, sales attributable to the largest and the five largest customers accounted for 56.72% (2007: 88.1%) and 96.56% (2007: 99.3%) 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.

None of the Directors, their associates (as defined in the Listing Rules), or any shareholders 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.

EMOLUMENT POLICY

Remuneration policy is reviewed regularly by the Board to ensure that compensations and benefit packages are in line with the market in respective countries where the Group has operations. In addition to basic salaries, 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.

The emoluments of the Directors of the Company are recommended by the Remuneration Committee and decided by the Board, as authorised by shareholders at the annual general meeting, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees. Details of the scheme are set out in note 29 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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 corporate governance principles and practices adopted by the Company are set out in the Corporate Governance Report on pages 23 to 27 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Company's directors.

DONATIONS

During the year, the Group made charitable and other donations amounting to HK$40,000.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Kao Wai Ho, Francis
Chairman
Hong Kong, 16th July 2008

Independent Auditor's Report

Deloitte.

德勤

TO THE MEMBERS OF IMAGI INTERNATIONAL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Imagi International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 39 to 96, which comprise the consolidated balance sheet as at 31st March 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report *(continued)*

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st March 2008 and of its loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 16th July 2008

Consolidated Income Statement

For the year ended 31st March 2008

	Notes	2008 HK$'000	2007 HK$'000
Turnover	8	**17,189**	243,485
Cost of sales		**(25,931)**	(331,815)
Gross loss		**(8,742)**	(88,330)
Other income	10	**10,048**	5,353
Distribution and selling expenses		**(1,835)**	(2,104)
Impairment loss recognised in respect of computer graphics ("CG") animation pictures	19	**–**	(8,144)
Fair value change in derivative financial instrument		**(504)**	–
Administrative expenses		**(53,763)**	(40,613)
Finance costs	11	**(2,168)**	(4,507)
Loss before taxation	12	**(56,964)**	(138,345)
Income tax expense	13	**(865)**	(617)
Loss for the year		**(57,829)**	(138,962)
Attributable to:			
Equity holders of the Company		**(57,829)**	(138,923)
Minority interests		**–**	(39)
		(57,829)	(138,962)
Basic loss per share	17	**(HK$0.037)**	(HK$0.109)

Consolidated Balance Sheet

At 31st March 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	*18*	**86,364**	64,421
CG animation pictures	*19*	**463,757**	142,075
Goodwill	*20*	**3,228**	3,228
Long term deposits	*22*	**9,644**	–
Club debentures	*21*	**3,201**	3,201
		566,194	212,925
Current assets			
Inventories		**–**	155
Trade and other receivables, deposits and prepayments	*22*	**12,142**	26,968
Tax recoverable		**666**	771
Bank balances and cash	*23*	**175,530**	367,584
		188,338	395,478
Current liabilities			
Other payables and accruals		**20,257**	38,186
Unearned revenue		**67**	110
Tax payable		**593**	670
Obligations under finance lease – due within one year	*24*	**670**	59
		21,587	39,025
Net current assets		**166,751**	356,453
Total assets less current liabilities		**732,945**	569,378

Consolidated Balance Sheet *(continued)*

At 31st March 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current liabilities			
Obligations under finance lease – due after one year	*24*	**2,034**	175
Derivative financial instrument	*26*	**19,767**	–
Convertible notes	*26*	**63,328**	54,299
Deferred tax	*27*	**9,973**	363
		95,102	54,837
Net assets		**637,843**	514,541
Capital and reserves			
Share capital	*28*	**163,795**	144,113
Reserves		**474,048**	370,428
Total equity attributable to equity holders of the Company		**637,843**	514,541

The consolidated financial statements on pages 39 to 96 were approved and authorised for issue by the Board on 16th July 2008 and were signed on its behalf by:

Kao Wai Ho, Francis
DIRECTOR

Douglas Esse Glen
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31st March 2008

	Attributable to equity holders of the Company									
	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000 *(Note)*	Translation reserve HK$'000	Convertible notes equity reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1st April 2006	122,035	73,449	909	(102)	11,930	15,201	(51,787)	171,635	58	171,693
Exchange differences arising on translation of foreign operations and recognised directly in equity	–	–	–	140	–	–	–	140	15	155
Loss for the year	–	–	–	–	–	–	(138,923)	(138,923)	(39)	(138,962)
Total recognised income and expenses for the year	–	–	–	140	–	–	(138,923)	(138,783)	(24)	(138,807)
Recognition of equity-settled share-based payments *(note 29)*	–	–	–	–	–	25,776	–	25,776	–	25,776
Exercise of share options *(note 28(a) & (c))*	6,637	20,922	–	–	–	(8,739)	–	18,820	–	18,820
Share options forfeited for the year	–	–	–	–	–	(268)	268	–	–	–
Placement of shares *(note 28(d))*	12,500	425,000	–	–	–	–	–	437,500	–	437,500
Share issued expenses	–	(9,440)	–	–	–	–	–	(9,440)	–	(9,440)
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	(34)	(34)
Conversion of equity component of convertible notes *(note 26)*	2,941	7,744	–	–	(1,652)	–	–	9,033	–	9,033
At 31st March 2007	144,113	517,675	909	38	10,278	31,970	(190,442)	514,541	–	514,541
Exchange differences arising on translation of foreign operations and recognised directly in equity	–	–	–	996	–	–	–	996	–	996
Loss for the year	–	–	–	–	–	–	(57,829)	(57,829)	–	(57,829)
Total recognised income and expenses for the year	–	–	–	996	–	–	(57,829)	(56,833)	–	(56,833)
Recognition of equity-settled share-based payments *(note 29)*	–	–	–	–	–	73,980	–	73,980	–	73,980
Exercise of share options *(note 28(f))*	2,035	10,439	–	–	–	(4,762)	–	7,712	–	7,712
Share options forfeited for the year	–	–	–	–	–	(5,753)	5,753	–	–	–
Recognition of equity component of convertible notes *(note 26)*	–	–	–	–	52,087	–	–	52,087	–	52,087
Deferred tax liability on recognition of equity component of convertible notes *(note 27)*	–	–	–	–	(9,115)	–	–	(9,115)	–	(9,115)
Conversion of equity component of convertible notes *(note 28(g))*	17,647	48,102	–	–	(10,278)	–	–	55,471	–	55,471
At 31st March 2008	**163,795**	**576,216**	**909**	**1,034**	**42,972**	**95,435**	**(242,518)**	**637,843**	**–**	**637,843**

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.

Consolidated Cash Flow Statement

For the year ended 31st March 2008

	2008 HK$'000	2007 HK$'000
OPERATING ACTIVITIES		
Loss before taxation	**(56,964)**	(138,345)
Adjustments for:		
Amortisation of CG animation pictures	**25,212**	330,006
Bank interest income	**(6,822)**	(3,755)
Depreciation of property, plant and equipment	**1,820**	1,375
Finance costs	**2,168**	4,507
Impairment loss recognised in respect of CG animation pictures	**–**	8,144
Fair value change in derivative financial instrument	**504**	–
Loss on disposal of property, plant and equipment	**669**	218
Share-based payment expenses	**16,645**	8,969
Operating cash flow before movements in working capital	**(16,768)**	211,119
Decrease (increase) in inventories	**185**	(19)
Decrease (increase) in long term deposits, trade and other receivables, deposits and prepayments	**5,820**	(19,809)
(Decrease) increase in other payables	**(17,925)**	25,832
Decrease in unearned revenue	**(43)**	(3,866)
Decrease in amount due from an associate	**–**	350
Net cash (used in) from operations	**(28,731)**	213,607
Hong Kong Profits Tax refunded	**7**	30
Overseas tax paid	**(467)**	(1,214)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(29,191)**	212,423
INVESTING ACTIVITIES		
Cost incurred in CG animation pictures	**(266,125)**	(216,103)
Purchase of property, plant and equipment	**(42,579)**	(24,630)
Interest received	**7,093**	3,598
Proceeds from disposal of property, plant and equipment	**850**	695
Purchase of available-for-sale investment	**–**	(2,000)
Purchase of additional interest in a subsidiary	**–**	(463)
NET CASH USED IN INVESTING ACTIVITIES	**(300,761)**	(238,903)

Consolidated Cash Flow Statement *(continued)*

For the year ended 31st March 2008

	2008 HK$'000	2007 HK$'000
FINANCING ACTIVITIES		
Proceeds from issue of convertible notes	132,000	–
Proceeds from issue of shares	7,712	456,320
Interest paid	(1,596)	(13,444)
Repayment of obligations under finance leases	(388)	(127)
New bank loans raised	–	101,517
Other borrowings raised	–	10,000
Repayment of bank loans	–	(245,980)
Repayment of other borrowings	–	(10,000)
Share issued expenses	–	(9,440)
NET CASH FROM FINANCING ACTIVITIES	137,728	288,846
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(192,224)	262,366
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	367,584	105,156
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	170	62
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash	175,530	367,584

Notes to the Consolidated Financial Statements

For the year ended 31st March 2008

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda. Its shares are listed on The Stock Exchange of Hong Kong Limited. Its parent and ultimate holding company is Sunni International Limited (incorporated in the British Virgin Islands). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" to the annual report.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

The Company acts as an investment holding company. The principal activities of its subsidiaries is set out in note 36 to the consolidated financial statements.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Group is principally engaged in the production of CG animation pictures for licensing and sale. At 31st March 2008, the CG animation pictures in progress amounted to approximately HK$460 million and it is expected that further HK$640 million cash outlays will have to be incurred to complete the pictures and to meet the Group's daily operating expenditures in coming years up to March 2010 before revenue from the pictures is generated. At 31st March 2008, the Group had bank and cash balances and undrawn banking facilities of approximately HK$176 million and HK$70 million, respectively. In addition, on 2nd July 2008, the Company entered into a subscription agreement with an independent third party not connected with the Group, in relation to the subscription for a total of 362,790,698 shares of the Company, at a subscription price of HK$0.86 per share (the "Placing"). Once the transaction is completed, the net proceeds from the Placing of approximately HK$311 million will be used for the development of CG animation pictures. The transaction is not yet completed at the report date. Details of the Placing are set out in the Company's announcement dated 4th July 2008. At present, the directors are actively pursuing various funding sources to meet the Group's cash flow requirements, including placement of shares, pre-sale/licensing of, and inviting financing partners for, the animation pictures.

