



IMAGI INTERNATIONAL HOLDINGS LIMITED

意馬國際控股有限公司*



INTERIM REPORT 2004/2005

* For identification purpose only

BOARD OF DIRECTORS

Executive Directors

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

Mr. KAO Wai Ho, Francis (*Deputy Chairman*)

Mr. TSE Chi Man, Terry (*Chief Executive Officer*)

Mr. LAM Pak Kin, Philip

Non-executive Director

Mr. ZHANG Liping

Independent Non-executive Directors

Mr. Randy HARRIS

Mr. OH Kok Chi

Mr. NG See Yuen

AUDIT COMMITTEE

Mr. OH Kok Chi (*Chairman*)

Mr. Randy HARRIS

Mr. NG See Yuen

COMPANY SECRETARY

Mr. YIP Kar Hang, Raymond

REGISTERED OFFICE

Rosebank Centre

11 Bermudiana Road

Pembroke

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units 1909-12, 19th Floor

Eight Commercial Tower

8 Sun Yip Street

Chai Wan

Hong Kong

BERMUDA RESIDENT REPRESENTATIVE

Butterfield Fund Services (Bermuda) Limited

LEGAL ADVISERS

As to Hong Kong law:

Baker & McKenzie

Deacons

Preston Gates & Ellis

As to Bermuda law:

Conyers Dill & Pearman

AUDITORS

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited

Hang Seng Bank Limited

Standard Chartered Bank (HK) Limited

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

11 Bermudiana Road

Pembroke

Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Secretaries Limited

28th Floor, BEA Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

INTERNET WEBSITES

www.imagi.com.hk

www.zentrix.tv

The Board of Directors (“the Board”) of Imagi International Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th September 2004 together with the unaudited comparative figures for the corresponding period in 2003 as follows:

Condensed Consolidated Income Statement

For the six months ended 30th September 2004

		(Unaudited)	
		Six months ended	
		30th September	
	<i>Notes</i>	2004	2003
		HK\$'000	<i>HK\$'000</i>
Turnover	3	64,714	5,876
Cost of sales		(40,539)	(10,378)
Gross profit (loss)		24,175	(4,502)
Other operating income		12	1,201
Bank interest income		499	505
Distribution costs		(92)	(136)
Administrative and other operating expenses		(13,389)	(9,228)
Profit (loss) from operations	4	11,205	(12,160)
Finance costs		(14)	(1)
Gain on disposal of discontinuing operations		-	5,889
Share of profit of an associate		21,388	22,266
Profit before taxation		32,579	15,994
Taxation	5	(789)	(1,572)
Profit before minority interests		31,790	14,422
Minority interests		31	73
Net profit for the period		31,821	14,495
Dividends	6	-	-
Earnings per share	7		
- basic		HK\$0.154	HK\$0.098
- diluted		HK\$0.152	HK\$0.098

Condensed Consolidated Balance Sheet

At 30th September 2004

	<i>Notes</i>	30th September 2004 (unaudited) HK\$'000	31st March 2004 (audited) HK\$'000
Non-current assets			
Property, plant and equipment	8	39,932	33,671
CG animation pictures		56,567	50,026
Goodwill		3,026	3,253
Interest in an associate	9	42,263	21,806
Investments in securities		9,065	9,065
		150,853	117,821
Current assets			
Inventories		20,975	27,972
Trade and other receivables	10	13,169	8,817
Amount due from an associate		5,774	5,774
Taxation recoverable		20,783	20,760
Pledged bank deposits		39,800	39,800
Bank balances and cash		131,322	25,396
		231,823	128,519
Current liabilities			
Other payables		8,213	9,265
Unearned revenue		8,892	13,260
Taxation payable		3,488	3,628
Obligations under finance leases			
– due within one year		225	870
Bank borrowings – due within one year		–	805
		20,818	27,828
Net current assets		211,005	100,691

		30th September 2004 (unaudited) HK\$'000	31st March 2004 (audited) HK\$'000
Total assets less current liabilities		361,858	218,512
Minority interests		112	143
Non-current liabilities			
Obligations under finance leases			
– due after one year		245	356
		361,501	218,013
Capital and reserves			
Share capital	<i>11</i>	116,853	68,937
Reserves		244,648	149,076
		361,501	218,013