The Directors are of the opinion that the Group will have sufficient financial resources to meet its financial obligations as they fall due in the next twelve months from the balance sheet date. Accordingly, the consolidated financial statements have been prepared on a going concern basis and the Group's non-current assets are stated in the consolidated balance sheet in accordance with the Group's normal accounting policies.

From 1st April 2009 onwards, provided that the Group is able to obtain the necessary financing in a timely manner, the Directors also believe that the Group will continue to operate as a going concern and have the ability to complete the CG animation pictures in progress and meet its other financial obligations.

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31st March 2008

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS")

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1st April 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 12	Service Concession Arrangements[3]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[4]
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

[1] Effective for annual periods beginning on or after 1st January 2009
[2] Effective for annual periods beginning on or after 1st July 2009
[3] Effective for annual periods beginning on or after 1st January 2008
[4] Effective for annual periods beginning on or after 1st July 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a change of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards and interpretations will have no material impact on the results and the financial position of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the disclosure requirements of Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisitions or up to the effective date of disposals, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on acquisitions prior to 1st January 2005

Goodwill arising on an acquisition of net assets and operations of another entity for which the agreement date is before 1st January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant acquiree at the date of acquisition.

For previously capitalised goodwill arising on acquisitions of net assets and operations of another entity after 1st April 2001, the Group has discontinued amortisation from 1st April 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash-generating unit (the "CGU") to which the goodwill relates may be impaired.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31st March 2008

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

For the purpose of impairment testing, goodwill, arising from an acquisition is allocated to each of the relevant CGUs, or groups of CGUs, that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant CGU, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair values of considerations received or receivable.

Production service income is recognised when the services are provided. Payments received prior to the provision of services are recorded as unearned revenue and are classified as current liabilities in the consolidated balance sheet.

Income from the licensing of the distribution and broadcasting rights over CG animation pictures is recognised when the Group's entitlement to such payments has been established, which, subject to the terms of the relevant agreements, is usually upon delivery of the relevant tapes to the distributors.

Income from the licensing of rights to exploit CG animation pictures is recognised when the Group's entitlement to such payments has been established which is upon the delivery of products manufactured by licensee to ultimate customers.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant leases.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the relevant asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

CG animation pictures

CG animation pictures, which represent CG animation pictures in which the Group retains ownership, consist of film rights of completed CG animation pictures and CG animation pictures of which the productions are still in progress.

CG animation pictures in progress are stated at costs incurred to date, including all the costs directly attributable to the CG animation pictures in progress and borrowing costs capitalised, less accumulated impairment losses. Upon completion and release of the CG animation pictures, the costs are amortised based on the proportion of actual income earned during the year to the estimated total income expected to be generated from the relevant CG animation pictures.

Completed CG animation pictures are stated at cost incurred to date, representing all the costs directly attributable to the completed CG animation pictures and borrowing costs capitalised, less accumulated amortisation and accumulated impairment losses.

CG animation pictures are derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the relevant CG animation pictures, which is calculated as the difference between the sale proceeds and the carrying value of the item is recognised in the consolidated income statement.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant leases.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31st March 2008

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended uses or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement benefit cost

Payments to the Mandatory Provident Fund Scheme ("MPF") are charged as expenses when employees have rendered service entitling them to the contributions.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Gains or losses arising from derecognition of an intangible assets are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified into loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including long term deposits, trade and other receivables, deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31st March 2008

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Convertible notes

(i) Convertible notes liability and equity components

Convertible notes issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the notes into equity, is included in equity (convertible notes equity reserve).

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible notes equity reserve until the embedded option is exercised in which case the balance stated in convertible notes equity reserve will be transferred to share premium. Where the option remains unexercised at the expiry date, the balance stated in convertible notes equity reserve will be released to accumulated profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31st March 2008

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Convertible notes *(Continued)*

(ii) Convertible notes contains liability and equity components, and early redemption option derivative

Convertible notes issued by the Group that contain liability, conversion option and early redemption option (which is not closely related to the host liability component) are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument. At the date of issue, both the liability and early redemption option components are measured at fair value. The difference between the gross proceeds of the issue of the convertible notes and the fair values assigned to the liability and early redemption option components respectively, representing the conversion option for the holder to convert the notes into equity, is included in equity (convertible notes equity reserve).

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The early redemption option is measured at fair value with changes in fair value recognised in profit or loss.

The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible notes equity reserve until the embedded conversion option is exercised (in which case the balance stated in convertible notes equity reserve will be transferred to share premium). Where the conversion option remains unexercised at the expiry date, the balance stated in convertible notes equity reserve will be released to the accumulated profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability, equity and early redemption option components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the early redemption option are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

Other financial liabilities

Other financial liabilities including obligations under finance leases and other payables are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Equity-settled share-based payment transactions

Share options granted to employees of the Group and other individuals providing similar services

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period/recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share option reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses.

At the time when the Group modified the terms and conditions of the share options which were previously granted, the Group has recognised the services received measured at fair value at the original grant date of the share options. In addition, the Group has recognised the effects of modifications that increase the total fair value of the share-based payment arrangement at the date of modifying the terms and conditions of the share options.

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31st March 2008

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses other than goodwill (see the accounting policy in respect of goodwill above)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives are tested for impairment annually and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment loss on CG animation pictures

Management regularly reviews the recoverability of the Group's CG animation pictures with reference to their intended uses and current market environment. Appropriate impairment for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the CG animation pictures are impaired.

In determining whether there is any objective evidence that the CG animation pictures are impaired, the Group takes into consideration the current market condition with reference to the existing operating plan and budget. Recoverable amount is determined based on the higher of estimated future cash flow and estimated market value. Where the recoverable amount of the CG animation pictures is less than the carrying amount at the balance sheet date as a result of an adverse change in market condition or an escalation of cost, impairment loss may result. As at 31st March 2008, the carrying amount of CG animation pictures was approximately HK$463,757,000 (2007: HK$142,075,000). Details of the recoverable amount of CG animation pictures are disclosed in note 19.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st March 2008, the carrying amount of goodwill is HK$3,228,000 (2007: HK$3,228,000). Details of the recoverable amount calculation are disclosed in note 20.

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the convertible notes disclosed in note 26 and equity attributable to equity holders of the Company, comprising issued share capital and various reserves.

7. FINANCIAL INSTRUMENTS

7a. Categories of financial instruments

	2008 HK$'000	2007 HK$'000
Financial assets		
Loans and receivables		
(including cash and cash equivalents)	195,446	392,896
Financial liabilities		
Amortised cost	66,527	54,639
Derivative financial instrument	19,767	–

7b. Financial risk management objectives and polices

The Group's major financial instruments include long term deposits, trade and other receivables, deposits, bank balances and cash, other payables and convertible notes. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31st March 2008

7. FINANCIAL INSTRUMENTS *(Continued)*

7b. Financial risk management objectives and polices *(Continued)*

Market risk

(i) Currency risk

The Group's sale are denominated in Hong Kong dollars and United States dollars ("USD") and it pays its costs and expenses substantially in Hong Kong dollars and USD.

The carrying amounts of the Group's monetary assets denominated in currencies other than the functional currency of the relevant group entities at the balance sheet date are as follows:

	Assets	
	2008	2007
	HK$'000	HK$'000
USD	**18,120**	124,791

As Hong Kong dollars is pegged to USD, the currency risk exposure of the USD receivables and bank balances are considered insignificant.

(ii) Interest rate risk

The Group's bank balances are exposed to cash flow interest rate risks due to the fluctuation of the prevailing market interest rates. Besides, the Group's convertible notes (see note 26) and obligation under finance leases (see note 24) are exposed to fair value interest rate risk. It is the Group's policy to keep its bank balances at a mixture of floating rate and fixed rate of interests so as to minimise the interest rate risk.

The Group currently does not have any interest rate hedging policy in relation to interest rate risks. The directors of the Company consider the Group's exposure on an ongoing basis and will consider hedging interest rate risks should the needs arise.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for bank balances at the balance sheet date. For variable-rate bank balances, the analysis is prepared assuming the amount outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's loss for the year ended 31st March 2008 would decrease/increase by HK$878,000 (2007: decrease/increase by HK$1,838,000).

7. FINANCIAL INSTRUMENTS *(Continued)*

7b. Financial risk management objectives and polices *(Continued)*

Market risk (Continued)

(iii) Other price risk

The Group is not exposed to significant other price risk. Management monitors other price risks and will consider hedging significant price exposure should the need arises.

Credit risk

As at 31st March 2008, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the various receivables as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has a number of counterparties and customers, however, the Group's credit risks are concentrated on certain major customers. At 31st March 2008, the Group's total trade receivable balances were represented by three (2007: seven) customers. However, taking into account for the strong financial background and good creditability of these customers, the management considers that there is no significant uncovered credit risk.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

As stated in note 2, the Directors are of the opinion that the Group will be able to operate on a going concern basis in the next twelve months from the balance sheet date. From 1st April 2009 onwards, provided that the Group is able to obtain the necessary financing in a timely manner, the Directors also believe that the Group will continue to operate as a going concern and have the ability to complete the CG animation pictures in progress and meet its other financial obligations. Any failure to do so may expose the Group to significant liquidity risk.

The following table details the Group's remaining contractual maturity for its non-derivative financial assets and financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial assets and financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31st March 2008

7. FINANCIAL INSTRUMENTS *(Continued)*

7b. Financial risk management objectives and polices *(Continued)*

Liquidity risk (Continued)

Liquidity and interest risk tables

	Weighted average effective interest rate %	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31st March 2008 HK$'000
2008							
Non-derivative financial assets							
Long term deposits	–	–	–	–	9,644	9,644	9,644
Trade and other receivables and deposits	–	405	2,866	7,001	–	10,272	10,272
Bank balances and cash	2.33	175,871	–	–	–	175,871	175,530
		176,276	2,866	7,001	9,644	195,787	195,446
Non-derivative financial liabilities							
Other payables	–	495	–	–	–	495	495
Obligations under finance lease	6.5	68	136	614	2,231	3,049	2,704
Convertible notes	26.2	–	–	–	132,000	132,000	63,328
		563	136	614	134,231	135,544	66,527

	Weighted average effective interest rate %	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31st March 2007 HK$'000
2007							
Non-derivative financial assets							
Trade and other receivables and deposits	–	1,185	9,921	12,999	1,207	25,312	25,312
Bank balances and cash	4.12	368,845	–	–	–	368,845	367,584
		370,030	9,921	12,999	1,207	394,157	392,896
Non-derivative financial liabilities							
Other payables	–	106	–	–	–	106	106
Obligations under finance lease	3.5	7	13	59	197	276	234
Convertible notes	9.4	–	–	2,100	71,983	74,083	54,299
		113	13	2,159	72,180	74,465	54,639

7. FINANCIAL INSTRUMENTS *(Continued)*

7c. Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input. For an option-based derivative, the fair value is estimated using option pricing model (for example, the trinomial model).

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their respective fair values.

8. TURNOVER

Turnover represents the amounts received and receivable for goods sold or services rendered by the Group during the year and is summarised as follows:

	2008 HK$'000	2007 HK$'000
Income from licensing of CG animation pictures	11,436	240,691
Production service income from CG animation pictures	278	1,783
Income from licensing of ancillary rights of CG animation pictures	5,475	1,011
	17,189	243,485

9. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

In both years, the Group is operating in a single business of production, which is licensing and sales of CG animation pictures. Accordingly, no business segment analysis is presented.

Geographical segments

The Group's operations are mainly located in North America and Hong Kong. These locations are the basis on which the Group reports its primary segment information and is identified according to the location of the Group's assets.

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31st March 2008

9. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Geographical segments *(Continued)*

Segment information for the two years ended 31st March 2008 is presented below:

CONSOLIDATED INCOME STATEMENT

For the year ended 31st March 2008

	North America HK$'000	Hong Kong HK$'000	Others HK$'000	Eliminations HK$'000	Consolidated HK$'000
TURNOVER					
External sales	15,025	395	1,769	–	17,189
Inter-segment sales	176,011	187,564	1,356	(364,931)	–
Total	191,036	187,959	3,125	(364,931)	17,189
Inter-segment sales are charged at prevailing market rates.					
RESULTS					
Segment results	(9,656)	(29,328)	(4,596)		(43,580)
Other income					10,048
Unallocated corporate expenses					(21,264)
Finance costs					(2,168)
Loss before taxation					(56,964)
Income tax expense					(865)
Loss for the year					(57,829)

9. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Geographical segments *(Continued)*

CONSOLIDATED BALANCE SHEET

At 31st March 2008

	North America HK$'000	Hong Kong HK$'000	Others HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	40,612	489,804	41,491	571,907
Unallocated corporate assets				182,625
Consolidated total assets				754,532
LIABILITIES				
Segment liabilities	6,616	16,030	382	23,028
Unallocated corporate liabilities				93,661
Consolidated total liabilities				116,689

OTHER INFORMATION

For the year ended 31st March 2008

	North America HK$'000	Hong Kong HK$'000	Unallocated items HK$'000	Consolidated HK$'000
Capital additions	22,617	369,646	68	392,331
Depreciation and amortisation	24,284	19,134	3,810	47,228
Loss on disposal of property, plant and equipment	–	669	–	669

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31st March 2008

9. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Geographical segments *(Continued)*

As the location of its customers is the same as the location of its assets, there was no separate disclosure of revenue from sales to external customers by location of customers:

CONSOLIDATED INCOME STATEMENT
For the year ended 31st March 2007

	North America HK$'000	Hong Kong HK$'000	Others HK$'000	Eliminations HK$'000	Consolidated HK$'000
TURNOVER					
External sales	124,364	108,530	10,591	–	243,485
Inter-segment sales	98,778	286,174	1,614	(386,566)	–
Total	223,142	394,704	12,205	(386,566)	243,485
Inter-segment sales are charged at prevailing market rates.					
RESULTS					
Segment results	(46,359)	(68,162)	(10,230)		(124,751)
Other income					5,353
Unallocated corporate expenses					(14,440)
Finance costs					(4,507)
Loss before taxation					(138,345)
Income tax expense					(617)
Loss for the year					(138,962)

CONSOLIDATED BALANCE SHEET
At 31st March 2007

	North America HK$'000	Hong Kong HK$'000	Others HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	23,139	165,835	44,645	233,619
Unallocated corporate assets				374,784
Consolidated total assets				608,403
LIABILITIES				
Segment liabilities	12,447	25,824	259	38,530
Unallocated corporate liabilities				55,332
Consolidated total liabilities				93,862

9. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical segments *(Continued)*

OTHER INFORMATION

For the year ended 31st March 2007

	North America HK$'000	Hong Kong HK$'000	Unallocated items HK$'000	Consolidated HK$'000
Capital additions	4,527	280,452	539	285,518
Depreciation and amortisation	170,315	157,150	19,270	346,735
Impairment loss recognised in respect of CG animation pictures	–	8,144	–	8,144
Loss on disposal of property, plant and equipment	168	50	–	218

As the location of its customers is different from the location of its assets, below is an analysis of revenue from sales to external customers by location of customers:

	North America HK$'000	Hong Kong HK$'000	Others HK$'000	Consolidated HK$'000
TURNOVER				
External sales	232,047	848	10,590	243,485

10. OTHER INCOME

	2008 HK$'000	2007 HK$'000
Interest income	**6,822**	3,755
VAT refund relating to a previously disposed business	**3,186**	1,590
Others	**40**	8
	10,048	5,353

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31st March 2008

11. FINANCE COSTS

	2008 HK$'000	2007 HK$'000
Interest wholly repayable within five years on:		
Bank borrowings	–	11,269
Obligations under finance leases	176	4
Other borrowings	–	76
Effective interest expense on convertible notes *(note 26)*	5,270	5,679
	5,446	17,028
Less: amounts capitalised in CG animation pictures	(3,278)	(12,521)
	2,168	4,507

Effective interest expense on convertible notes issued on 30th January 2008 was fully capitalised as it is the specific borrowing used for the production of CG animation pictures.

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 9.74% (2007: 10.10%) per annum to expenditure on qualifying assets.

12. LOSS BEFORE TAXATION

	2008 HK$'000	2007 HK$'000
Loss before taxation has been arrived at after charging:		
Directors' emoluments *(note 14)*	27,810	21,113
Other staff costs	183,512	92,203
Equity-settled share-based payments expenses other than Directors	62,541	19,953
Total staff costs	273,863	133,269
Less: amounts capitalised in CG animation pictures and inventories	(241,009)	(109,635)
	32,854	23,634
Depreciation of property, plant and equipment	22,016	16,729
Less: amounts capitalised in CG animation pictures and inventories	(20,196)	(15,354)
	1,820	1,375
Rentals in respect of premises under operating leases	13,489	8,399
Less: amounts capitalised in CG animation pictures and inventories	(12,483)	(7,653)
	1,006	746
Auditor's remuneration	1,300	1,100
Amortisation of CG animation pictures (included in cost of sales)	25,212	330,006
Loss on disposal of property, plant and equipment	669	218
Cost of inventories recognised as expenses	535	1,762
Net foreign exchange losses	556	423

13. INCOME TAX EXPENSE

	2008 HK$'000	2007 HK$'000
The charge comprises:		
Hong Kong Profits Tax		
– Current tax	–	4
– Underprovision in prior years	24	–
	24	4
Other jurisdictions		
– Current tax	13	676
– Under(over)provision in the prior year	333	(426)
	346	250
Deferred tax *(note 27)*	495	363
Total	865	617

Hong Kong Profits Tax is calculated at 17.5% (2007: 17.5%) on the estimated assessable profits for the current year.