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th September 2004

	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st April 2003	68,819	170	909	487	166,722	237,107
Translation difference arising from overseas subsidiaries and not recognised in the income statement	-	-	-	641	-	641
Exercise of share options	10	11	-	-	-	21
Net profit for the period	-	-	-	-	14,495	14,495
At 30th September 2003	68,829	181	909	1,128	181,217	252,264
Translation difference arising from overseas subsidiaries and not recognised in the income statement	-	-	-	(423)	-	(423)
Exercise of share options	108	146	-	-	-	254
Net loss for the period	-	-	-	-	(34,082)	(34,082)
At 31st March 2004	68,937	327	909	705	147,135	218,013
Translation difference arising from overseas subsidiaries and not recognised in the income statement	-	-	-	(45)	-	(45)
Exercise of share options	448	712	-	-	-	1,160
Rights Issue of shares	34,468	39,983	-	-	-	74,451
Shares issued at premium	13,000	28,080	-	-	-	41,080
Share issue expenses	-	(4,979)	-	-	-	(4,979)
Net profit for the period	-	-	-	-	31,821	31,821
At 30th September 2004	116,853	64,123	909	660	178,956	361,501

Condensed Consolidated Cash Flow Statement

For the six months ended 30th September 2004

	Six months ended 30th September	
	2004 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)
Net cash from (used in) operating activities	20,312	(12,424)
Net cash used in investing activities	(23,165)	(7,989)
Net cash from (used in) financing activities	110,917	(29,009)
Net increase (decrease) in cash and cash equivalents	108,064	(49,422)
Cash and cash equivalents at beginning of the period	24,591	107,111
Effect of foreign exchange rate changes	(1,333)	607
Cash and cash equivalents at end of the period	131,322	58,296

Notes To The Condensed Financial Statements

For the six months ended 30th September 2004

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and with the Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st March 2004.

3. SEGMENT INFORMATION

Business segments

During the period, the Group is organised into two operating divisions which form the basis on which the Group reports its primary segment information:

Computer graphics ("CG") animation pictures	-	production, licensing and sales of CG animation pictures
Management consultancy services	-	provision of management consultancy services

Segment information about these businesses is presented below:

For the six months ended 30th September 2004

	CG animation pictures <i>HK\$'000</i>	Management consultancy services <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER			
External sales	<u>60,514</u>	<u>4,200</u>	<u>64,714</u>
RESULTS			
Segment results	<u>23,795</u>	<u>288</u>	24,083
Other operating income			12
Bank interest income			499
Unallocated corporate expenses			(13,389)
Profit from operations			11,205
Finance costs			(14)
Share of profit of an associate			21,388
Profit before taxation			32,579
Taxation			(789)
Profit before minority interests			31,790

For the six months ended 30th September 2003

	CG animation pictures <i>HK\$'000</i>	Management consultancy services <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER			
External sales	<u>1,676</u>	<u>4,200</u>	<u>5,876</u>
RESULTS			
Segment results	<u>(5,278)</u>	<u>640</u>	(4,638)
Other operating income			1,201
Bank interest income			505
Unallocated corporate expenses			(9,228)
Loss from operations			(12,160)
Finance costs			(1)
Gain on disposal of discontinuing operations			5,889
Share of profit of an associate			22,266
Profit before taxation			15,994
Taxation			(1,572)
Profit before minority interests			14,422

4. PROFIT (LOSS) FROM OPERATIONS

	Six months ended	
	30th September	
	2004	2003
	HK\$'000	HK\$'000
Profit (loss) from operations has been arrived at after charging:		
Depreciation and amortisation of property, plant and equipment	4,558	2,526
Less: amounts capitalised in CG animation picture and inventories	(3,999)	(2,136)
	559	390
Amortisation of goodwill (included in administrative expenses)	227	227
Amortisation of CG animation picture (included in cost of sales)	6,743	6,743
and after crediting:		
Amortisation of discount on held-to maturity debt securities	-	1,057

5. TAXATION

	Six months ended	
	30th September	
	2004	2003
	HK\$'000	HK\$'000
The charge comprises:		
Overprovision for overseas tax in prior years	(142)	-
Share of taxation of an associate	931	1,572
	789	1,572

A portion of the Group's profit neither arises in, nor is derived from, Hong Kong. Accordingly, that portion of the Group's profit is not subject to Hong Kong Profits Tax.

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits for the period.

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

Certain subsidiaries and a former subsidiary of the Company (collectively the "Subsidiaries") are under a tax audit by the Hong Kong Inland Revenue Department ("IRD"). Up to the balance sheet date, the IRD has issued estimated assessments to the respective Subsidiaries and demanded for tax payments of HK\$127,678,801 covering the years of assessment of 1994/95 to 2000/01. The Subsidiaries are not in agreement with the estimated assessments and have lodged objections with the IRD. Unconditional holdovers of the tax in disputes of HK\$82,748,801 have been granted by the IRD while the balance of tax in disputes are heldover with the conditions of the placing with IRD of a cash deposit, purchase of tax reserve certificates and the provision of a bank guarantee, which is secured by a deposit from the Group.

The Company's management considers that the IRD's focus on this tax audit is the taxability of the profits of certain overseas subsidiaries and a former overseas subsidiary of the Company. The management is of the opinion that the profits of these overseas subsidiaries and the former overseas subsidiary are not subject to Hong Kong Profits Tax and is considering appealing further and professional advice is being sought on the issue. As the outcome of the tax audit is uncertain at this stage, the amounts placed by cash deposit and by the purchase of tax reserve certificates up to the balance sheet date have been recorded as taxation recoverable and no provision for additional tax payable in relation to this tax audit has been made in the interim financial report.

6. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the periods ended 30th September 2004 and 2003. No dividend was paid during the period.

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended 30th September	
	2004	2003
	HK\$'000	HK\$'000
Profit for the period	31,821	14,495
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	206,940,352	147,465,218
Effect of dilutive potential ordinary shares in respect of share options	2,922,705	360,055
Weighted average number of ordinary shares for the purposes of diluted earnings per share	209,863,057	147,825,273

The weighted average number of ordinary shares for the purpose of calculating both the basic and diluted earnings per share for 2004 and 2003 has been adjusted for the effects of rights issue of the Company on 6th May 2004, details of which are set out in note 11.

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately HK\$10,819,000 on the acquisition of property, plant and equipment mainly for the purpose of improving and expanding the production capability.

9. INTEREST IN AN ASSOCIATE

As at 30th September 2004, the Group held a 22.5% equity interest in Boto International Holdings Limited ("BIHL"). The principal activities of the group headed by BIHL are the designing, manufacturing and distribution of Christmas festive products and leisure furniture products.

10. TRADE AND OTHER RECEIVABLES

The Group allows its trade customers a credit period in accordance with the terms specified in the contracts, normally ranging from 30 days to 90 days.

The aged analysis of trade receivables at the balance sheet date is stated as follows:

	30th September 2004 HK\$'000	31st March 2004 HK\$'000
0 to 30 days	9,415	4,700
31 to 60 days	19	1,579
Over 90 days	39	-
	<hr/>	<hr/>
Total trade receivables	9,473	6,279
Other receivables and prepayments	3,696	2,538
	<hr/>	<hr/>
	13,169	8,817
	<hr/>	<hr/>

11. SHARE CAPITAL

	Number of shares	Values HK\$'000
Authorised:		
Ordinary shares of HK\$0.50 each at 31st March 2004		
And 30th September 2004	500,000,000	250,000
	<hr/>	<hr/>
Issued and fully paid:		
At 1st April 2004	137,873,000	68,937
Exercise of share options	896,000	448
Rights issue of shares	68,936,500	34,468
Placement of shares	26,000,000	13,000
	<hr/>	<hr/>
At 30th September 2004	233,705,500	116,853
	<hr/>	<hr/>

During the period ended 30th September 2004, the Company issued 180,000, 216,000 and 500,000 ordinary shares of HK\$0.50 each in the Company for cash at HK\$0.945, HK\$1.111 and HK\$1.500 per share, respectively, as a result of the exercise of share options.

On 6th May 2004, a rights issue on the basis of one share for every two existing shares then held by the shareholders on the register of members on 16th April 2004 was allotted at an issue price of HK\$1.08 per rights share, resulting in the issue of 68,936,500 shares of HK\$0.50 each at HK\$1.08 per share for a total cash consideration, before share issue expenses, of approximately HK\$74.5 million.