On 26th June 2008, the Hong Kong Profits Tax rate was enacted to decrease from 17.5% to 16.5% with effect from the year of assessment of 2008/2009. As at 31st March 2008, as the proposed reduction of profits tax rate has not yet been substantively enacted, there was no financial impact for the current year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The tax charge for the year can be reconciled to the loss before taxation per the consolidated income statement as follows:

	2008 HK$'000	2007 HK$'000
Loss before taxation	(56,964)	(138,345)
Tax at the Hong Kong Profits Tax rate of 17.5% (2007: 17.5%)	(9,969)	(24,210)
Tax effect of expenses not deductible for tax purpose	11,717	9,785
Tax effect of income not taxable for tax purpose	(1,734)	(930)
Tax effect of tax losses not recognised	573	16,311
Under(over)provision in prior years	357	(426)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(79)	87
Tax charge for the year	865	617

Details of deferred tax at the balance sheet date and during the year are set out in note 27.

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31st March 2008

14. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the nine (2007: ten) Directors were as follows:

For the year ended 31st March 2008

	Mr. Kao Cheung Chong, Michael HK$'000	Mr. Kao Wai Ho, Francis HK$'000	Mr. Douglas Esse Glen HK$'000	Mr. Tse Chi Man, Terry HK$'000	Mr. Thomas Knox Gray HK$'000	Mr. Lam Pak Kin, Philip HK$'000	Mr. Oh Kok Chi HK$'000	Mr. Ng See Yuen HK$'000	Mr. Lai Chi Kin, Lawrence HK$'000	Total 2008 HK$'000
Fees	240	–	–	–	–	240	240	240	240	1,200
Other emoluments:										
Salaries and other benefits	–	3,540	3,515	2,954	5,014	–	40	40	40	15,143
Equity-settled share-based payment expense	–	–	5,156	6,283	–	–	–	–	–	11,439
Contributions to retirement benefit scheme	–	12	4	12	–	–	–	–	–	28
Total emoluments	240	3,552	8,675	9,249	5,014	240	280	280	280	27,810

For the year ended 31st March 2007

	Mr. Kao Cheung Chong, Michael HK$'000	Mr. Kao Wai Ho, Francis HK$'000	Mr. Douglas Esse Glen HK$'000	Mr. Tse Chi Man, Terry HK$'000	Mr. Thomas Knox Gray HK$'000	Mr. Lam Pak Kin, Philip HK$'000	Mr. Oh Kok Chi HK$'000	Mr. Ng See Yuen HK$'000	Mr. Lai Chi Kin, Lawrence HK$'000	Mr. Yip Kar Hang, Raymond HK$'000	Total 2007 HK$'000
Fees	240	–	–	–	–	240	240	240	240	–	1,200
Other emoluments:											
Salaries and other benefits	–	3,680	3,268	3,029	1,226	–	40	40	40	2,733	14,056
Equity-settled share-based payment expense	–	–	4,483	1,340	–	–	–	–	–	–	5,823
Contributions to retirement benefit scheme	–	12	–	12	–	–	–	–	–	10	34
Total emoluments	240	3,692	7,751	4,381	1,226	240	280	280	280	2,743	21,113

15. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2007: four) were Directors of the Company whose emoluments are included in the disclosures in Note 14. The emoluments of the remaining two individuals for the year ended 31st March 2008 (2007: one) and two Directors before their appointment as Directors for the year ended 31st March 2007 are as follows:

	2008 HK$'000	2007 HK$'000
Salaries and other benefits	7,693	5,662
Equity-settled share-based payments expenses	2,497	–
Contributions to retirement benefit scheme	–	–
	10,190	5,662

The emoluments of the above individuals in their role as an employee were within the following bands:

	2008 Number of employee	2007 Number of employee
HK$nil to HK$1,000,000	–	1
HK$1,000,001 to HK$2,000,000	–	1
HK$2,000,001 to HK$3,000,000	–	–
HK$3,000,001 to HK$4,000,000	1	1
HK$4,000,001 to HK$7,000,000	1	–

16. DIVIDENDS

The Directors do not recommend the payment of a dividend for any of the two years ended 31st March 2007 and 2008.

17. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to equity holders of the Company for the year of HK$57,829,000 (2007: HK$138,923,000) and on the weighted average number of 1,545,771,845 (2007: 1,279,316,192) shares in issue during the year.

No diluted loss per share for any of the two years ended 31st March 2008 are presented as the exercise of share options and the conversion of convertible notes would result in a decrease in loss per share.

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31st March 2008

18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST				
At 1st April 2006	13,573	70,160	2,910	86,643
Exchange realignment	–	4	–	4
Additions	4,309	18,308	2,252	24,869
Disposals	(90)	(900)	(806)	(1,796)
At 31st March 2007	17,792	87,572	4,356	109,720
Exchange realignment	4	70	–	74
Additions	4,925	35,852	4,660	45,437
Disposals	(12)	(3,474)	(659)	(4,145)
At 31st March 2008	**22,709**	**120,020**	**8,357**	**151,086**
DEPRECIATION				
At 1st April 2006	3,433	25,163	856	29,452
Exchange realignment	–	1	–	1
Provided for the year	2,781	13,253	695	16,729
Eliminated on disposals	(34)	(436)	(413)	(883)
At 31st March 2007	6,180	37,981	1,138	45,299
Exchange realignment	1	32	–	33
Provided for the year	3,583	17,184	1,249	22,016
Eliminated on disposals	(1)	(2,388)	(237)	(2,626)
At 31st March 2008	**9,763**	**52,809**	**2,150**	**64,722**
CARRYING VALUE				
At 31st March 2008	**12,946**	**67,211**	**6,207**	**86,364**
At 31st March 2007	11,612	49,591	3,218	64,421

18. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated, after taking into account their estimated residual values, on a straight-line basis over their estimated useful lives as follows:

Leasehold improvements	Over a period of 5 years or the term of relevant lease, whichever is shorter
Furniture, fixtures and equipment	Over a period of 5 years
Motor vehicles	Over a period of 5 years

At 31st March 2008, the carrying value of property, plant and equipment of the Group included an amount of approximately HK$4,063,000 (2007: HK$265,000) in respect of motor vehicles held under a finance leases.

19. CG ANIMATION PICTURES

	Completed CG animation pictures	CG animation pictures in progress	Total
	HK$'000	HK$'000	HK$'000
COST			
At 1st April 2006	40,457	254,220	294,677
Additions	–	260,649	260,649
Transfer	355,677	(355,677)	–
At 31st March 2007	396,134	159,192	555,326
Additions	2,920	343,974	346,894
At 31st March 2008	**399,054**	**503,166**	**902,220**
AMORTISATION AND IMPAIRMENT			
At 1st April 2006	40,457	34,644	75,101
Provided for the year	330,006	–	330,006
Impairment loss recognised	–	8,144	8,144
At 31st March 2007	370,463	42,788	413,251
Provided for the year	25,212	–	25,212
At 31st March 2008	**395,675**	**42,788**	**438,463**
CARRYING VALUE			
At 31st March 2008	**3,379**	**460,378**	**463,757**
At 31st March 2007	25,671	116,404	142,075

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31st March 2008

19. CG ANIMATION PICTURES *(Continued)*

Completed CG animation pictures and CG animation pictures in progress are internally generated.

Completed CG animation pictures are amortised based on the proportion of actual income earned during the year to the estimated total income expected to be generated from the relevant CG animation pictures.

CG animation pictures in progress are stated at production costs incurred to date, including borrowing costs capitalised, less accumulated impairment losses, if any.

In both years, 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. The Directors of the Company resolved to cease the production of certain CG animation pictures in 2007 and were of the view that the costs incurred to date of such CG animation pictures had no future economic value. Accordingly, an aggregate impairment loss of approximately HK$8,144,000 was identified and recognised in the consolidated income statement for the year ended 2007.

20. GOODWILL

	HK$'000
COST	
At 1st April 2006	2,799
Acquired on acquisition of additional interest in a subsidiary	429
At 31st March 2007 and 2008	3,228

For the purpose of impairment testing, goodwill has been allocated to a CGU operating as a principal subsidiary of the Group, Imagi Production Limited, which is engaged in the production and licensing of CG animation pictures.

During the year ended 31st March 2008, management of the Group determined that the CGU containing goodwill had not suffered any impairment.

The basis of the recoverable amount of the above CGU and the major underlying assumptions are summarised below:

The recoverable amount of the CGU has been determined based on a value in use calculation. For impairment purpose, that calculation uses cash flow projections based on financial budgets approved by management covering a six-year period and discount rate of 26% (2007: 17%). Management estimates discount rate using risk-free rate, equity risk premium and the risks specific to the CGUs. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of the CGU.

21. CLUB DEBENTURES

	2008 and 2007 HK$'000
Club debentures	3,201

The Directors are of the opinion that there were no impairment on the club debentures since the second hand market prices are higher than their carrying values.

22. LONG TERM DEPOSITS, TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2008 HK$'000	2007 HK$'000
Long term deposits	**9,644**	–
Trade receivables	**2,051**	19,515
Other receivables, deposits and prepayments	**10,091**	7,453
	21,786	26,968

Long term deposits represented the rental deposits for the office premises and were stated at amortised costs as at balance sheet date.