Pursuant to a placing agreement entered on 19th July 2004, the Company issued 26,000,000 ordinary shares of HK\$0.50 each at a placing price of HK\$1.58 per share. The placing price of HK\$1.58 per share represents a discount of approximately 4.82% to the closing market price of the Company's shares on 15th July 2004. The net proceeds of the placing of approximately HK\$39.7 million were used for the funding of the CG animation pictures production. These new shares were issued under the general mandate granted to the directors at the special general meeting of the Company held on 29th March 2004.

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

12. RELATED PARTY TRANSACTIONS

During the period, the Group received management consultancy income of approximately HK\$4,200,000 (2003: HK\$4,200,000) from BIHL, an associate of the Group. This transaction was carried out in accordance with the terms of the relevant consultancy service agreement.

13. CAPITAL COMMITMENTS

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

	30th September 2004 HK\$'000	31st March 2004 HK\$'000
Authorised but not contracted for	42,655	42,872
Contracted for but not provided in the financial statements	1,802	689
	44,457	43,561

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 30th September 2004, the Group achieved a turnover of HK\$64.7 million (2003: HK\$5.9 million). Profit attributable to shareholders amounted to HK\$31.8 million (2003: HK\$14.5 million), representing a significant increase of 119.5% as compared with prior period. If the share of before-tax profit from an associate is excluded, the core businesses of the Group recorded a turnaround with a profit before taxation of HK\$11.2 million versus a loss before taxation of HK\$12.2 million during the same period.

The very positive performance of the Group for the period was principally attributed to the progressive recognition of revenues derived from the provision of CG animation services and the licensing fee generated over the Group's first CG animation production, *Zentrix™*, which in aggregate contributed HK\$60.5 million, approximately 93.5%, to the Group's total turnover. Share of after-tax profit from the Group's associate, BIHL which is engaged in the manufacture and sale of Christmas festive products and leisure furniture, dropped slightly by 1.1% from that of the prior period to HK\$20.5 million.

On the financial side, to cope with the Group's rapid expansion in production capacity and to facilitate its strategic business developments in the CG animation industry, the Company conducted two fund raising exercises during the period.

The first one was a rights issue on 6th May 2004, where 68,936,500 shares were allotted at an issue price of HK\$1.08 per rights share on the basis of one (1) share for every two (2) existing shares held by shareholders on the register of members on 16th April 2004. Total cash proceeds, before share issue expenses, of approximately HK\$74.5 million were received.

Then, on 19th July 2004, the Company underwent a placing and top-up subscription exercise where 26,000,000 shares were placed and subscribed. The total net proceeds amounted to approximately HK\$39.7 million.

The rights issue and the placing and subscription transactions served to strengthen the financial position of Group as well as to enlarge the shareholders' base and the capital base of the Company.

CG Animation Pictures

During the period, the Group continued with the co-production with Bandai Co., Limited and Toei Animation Co., Limited in connection with the CG animated direct-to-video feature film titled *Digital Monster X-Evolution ("Digimon")* and the provision of CG animation services to DreamWorks Television Animation LLC ("DreamWorks") relating to *Father of the Pride ("FOTP")*, a 13-episode CG animation TV Series. As of 30th September 2004, 9 episodes of *FOTP* had been completed and delivered to DreamWorks and corresponding production service income was thus recognised in current period. On its debut on 31st August 2004, 12.3 million viewers tuned into this animated show with feature quality CG that was unprecedented on major network prime time, which was the highest rating for any non-sports program in the 18-49 category on any network in the USA since May 2004.

As *Digimon* was completed in October 2004 and the remaining episodes of *FOTP* were delivered in November 2004, respective turnover generated therefrom will be recorded and reflected in the annual results of the Group for the financial year ending 31st March 2005.

In addition to production service income, the Group continued to earn royalty income from the licensing of distribution rights over *Zentrix™* from the United States of America and Canada during the period.

Management Consultancy Services

Turnover from this segment represented fee income generated from the provision of management consultancy services by the Group in both Hong Kong and outside of Hong Kong to its associate, BIHL, under a management consultancy agreement. The interim turnover of HK\$4.2 million was in line with that from the same segment in the same period last year.