The Group allows its trade customers a credit period in accordance with the terms specified in the contracts, normally ranging from 0 to 90 days.

The following is an aged analysis of trade receivables at the reporting date:

	2008 HK$'000	2007 HK$'000
0 to 30 days	**–**	6,647
31 to 60 days	**415**	1,207
Over 60 days	**1,636**	11,661
	2,051	19,515

Before accepting any new customer, the Group will assess the potential customer's credit quality and defines its credit limits. Credit sales are made to customers with a satisfactory trustworthy credit history. Credit limits attributed to customers are reviewed regularly. At the balance sheet date, 81% (2007: 100%) of the trade receivables that are neither past due nor impaired without default payment history.

Included in the Group's trade receivable balance is a debtor with carrying amount of HK$390,000 (2007: Nil) which was past due at the balance sheet date for which the Group has not provided for impairment loss. The Group does not hold any collateral over this balance. The age of this receivable is about one year (2007: Nil).

Trade and other receivables included HK$1,661,000 (2007: HK$5,653,000) that are denominated in USD, other than the functional currency of the respective group entities, at the balance sheet date.

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31st March 2008

23. BANK BALANCES AND CASH

Bank balances

Bank balances carried interest at market rates which range from 0.01% to 5.80% per annum (2007: 1.25% to 4.95% per annum). Bank balances included HK$16,459,000 (2007: HK$119,138,000) that are denominated in USD, other than the functional currency of the respective group entities, at the balance sheet date.

24. OBLIGATIONS UNDER FINANCE LEASE

It is the Group's policy to lease certain of its property, plant and equipment under finance lease. The average lease term is four years (2007: three years) and the average effective interest rate is 6.50% (2007: 3.50%). Interest rates underlying all obligations under finance lease were fixed at the contract date ranging from 4.00% to 9.00% (2007: 3.00% to 4.00%). All lease is on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance lease:				
Within one year	**819**	79	**670**	59
In the second to fifth year inclusive	**2,231**	197	**2,034**	175
	3,050	276	**2,704**	234
Less: future finance charges	**(346)**	(42)	**N/A**	N/A
Present value of lease obligations	**2,704**	234	**2,704**	234
Less: Amount due within one year and shown under current liabilities			**(670)**	(59)
Amount due after one year			**2,034**	175

The Group's obligations under finance lease is secured by the lessor's charge over the leased assets.

25. BANK BORROWINGS

At the respective balance sheet date, the Group had no outstanding bank borrowings.

The Group had the following undrawn borrowing facilities at the balance sheet date:

	2008	2007
	HK$'000	HK$'000
Floating rate expiring within one year	**70,000**	80,000

26. CONVERTIBLE NOTES AND DERIVATIVE FINANCIAL INSTRUMENT

The Company issued convertible notes with principal amounts of HK$50,000,000, HK$20,000,000 and HK$132,000,000 on 30th November 2005 ("CN Nov 2005"), 5th January 2006 ("CN Jan 2006") and 30th January 2008 ("CN Jan 2008") respectively.

All convertible notes are denominated in Hong Kong dollars. CN Nov 2005 and CN Jan 2006 carried coupon interest rates of 3% per annum and were to be paid semi-annually up until the settlement dates. CN Jan 2008 is a zero coupon note and no coupon interest is to be paid. The major terms of these convertible notes are as follows:

	Principal amount of convertible notes HK$'000	Maturity date	Effective interest rate	Conversion price
CN Nov 2005	50,000	29th November 2008	9.58%	HK$0.34 per ordinary share
CN Jan 2006	20,000	4th January 2009	9.28%	HK$0.34 per ordinary share
CN Jan 2008	132,000	29th January 2011	26.20%	HK$1.768 per ordinary share

CN Nov 2005 and CN Jan 2006 entitled the holders thereof to convert, in whole or in part, the principal amount into ordinary shares of the Company at any time prior to one month before the maturity dates. CN Jan 2008 entitles the holders thereof to convert, in whole or in part, the principal amount into ordinary shares of the Company at any time during the period commencing from the ninetieth day from the date of issue and ending on the date which is the fifteenth day prior to the maturity date.

CN Jan 2008 also entitles the holders thereof to require the Company redeem, in whole or in part, the outstanding principal during the period commencing from the thirtieth month from the date of issue and ending on the date which is not later than sixty days prior to the maturity date at their principal amount plus a premium equal to the accrued interest thereon at a rate of 10% per annum, compounded on an annual basis (the "Early Redemption Amount"). In the case of a change in control of the Company, the holders of CB Jan 2008 also have the right to require the Company to redeem, in whole or in part, the outstanding principal at 125% of their Early Redemption Amount. The early redemption feature of CN Jan 2008 is a derivative financial instrument and is stated at fair value. Any gain or loss arising from the fair value change will be debited or credited to the consolidated income statement directly.

The Group classified the liability portion of CN Jan 2008 as financial liability and the early redemption feature of CN Jan 2008 is deemed as derivative financial instrument and recognised at fair value on initial recognition. The fair values of CN Jan 2008 on initial recognition and the fair value of the early redemption feature of CN Jan 2008 at the balance sheet date are determined by the Directors of the Company with reference to the valuation performed by RHL Appraisal Limited, a firm of independent professional valuers not connected with the Group.

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31st March 2008

26. CONVERTIBLE NOTES AND DERIVATIVE FINANCIAL INSTRUMENT *(Continued)*

The methods and assumptions applied for the fair value of the liability portion and early redemption feature portion of CN Jan 2008 are as follows:

(a) Liability portion

The fair value of the liability portion was calculated based on the present value of the contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to the credit rating of the convertible notes issuer and remaining time to maturity. The effective interest rate of the liability portion at the issue date was 26.20% per annum.

(b) Early redemption feature portion

The fair value of the early redemption feature portion was calculated using trinomial model. The inputs used in the model adopted by the management in determining the fair values at the issue date and balance sheet date were as follows:

	30th January 2008	31st March 2008
Option start date	31st July 2010	31st July 2010
Option end date	30th November 2010	30th November 2010
Strike price	HK$132,000,000	HK$132,000,000
Short term interest rate volatility	1.060%	1.379%
Discount rate	29.593%	29.284%
Early redemption premium	10% per annum	10% per annum

On the above basis, the fair value of the liability portion, equity portion and the early redemption feature portion of the convertible notes on the date of issue are as follows:

	CN Nov 2005 HK'000	CN Jan 2006 HK'000	CN Jan 2008 HK'000	Total HK'000
Liability portion	41,375	16,695	60,650	118,720
Equity portion	8,625	3,305	52,087	64,017
Early redemption feature portion	–	–	19,263	19,263
	50,000	20,000	132,000	202,000

During the year, the remaining principal of CN Nov 2005 and CN Jan 2006 were converted into a total of 147,058,824 and 29,411,764 ordinary shares respectively at HK$0.10 each in the Company at the conversion price of HK$0.34 as set out in note 28(g).

26. CONVERTIBLE NOTES AND DERIVATIVE FINANCIAL INSTRUMENT *(Continued)*

The movement of the liability component of the convertible notes for the year is set out below:

	CN Nov 2005 HK'000	CN Jan 2006 HK'000	**CN Jan 2008 HK'000**	Total HK'000
At 1st April 2006	42,659	17,089	**–**	59,748
Conversion during the year	–	(9,033)	**–**	(9,033)
Interest charge *(note 11)*	4,099	1,580	**–**	5,679
Interest paid	(1,500)	(595)	**–**	(2,095)
At 31st March 2007	45,258	9,041	**–**	54,299
Issued during the year	–	–	**60,650**	60,650
Conversion during the year	(46,300)	(9,171)	**–**	(55,471)
Interest charge *(note 11)*	2,163	429	**2,678**	5,270
Interest paid	(1,121)	(299)	**–**	(1,420)
At 31st March 2008	–	–	**63,328**	63,328

The movement of the early redemption feature of CN Jan 2008 for the year is set out as below:

	CN Jan 2008 HK$'000
At 1st April 2006 and 31st March 2007	**–**
Issued during the year	**19,263**
Fair value changes during the year	**504**
At 31st March 2008	**19,767**

27. DEFERRED TAX

The followings are the major deferred tax (liabilities) assets recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation HK$'000	**Recognised tax losses** HK$'000	**Convertible notes** HK$'000	**Total** HK$'000
At 1st April 2006	(6,763)	6,763	–	–
(Charge) credit to consolidated income statement	(1,549)	1,186	–	(363)
At 31st March 2007	(8,312)	7,949	–	(363)
(Charge) credit to consolidated income statement	(1,248)	753	–	(495)
Charge to equity	–	–	(9,115)	(9,115)
At 31st March 2008	**(9,560)**	**8,702**	**(9,115)**	**(9,973)**

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31st March 2008

27. DEFERRED TAX *(Continued)*

At the balance sheet date, the Group had unused tax losses of approximately HK$184,608,000 (2007: HK$177,381,000) available to offset against future assessable profits. A deferred tax asset has been recognised in respect of approximately HK$49,727,000 (2007: HK$45,423,000) of such losses. No deferred tax has been recognised in respect of the remaining tax losses of HK$134,881,000 (2007: HK$131,958,000) due to the unpredictability of future profit streams. Unused tax losses can be carried forward indefinitely.

28. SHARE CAPITAL OF THE COMPANY

	Number of shares		Values	
	2008	2007	**2008**	2007
			HK$'000	HK$'000
Authorised:				
Ordinary shares of HK$0.10 (2007: HK$0.50) each at beginning of the year	**2,500,000,000**	500,000,000	**250,000**	250,000
Share subdivision *(note b)*	**–**	2,000,000,000	**–**	–
Ordinary shares of HK$0.10 each at end of the year	**2,500,000,000**	2,500,000,000	**250,000**	250,000
Issued and fully paid:				
At beginning of year	**1,441,133,265**	244,069,500	**144,113**	122,035
Exercise of share options before share subdivision *(note a)*	**–**	6,896,000	**–**	3,448
Effect of share subdivision *(note b)*	**–**	1,003,862,000	**–**	–
Exercise of share options after share subdivision *(note c & f)*	**20,350,000**	31,894,000	**2,035**	3,189
Placement of shares *(note d)*	**–**	125,000,000	**–**	12,500
Conversion of convertible notes *(note e & g)*	**176,470,588**	29,411,765	**17,647**	2,941
At end of the year	**1,637,953,853**	1,441,133,265	**163,795**	144,113

The movements in the ordinary share capital for the year ended 31st March 2007 were as follows:

(a) The Company issued 2,696,000, 200,000, 3,750,000, 250,000 ordinary shares of HK$0.50 each in the Company for cash at HK$1.111, HK$1.50, HK$0.98 and HK$2.675 per share respectively, as a result of the exercise of share options.

(b) 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.

28. SHARE CAPITAL OF THE COMPANY (Continued)

(c) The Company issued 6,500,000, 12,200,000, 2,500,000, 10,450,000 and 244,000 ordinary shares of HK$0.10 each in the Company for cash at HK$0.30, HK$0.196, HK$0.20, HK$0.535 and HK$3.07 per share respectively, as a result of the exercise of share options.

(d) Pursuant to a placing agreement entered on 15th January 2007, the Company has agreed to allot and issue 125,000,000 ordinary shares of HK$0.10 each at a placing price of HK$3.50 per share. The placing price of HK$3.50 per share represents a discount of approximately 11.84% to the closing market price of the Company's share on 12th January 2007, being the last trading day immediately preceding the date of the placing agreement. The net proceeds of the placing of shares of approximately HK$428.1 million were used for the development of new CG animation feature film projects and expansion of the Group's studios in Hong Kong and in the United States of America and for the Group's working capital purposes.

(e) The convertible notes of principal amount of HK$10,000,000 were converted into 29,411,765 ordinary shares of HK$0.10 each in the Company at the conversion price of HK$0.34.

The movements in the ordinary share capital for the year ended 31st March 2008 were as follows,

(f) The Company issued 5,000,000, 4,350,000 and 11,000,000 ordinary shares of HK$0.10 each in the Company for cash at HK$0.195, HK$0.196 and HK$0.535 per share respectively, as a result of the exercise of share options.

(g) The convertible notes of principal amount of HK$50,000,000 and HK$10,000,000 where converted into 147,058,824 and 29,411,764 ordinary shares respectively of HK$0.10 each in the Company at the conversion price of HK$0.34.

All the shares issued during the year ranked pari passu with the then existing shares in all respects.

29. SHARE-BASED PAYMENT TRANSACTIONS

(a) General terms and conditions of the share option scheme

On 16th August 2002, the Company adopted a share option scheme (the "2002 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 or any supplier or provider of goods and services of the Company or any of its subsidiaries (the "Participants") for their contribution to the Group. The 2002 Scheme will be ending on 15th August 2012. Under the 2002 Scheme, the Directors may grant options to the Participants to subscribe for shares in the Company for a consideration of HK$10 for each lot of share options granted. Options granted must be taken up within 28 days of date of grant. The exercise price is determined by the Directors and shall not be less than the highest of:

(i) the official closing price of the shares as stated in the daily quotation sheet of the Stock Exchange on the date of the grant which must be a business day;

(ii) the average of the official closing prices of the shares as stated in the daily quotation sheet of the Stock Exchange for the 5 business days immediately preceding the offer date; and

(iii) the nominal value of a share.

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31st March 2008

29. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(a) General terms and conditions of the share option scheme *(Continued)*

Pursuant to the 2002 Scheme, the maximum number of shares in the Company in respect of which options may be granted when aggregated with any other share option scheme of the Company is not permitted to exceed 10% of the issued share capital of the Company as at 16th August 2002. Subject to the approval of the shareholders of the Company in general meeting and such other requirements prescribed under the Listing Rules from time to time, the Directors may refresh the limit at any time to 10% of the total number of shares in issue as at the date of approval by the shareholders of the Company in general meetings. Notwithstanding the foregoing, the shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the shares in issue from time to time.

At 31st March 2008, the number of shares in respect of which options had been granted and remained outstanding under the 2002 Scheme was 83,891,000 (2007: 108,126,000), representing 5.12% (2007: 7.50%) of the total number of shares of the Company in issue at that date.

No option may be granted to any person if the total number of shares of the Company already issued and issuable to him under all the options granted to him in any 12-month period up to and including the date of grant exceeding 1% of total number of shares in issue at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to the approval of the shareholders in general meetings, such Participant and his associates (as defined in the Listing Rules) abstaining from voting and/or other requirements prescribed under the Listing Rules from time to time. Options granted to substantial shareholders or Independent Non-executive Directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

There is no specific requirement that an option must be held for any minimum period before it can be exercised but the Directors are empowered to impose at their discretion any such minimum period at the time of grant of any particular options. The period during which an option may be exercised will be determined by the Directors at their absolute discretion, save that no option may be exercised more than 10 years from the date of grant.

29. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(b) Movements of share options

The following table discloses details of the Company's share options held by employees, supplier of services and Directors and movements in such holding during the current and prior years:

For the year ended 31st March 2008

	Number of share options			
	Directors	Employees	Supplier of services	Total
Outstanding at 1st April 2007	31,000,000	72,126,000	5,000,000	108,126,000
Granted during the year *(note i)*	–	13,035,000	–	13,035,000
Granted with modification during the year *(note i and ii)*	5,000,000	47,200,000	–	52,200,000
Cancelled with modification during the year *(note ii)*	(5,000,000)	(47,200,000)	–	(52,200,000)
Exercised during the year *(note iii)*	(14,000,000)	(6,350,000)	–	(20,350,000)
Cancelled during the vesting period *(note iv)*	–	(10,920,000)	–	(10,920,000)
Forfeited during the year *(note v)*	–	(1,000,000)	(5,000,000)	(6,000,000)
Outstanding at 31st March 2008	**17,000,000**	**66,891,000**	**–**	**83,891,000**

	Weighted average exercise price		
	Directors	Employees	Supplier of services
Outstanding at 1st April 2007	1.883	3.334	1.762
Granted during the year	N/A	2.178	N/A
Granted with modification during the year	2.178	2.178	N/A
Cancelled with modification during the year	4.350	4.350	N/A
Exercised during the year	0.414	0.303	N/A
Cancelled during the vesting period	N/A	3.236	N/A
Forfeited during the year	N/A	3.270	1.762
Outstanding at 31st March 2008	2.455	1.880	N/A

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31st March 2008

29. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(b) Movements of share options *(Continued)*

Notes:

(i) On 15th May 2007, 18th May 2007, 25th September 2007 and 17th January 2008, 51,925,000, 260,000, 12,050,000 and 1,000,000 share options were granted respectively. The closing prices of the Company's shares immediately before the respective dates of the grant were HK$2.17, HK$2.09, HK$1.52 and HK$1.80 respectively.

(ii) During the year, 52,200,000 share options previously granted on 19th January 2007 with an exercise price of HK$4.350 per share were cancelled and the same number of share options were granted to the option holders with revised terms as follows:

Date of grant	Number of share options	Option exercise price	Exercisable period	Vesting period
15/05/2007	13,962,000	2.178	15/01/2008 to 14/01/2013	15/05/2007 to 14/01/2008
	13,962,000	2.178	15/01/2009 to 14/01/2014	15/05/2007 to 14/01/2009
	18,616,000	2.178	15/01/2010 to 14/01/2015	15/05/2007 to 14/01/2010
	46,540,000			
18/05/2007	78,000	2.146	18/01/2008 to 17/01/2013	18/05/2007 to 17/01/2008
	78,000	2.146	18/01/2009 to 17/01/2014	18/05/2007 to 17/01/2009
	104,000	2.146	18/01/2010 to 17/01/2015	18/05/2007 to 17/01/2010
	260,000			
25/09/2007	1,620,000	2.178	25/01/2008 to 24/01/2013	25/09/2007 to 24/01/2008
	1,620,000	2.178	25/01/2009 to 24/01/2014	25/09/2007 to 24/01/2009
	2,160,000	2.178	25/01/2010 to 24/01/2015	25/09/2007 to 24/01/2010
	5,400,000			
Total:	52,200,000			

(iii) The closing prices of the Company' share immediately before the various exercise dates during the year ranged from HK$1.49 and HK$3.85 and the weighted average closing market price per share immediately before the dates on which the share options were exercised was HK$2.88.

(iv) 10,920,000 share options were cancelled due to resignation of employees during the vesting period.