Prospects

With the expertise and experience gained from its own production and cooperation with international industry leaders, the Group continues to build on its reputation as one of Asia's leading CG animation studios.

The synergy created through cooperation with international industry leaders is indisputable. The Group is confident that the injection of state-of-the-art CG animation into well-established animation franchises, as demonstrated in *Digimon*, which is slated for launch in early 2005, shall prove inspiring to animation fans worldwide and is destined to be a trend in the animation market. On the other hand, DreamWorks's *FOTP* has proven to international studios and viewers the Group's capability in providing and delivering top quality CG animation services.

The Group is currently in active discussions with industry leaders to explore opportunities in similar cooperation arrangements, which provide the Group with continued exposure to technological advancements around the world as well as a steady and robust source of income.

While continuously perfecting its techniques and artistry through cooperation arrangements, the Group is also venturing into the development of its own titles. With its vision and reach in the international animation markets and the established relations in the Japanese animation industry through its investment in Kabushiki Kaisha Mad House ("Madhouse"), a leading Japanese animation studio that produced numerous critically acclaimed titles including *Metropolis*, *Millennium Actress*, *Tokyo Godfathers* and segments of *Animatrix*, amongst many others, the Group is also actively developing 2-dimensional animation projects.

The first project is a Japanese anime adaptation of the famous western story *Highlander*. *Highlander*, originally starred by Sean Connery and Christopher Lambert, has established an international fan following with its three live action movies and many TV series. In recent years, "anime", traditional Japanese animation with its unique aesthetics and style, has not only captured the eyes and hearts of Asian animation fans, but has also come into mainstream popularity in western countries. By

combining Japanese anime with a well-known story of the West, *Highlander* embodies features that would appeal to both the West and the East. Japanese anime master Yoshiaki Kawajiri, writer and director of the *Program* and *Detective Story* segments of *Animatrix*, will direct the film. David Abramowitz, writer of the original *Highlander* series, will assume the scriptwriting role and production will be undertaken by Madhouse in Japan. The Group is currently concluding distribution/presale arrangements with several distributors worldwide, the considerations of which would cover majority of the movie's production costs, thus minimizing the risk exposure of the Group.

In the Group's core expertise of CG animation, two movies are being developed for worldwide premiere in 2006 and 2007 respectively. One of them is a family-oriented story featuring humanised animal characters. Pre-production and post-production work, which include scriptwriting, voicing and music, amongst others, will be undertaken in the USA while main production shall take place in the Group's studio in Hong Kong. The movie had been launched for presale at the American Film Festival held at Santa Monica, USA in November 2004 and was very well received by international distributors.

The other CG animation feature film will be based on a well-known comic franchise from which three live action feature films, numerous traditional animation TV series and a very successful toy market have been derived. Its previous live action films have generated box office and video revenues in the range of several hundred millions of US dollars. The Group has secured the license from its original intellectual property owner to produce and commercialise a CG animation feature film based on this proven property. Based on the initial reactions of potential distributors, the Group is confident that this feature film will be a box office hit and will become another continuation of this franchise's unblemished legend of success.

The upside potential from the exploitation of the Group's own proprietary titles, underpinned with steady service income provided by cooperation with industry leaders, sets a concrete foundation for Group to propel forward to joining the top ranks of international animation studios.

Major Customers and Suppliers

For the year ended 30th September 2004, sales attributable to the largest and the five largest customers accounted for 87.2% (2003: 71.5%) and 100% (2003: 100%) of the total turnover respectively. The only raw materials required by the Group's operations is digital audio tapes supplied by a few suppliers, purchase attributable to the largest and the five largest suppliers accounted for less than 1% (2003: less than 1% respectively) of the total cost of the year.

Other than as disclosed in note 12 of to the financial statements, none of the Directors, their respective associates (as defined in the Listing Rules), or any shareholder of the Company (who or which, to the knowledge of the Directors, own more than five per cent of the issued share capital of the Company) has any interest in any of the Group's five largest customers and suppliers.

Liquidity and Capital Resources

The Group generally finances its operations with internally generated cash flows and banking facilities. As at 30th September 2004, the Group had available aggregate banking facilities of HK\$105.7 million of which approximately HK\$0.5 million had been utilized. The Group's cash deposits and bank balances as at that date amounted to approximately HK\$171.1 million (of which, an amount of HK\$39.8 million were Pledged Bank Deposits). The Board believes that the Group has sufficient financial resources to discharge its debts and finance its operations and capital expenditures.