(v) 1,000,000 share options previously granted to employees and 5,000,000 share options previously granted to a supplier of services, an individual providing similar services as employees, were forfeited due to resignation of employees and termination of services after the vesting period respectively.

(vi) Total consideration received for the grant of options during the year was approximately HK$3,080 (2007: HK$3,270).

29. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(b) Movements of share options *(Continued)*

Notes: (Continued)

(vii) Directors and employees are entitled to a gradual increase in the number of share options being vested upon increase in the years of services to the Group. Details of date of grant, vesting period, exercisable period and exercise price of the share options outstanding at 31st March 2008 for Directors and employees are as follows:

Date of grant	Vesting period	Exercisable period	Exercise price	Outstanding at 31st March 2008
Directors				
9th October 2006	Nil to 5 years	5 years	2.570	12,000,000
25th September 2007	0.33 to 2.33 years	5 years	2.178	5,000,000
				17,000,000
Employees				
24th May 2005	Nil	5 years	0.196	3,700,000
7th June 2005	Nil	5 years	0.195	5,000,000
13th February 2006	Nil	3 to 5 years	0.535	2,300,000
8th November 2006	Nil	5 years	3.070	1,256,000
15th May 2007	0.67 to 3 years	5 years	2.178	46,485,000
18th May 2007	0.67 to 2.67 years	5 years	2.146	100,000
25th September 2007	0.33 to 3 years	5 years	2.178	7,050,000
17th January 2008	1 to 3 years	5 years	2.178	1,000,000
				66,891,000
			Total:	83,891,000

Notes to the Consolidated Financial Statements *(continued)*
For the year ended 31st March 2008

29. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(b) Movements of share options *(Continued)*

For the year ended 31st March 2007

	Number of share options			
	Directors	Employees	Supplier of services	Total
Outstanding at 1st April 2006	6,700,000	12,856,000	–	19,556,000
Granted during the year before share subdivision *(note i)*	–	–	1,000,000	1,000,000
Exercised during the year before share subdivision *(note ii)*	–	(6,896,000)	–	(6,896,000)
Forfeited during the year before share subdivision *(note iii)*	–	(60,000)	–	(60,000)
Adjustment on share subdivision *(note iv)*	26,800,000	23,600,000	4,000,000	54,400,000
Adjustment *(note v)*	5,000,000	(5,000,000)	–	–
Granted during the year after share subdivision *(note i)*	17,000,000	56,020,000	–	73,020,000
Exercised during the year after share subdivision *(note ii)*	(24,500,000)	(7,394,000)	–	(31,894,000)
Cancelled during the year after share subdivision *(note vi)*	–	(1,000,000)	–	(1,000,000)
Outstanding at 31st March 2007	31,000,000	72,126,000	5,000,000	108,126,000

	Weighted average exercise price		
	Directors	Employees	Supplier of services
Outstanding at 1st April 2006	1.993	1.200	N/A
Granted during the year before share subdivision	N/A	N/A	8.810
Exercised during the year before share subdivision	N/A	1.108	N/A
Forfeited during the year before share subdivision	N/A	1.111	N/A
Adjustment on share subdivision	0.399	0.262	1.762
Adjustment	0.195	0.195	N/A
Granted during the year after share subdivision	3.094	4.296	N/A
Exercised during the year after share subdivision	0.349	0.357	N/A
Cancelled during the year after share subdivision	N/A	4.350	N/A
Outstanding at 31st March 2007	1.883	3.334	1.762

29. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(b) Movements of share options *(Continued)*

Notes:

(i) On 25th May 2006, 9th October 2006, 8th November 2006, 8th December 2006 and 19th January 2007, 1,000,000, 12,000,000, 1,500,000, 1,000,000 and 58,520,000 share options were granted respectively. The closing prices of the Company's shares immediately before the respective dates of the grant were HK$8.65 (before adjustment on share subdivision), HK$2.53, HK$3.17, HK$3.27 and HK$4.21 respectively.

As the services to be performed by a supplier were similar to services performed by the employees of the Group, the fair value of such services was also measured with reference to the fair value of the share options granted using the Binominal option model.

(ii) The closing prices of the Company's shares immediately before the various exercise dates during the year ranged from HK$1.73 to HK$4.21 and the weighted average closing market price per share immediately before the dates on which the share options were exercised was HK$3.11.

(iii) 60,000 share options previously granted to an employee were forfeited due to the employee did not exercise the share options before the expiry date.

(iv) Exercise price per share was adjusted for the effect of the share subdivision that took place on 22nd September 2006, where appropriate, as follows:

(i) from HK$1.500 to HK$0.300;

(ii) from HK$0.980 to HK$0.196;

(iii) from HK$0.974 to HK$0.195;

(iv) from HK$2.675 to HK$0.535;

(v) from HK$1.000 to HK$0.200; or

(vi) from HK$8.810 to HK$1.762

(v) On 9th October 2006, Mr. Thomas Knox Gray was appointed as a Director of the Company. Accordingly, the share options granted to him were adjusted from the category of Employees to the category of Directors.

(vi) 1,000,000 share options were cancelled due to resignation of employees during the vesting period.

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31st March 2008

29. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(b) Movements of share options *(Continued)*

Notes: (Continued)

(vii) Directors and employees are entitled to a gradual increase in the number of share options being vested upon increase in the years of services to the Group. Details of date of grant, vesting period, exercisable period and exercise price of the share options outstanding at 31st March 2007 for Directors, employees and suppliers are as follows:

Date of grant	Vesting period	Exercisable period	Exercise price per share after adjustment for the effect of share subdivision	Outstanding at 31st March 2007
Directors				
7th June 2005	Nil	5 years	0.195	5,000,000
13th February 2006	Nil	3 years	0.535	9,000,000
9th October 2006	Nil to 5 years	5 years	2.570	12,000,000
19th January 2007	1 to 3 years	5 years	4.350	5,000,000
				31,000,000
Employees				
24th May 2005	Nil	5 years	0.196	8,050,000
7th June 2005	Nil	5 years	0.195	5,000,000
13th February 2006	Nil	3 years	0.535	4,300,000
8th November 2006	Nil	5 years	3.070	1,256,000
8th December 2006	Nil	5 years	3.270	1,000,000
19th January 2007	1 to 3 years	5 years	4.350	52,520,000
				72,126,000
Supplier				
25th May 2006	1 year	2 years	1.762	5,000,000
			Total:	108,126,000

29. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(c) Recognition of share-based payments expenses

The total fair value of the share options granted during the year, at the respective dates of grant, is HK$9,618,000 (2007: HK$171,599,000), calculated using the Binomial option pricing model with the following inputs:

Date of grant	Share price on date of grant HK$	Fair value per option HK$	Vesting period	Exercisable period	Expected volatility %	Expected dividend yield %	Risk free rate %	Expected life
25th May 2006	8.350	0.735	1 year	2 years	90	0	4.43	2 years
9th October 2006	2.560	0.810 to 1.938	Nil to 5 years	5 years	90	0	3.90	5 years
8th November 2006	3.070	0.970	Nil	5 years	90	0	3.83	5 years
8th December 2006	3.270	1.030	Nil	5 years	90	0	3.72	5 years
19th January 2007	4.350	2.066 to 2.845	1 to 3 years	5 years	90	0	4.01	5 years
15th May 2007	2.150	1.252 to 1.443	0.67 to 3 years	5 years	61.04	0	4.04 to 4.10	5.67 years to 8 years
18th May 2007	2.100	1.215 to 1.379	0.67 to 2.67 years	5 years	60.75	0	4.04 to 4.10	5.67 years to 7.67 years
25th September 2007	1.630	0.866 to 1.060	0.33 to 3 years	5 years	65.19	0	4.04 to 4.10	5.34 years to 8 years
17th January 2008	1.700	0.550 to 0.570	1 to 3 years	5 years	64.23 to 64.53	0	2.40 to 2.58	4.14 years to 6.60 years

Expected volatility was determined using the historical volatility of the Company's share price over five years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31st March 2008

29. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(c) Recognition of share-based payments expenses *(Continued)*

The fair value of the share options granted during the year, together with the unamortised fair value of the share options granted in previous years, were amortised to various financial periods with reference to the vesting periods attached to the respective share options on a straight-line basis. On such basis, share-based payment expenses attributable to the year ended 31st March 2008 amounted to HK$73,980,000 (2007: HK$25,776,000) and were analysed between:

	2008 HK$'000	2007 HK$'000
Directors' emoluments	11,439	5,823
Other staff costs	62,541	19,953
	73,980	25,776

The above staff costs were partly capitalised as CG animation pictures work in progress and partly accounted for as operating expenses as follows:

	2008 HK$'000	2007 HK$'000
Capitalised in CG animation pictures	57,335	16,807
Charged to consolidated income statement	16,645	8,969
	73,980	25,776

30. CAPITAL COMMITMENTS

	2008 HK$'000	2007 HK$'000
Capital expenditure in respect of CG animation pictures authorised but not contracted for in the consolidated financial statements	301,771	–
Capital expenditure in respect of CG animation pictures and property, plant and equipment contracted for but not provided in the consolidated financial statements	8,500	12,805

31. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2008 HK$'000	2007 HK$'000
Within one year	13,099	9,002
In the second to fifth years inclusive	36,507	15,457
Over five years	17,928	–
	67,534	24,459

Operating lease payments represent rentals payable by the Group for office premises and staff quarters. Leases were negotiated for an average term of three years (2007: three years) and rentals were fixed for an average term of two years (2007: three years).

32. RETIREMENT BENEFITS SCHEME

The Group participates in a MPF established under the Mandatory Provident Fund Scheme Ordinance for all its employees in Hong Kong. The scheme is a defined contribution scheme effective from December 2000 and is funded by contributions from employer and employees according to the rules of the MPF Scheme. The assets of the scheme are held separately from those of the Group, in funds under the control of an independent trustee. During the year, the total amount contributed by the Group to the scheme was approximately HK$2,899,000 (2007: HK$3,050,000), of which HK$2,572,000 (2007: HK$2,636,000) was capitalised in CG animation pictures and HK$327,000 (2007: HK$414,000) has been charged to consolidated income statement and no contributions were forfeited. The Group contributes at the lower of HK$2,000 or 5% of the relevant payroll costs to the MPF Scheme.

33. MAJOR NON-CASH TRANSACTIONS

During the year ended 31st March 2008, the major non-cash transactions were as follows:

(a) The Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of approximately HK$2,858,000.

(b) The Company recognised share-based payment expenses amounting to approximately HK$73,980,000 of which approximately HK$57,335,000 was capitalised in CG animation pictures and approximately HK$16,645,000 was charged to the consolidated income statement.

During the year ended 31st March 2007, the major non-cash transactions were as follows:

(a) The Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of approximately HK$239,000.

(b) The Company recognised share-based payment expenses amounting to approximately HK$25,776,000 of which approximately HK$16,807,000 was capitalised in CG animation pictures and approximately HK$8,969,000 was charged to the consolidated income statement.

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31st March 2008

34. RELATED PARTY DISCLOSURES

(a) On 30th January 2008, the Company issued an unsecured zero coupon convertible note with principal amount of HK$132,000,000 to Winnington Captial Limited, a substantial shareholder of the Company. Details of the convertible note are set out in note 26.

(b) Compensation of key management personnel

The remunerations of key management personnel during the year were as follows:

	2008 HK$'000	2007 HK$'000
Short-term benefits	30,718	26,858
Post-employment benefits	82	58
Equity-settled share-based payments expenses	14,313	6,412
	45,113	33,328

35. POST BALANCE SHEET EVENT

On 2nd July 2008, the Company entered into a subscription agreement with an independent third party not connected with the Group, in relation to the subscription for a total of 362,790,698 shares of the Company, at a subscription price of HK$0.86 per share (the "Placing"). Once the transaction is completed, the net proceeds from the Placing of approximately HK$311 million will be used for the development of CG animation pictures. The transaction is not yet completed at the report date. Details of the Placing are set out in the Company's announcement dated 4th July 2008.

36. PARTICULARS OF SUBSIDIARIES

Particulars of the subsidiaries of the Company are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital held by the Company *(note (ii))*	Principal activities
Diamond Century International Limited	British Virgin Islands/ Hong Kong	US$4	100%	Investment holding
Freyner Limited	British Virgin Islands/ Hong Kong	US$1,000	100%	Inactive
Great Trend International Limited	British Virgin Islands/ Hong Kong	US$4	100%	Investment holding
Highland Fling Inc.	United States of America	US$5,000	100%	Production management of CG animation pictures
iDream Production Limited	Hong Kong	HK$2	100%	Provision of CG and special effects production services in respect of pictures
Imagi Animation Studios Limited	Hong Kong	HK$2	100%	Investment holding and holding and licensing of intellectual property rights in respect of CG animation pictures
Imagi Character Licensing B.V.	Netherlands	EUR18,100	100%	Sub-licensing of intellectual property rights in respect of CG animation pictures
Imagi Character Limited	Labuan	US$100	100%	Holding and licensing of intellectual property rights in respect of CG animation pictures

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31st March 2008

36. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital held by the Company *(note (ii))*	Principal activities
Imagi Crystal Limited	Hong Kong	HK$1	100%	Holding and licensing of intellectual property rights in respect of CG animation pictures
Imagi Diamond Limited	Hong Kong	HK$1	100%	Holding and licensing of intellectual property rights in respect of CG animation pictures
Imagi Emerald Limited *(note i)*	Hong Kong	HK$1	100%	Inactive
Imagi Global Distribution Inc.	United States of America	US$100	100%	Distribution and licensing of intellectual property rights in respect of CG animation pictures
Imagi Platinum Limited *(note i)*	Hong Kong	HK$1	100%	Inactive
Imagi Production Limited	Hong Kong	HK$28,572	100%	Production of CG animation pictures and holding and licensing of intellectual property rights in respect of CG animation pictures
Imagi Production (FOTP) Limited	Hong Kong	HK$2	100%	Inactive
Imagi (IP) Licensing B.V.	Netherlands	EUR18,000	100%	Inactive
Imagi (Zentrix) Licensing B.V.	Netherlands	EUR18,000	100%	Sub-licensing of intellectual property rights in respect of CG animation pictures

36. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital held by the Company *(note (ii))*	Principal activities
Imagi International Japan Company Limited	Japan	JPY30,000,000	100%	Provision of marketing services on project licensing and acting as a full-service project management house in respect of CG animation pictures
Imagi Intellectual Properties Limited	Labuan	US$1,000	100%	Holding and licensing of intellectual property rights in respect of CG animation pictures
Imagi IP Holdings Pte. Limited	Labuan	US$100	100%	Inactive
Imagi Services Limited	Hong Kong	HK$2	100%	Provision of administrative services
Imagi Services (USA) Limited	United States of America	US$100	100%	Marketing of CG animation pictures
Imagi Studios (USA) Inc.	United States of America	US$5,000	100%	Production management of CG animation pictures
Imagi Trinity Limited	Labuan	US$100	100%	Inactive
King's Quest Inc.	United States of America	US$5,000	100%	Production management of CG animation pictures
Magic Marble Investments Limited	British Virgin Islands/ Hong Kong	US$4	100%	Investment holding
Neo-Mad House Intellectual Properties Limited	Labuan	US$1	100%	Inactive

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31st March 2008

36. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital held by the Company *(note (ii))*	Principal activities
Neo-Mad House Intellectual Properties Licensing B.V.	Netherlands	EUR18,000	100%	Sub-licensing of intellectual property rights in respect of CG animation pictures
Neo-Mad House (X.S.I.) Limited	Labuan	US$1	100%	Holding and licensing of intellectual property rights in respect of CG animation pictures
Red Impulse Inc.	United States of America	US$5,000	100%	Production management of CG animation pictures
Rover's Trek Inc.	United States of America	US$5,000	100%	Production management of CG animation pictures
Top Bond Technology Limited	Hong Kong	HK$2	100%	Development of intellectual property rights in respect of CG games
Topway Asset Limited	British Virgin Islands/ Hong Kong	US$4	100%	Investment holding
Turbo Money Investments Limited	British Virgin Islands/ Hong Kong	US$4	100%	Financing of CG animation pictures
Treasure Path Company Limited	Hong Kong	Ordinary shares HK$100 Non-voting 5% deferred shares HK$1,000,000 *(Note (iii))*	100%	Inactive
Victory Gem International Limited	British Virgin Islands/ Hong Kong	US$4	100%	Investment holding

36. PARTICULARS OF SUBSIDIARIES *(Continued)*

Notes:

(i) The subsidiary was newly incorporated during the year ended 31st March 2008.

(ii) The Company directly holds the interests in Topway Asset Limited, Magic Marble Investments Limited, Great Trend International Limited and Victory Gem International Limited. All other interests shown above are indirectly held by the Company.

(iii) The non-voting 5% deferred shares, which are not held by the Group, practically carry no rights to dividend or to receive notice of or to attend or vote at any general meeting of the respective subsidiary or to participate in any distribution on winding up.

None of the subsidiaries had issued any debt securities at the end of the year.

Financial Summary

RESULTS

	Year ended 31st March				
	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000	**2008** **HK$'000**
Continuing operation					
Turnover	7,976	90,638	479	243,485	**17,189**
Loss before taxation	(20,287)	(60,142)	(71,508)	(138,345)	**(56,964)**
Income tax expense	(1,120)	(70,524)	(717)	(617)	**(865)**
Loss for the year from continuing operation	(21,407)	(130,666)	(72,225)	(138,962)	**(57,829)**
Discontinued operation					
Profit (loss) for the year from discontinued operation	1,684	349	(27)	–	**–**
Loss for the year	(19,723)	(130,317)	(72,252)	(138,962)	**(57,829)**
Attributable to:					
Equity holders of the Company	(19,587)	(130,270)	(72,214)	(138,923)	**(57,829)**
Minority interests	(136)	(47)	(38)	(39)	**–**
	(19,723)	(130,317)	(72,252)	(138,962)	**(57,829)**

ASSETS AND LIABILITIES

	At 31st March				
	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000	**2008** **HK$'000**
Total assets	246,340	302,275	393,222	608,403	**754,532**
Total liabilities	(28,184)	(101,807)	(221,529)	(93,862)	**(116,689)**
	218,156	200,468	171,693	514,541	**637,843**
Equity attributable to equity holders of the Company	218,013	200,372	171,635	514,541	**637,843**
Minority interests	143	96	58	–	**–**
	218,156	200,468	171,693	514,541	**637,843**