Further, the Group has maintained a sound capital structure, with a current ratio of 11.1 and a gearing ratio of 5.8% (being total liabilities to shareholders' equity) as of the period end date.

Human Resources

As at 30th September 2004, the Group has more than 300 full-time employees. The Group's employees are remunerated according to the nature of their duties and the market trends, with incentives offered in the form of bonuses and share options based on individual performance.

CLOSURE OF REGISTER OF MEMBERS

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

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SECURITIES

At 30th September 2004, the interests of the directors and chief executives and their associates in the securities of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Future Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

(A) Interests in the Company's securities

Name of directors	Number of shares held				Percentage of issued share capital
	Personal interest	Corporate interest	Other interest	Total interest	
Mr. Kao Cheung Chong, Michael	5,473,000	1,874,604 <i>(note (i))</i>	119,275,298 <i>(note (ii))</i>	126,622,902	54.18%
Mr. Kao Wai Ho, Francis	194,400	1,230,000 <i>(note (iii))</i>	119,275,298 <i>(note (ii))</i>	120,699,698	51.65%
Mr. Lam Pak Kin, Philip	406,800	-	-	406,800	0.17%

Notes:

- (i) These shares are held by Kessuda Consultants Limited whose entire issued share capital is beneficially owned by Mr. Kao Cheung Chong, Michael.
- (ii) 2,439,597 shares of the Company are beneficially owned by Happy Nation Limited, whose entire issued share capital is beneficially owned by China Link Holding Limited, whose entire issued share capital is in turn beneficially owned by HSBC International Trustee Limited, acting as trustee for The Cheerco Trust, of which Mr. Kao Cheung Chong, Michael and his family members, including Mr. Kao Wai Ho, Francis, are discretionary objects. The remaining 116,835,701 shares are beneficially owned by Sunni International Limited, 54.67% of whose issued share capital is beneficially owned by Happy Nation Limited.
- (iii) These shares are held by Asia Pacific Glory Limited whose entire issued share capital is beneficially owned by Mr. Kao Wai Ho, Francis.

(B) Interests in associated corporations

Name of directors	Name of associated corporations	Class of shares	Number of shares (personal interest)	Percentage of issue 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 interests in certain non-voting 5% deferred shares in subsidiaries of the Company, none of the directors or chief executives, or their associates, had any interests in any securities of the Company or any of its associated corporations as defined in the SFO at 30th September 2004.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed in note (A)(ii) under the section headed "DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SECURITIES", the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that no shareholders had an interest in shares representing 5% or more of the issued share capital of the Company as at 30th September 2004.

SHARE OPTION SCHEME

As at 30th September 2004, there were 12,390,000 outstanding options to subscribe for shares under the Company's share option scheme.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period under review.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the unaudited consolidated financial statements for the six months ended 30th September 2004. The said unaudited consolidated financial statements for the period covered by this Interim Report have also been reviewed by the Company's external auditors, Deloitte Touche Tohmatsu, in accordance with the Statement of Auditing Standard 700 "Engagements to Review Interim Financial Reports" as issued by the HKICPA, a copy of their Independent Review Report is reproduced on page 20.

CORPORATE GOVERNANCE

None of the Company's Directors are aware of any information that would reasonably indicate that the Company is not, or was not for any part of the period covered by this Interim Report, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. Following the specific enquiry by the Company, all directors confirmed that they have fully complied with the required standard set out in the Model Code throughout the period.

APPRECIATION

On behalf of the Board, I would like to express my sincere gratitude to our worldwide customers and distributors for their trust and support towards our CG animation productions and services. I would also like to take this opportunity to express my appreciation to our shareholders for their support and to our staff for their loyalty, dedication and hard work.

On behalf of the Board

Kao Wai Ho, Francis

Deputy Chairman

Hong Kong, 2nd December 2004

Deloitte.

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INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF IMAGI INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

We have been instructed by Imagi International Holdings Limited (the "Company") to review the interim financial report as set out on pages 3 to 13.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors of the Company.

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

Review work performed

We conducted our review in accordance with Statement of Auditing Standards No. 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th September 2004.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 2nd December 2004