IMAGI STUDIOS

INTERIM REPORT 2009/2010

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

Stock Code: 00585

*For identification only

BOARD OF DIRECTORS

Executive Director

Mr. PHOON Chiong Kit *(Deputy Chairman and Chief Executive Officer)*

Non-executive Director

Mr. William Montgomerie COURTAULD

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. NG Kar Yin, Frederick

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:
Morrison & Foerster

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

As to Bermuda law:
Conyers Dill & Pearman

AUDITORS

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Six Months Ended 30th September 2009

	NOTES	Six months ended 30th September **2009** **HK$'000** **(Unaudited)**	2008 HK$'000 (Unaudited)
Revenue	3	**404**	1,561
Cost of sales		**(3)**	(2,286)
Gross profit (loss)		**401**	(725)
Other income		**1,024**	545
Distribution and selling expenses		**(101,624)**	(3,965)
Administrative expenses		**(49,347)**	(17,746)
Other operating expenses		**(22,697)**	–
Loss on redemption of bridge loans	14	**(150,560)**	–
Loss on redemption of convertible loan note	15	**(5,332)**	–
Impairment loss recognised in respect of computer graphic ("CG") animation pictures	10	**(396,178)**	–
Impairment loss on goodwill	11	**(3,228)**	–
Finance costs		**(482)**	(54)
Loss before tax	5	**(728,023)**	(21,945)
Income tax credit	6	**2,377**	124
Loss for the period		**(725,646)**	(21,821)
Other comprehensive expenses representing exchange differences arising on translation of foreign operation		**(300)**	(135)
Total comprehensive expenses for the period		**(725,946)**	(21,956)
			(restated)
Basic loss per share	8	**(30.32 HK cents)**	(1.21 HK cents)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th September 2009

	NOTES	At 30th September 2009 HK$'000 (unaudited)	At 31st March 2009 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	9	**59,449**	71,392
CG animation pictures	10	**497,130**	738,647
Goodwill	11	**–**	3,228
Long term rental deposits		**9,401**	11,017
Club debentures		**2,510**	2,510
		568,490	826,794
Current assets			
Trade and other receivables, deposits and prepayments	12	**152,538**	10,935
Tax recoverable		**40**	10
Bank balances and cash		**28,628**	3,808
		181,206	14,753
Current liabilities			
Other payables and accruals		**52,995**	39,286
Unearned revenue		**26,055**	5,090
Tax payable		**444**	338
Prints and advertising loan	13	**120,762**	–
Bridge loans	14	**–**	93,600
Convertible loan note	15	**–**	132,000
Obligations under finance lease – due within one year		**522**	693
		200,778	271,007
Net current liabilities		**(19,572)**	(256,254)
Total assets less current liabilities		**548,918**	570,540
Non-current liabilities			
Obligations under finance lease – due after one year		**643**	1,341
Convertible loan note	15	**80,744**	–
Deferred tax		**9,337**	2,396
		90,724	3,737
Net assets		**458,194**	566,803
Capital and reserves			
Share capital	16	**360,152**	172,875
Reserves		**98,042**	393,928
Total equity attributable to owners of the Company		**458,194**	566,803

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Six Months Ended 30th September 2009

	Attributable to owners of the Company								
	Share capital HK$'000	**Share premium** HK$'000	**Merger reserve** HK$'000 (note i)	**Translation reserve** HK$'000	**Convertible loan notes equity reserve** HK$'000	**Share option reserve** HK$'000	**Other reserve** HK$'000 (note ii)	**Accumulated losses** HK$'000	**Total** HK$'000
At 1st April 2008 (audited)	163,795	576,216	909	1,034	42,972	95,435	–	(242,518)	637,843
Exchange differences arising on translation of foreign operations	–	–	–	(135)	–	–	–	–	(135)
Loss for the period	–	–	–	–	–	–	–	(21,821)	(21,821)
Total comprehensive expenses for the period	–	–	–	(135)	–	–	–	(21,821)	(21,956)
Share issue	9,060	46,622	–	–	–	–	22,650	–	78,332
Share issued expenses	–	(416)	–	–	–	–	–	–	(416)
Decrease in opening deferred tax liability due to a decrease in applicable rate	–	–	–	–	521	–	–	–	521
Recognition of equity-settled share-based payments	–	–	–	–	–	11,001	–	–	11,001
Exercise of share options	20	47	–	–	–	(28)	–	–	39
Share options forfeited	–	–	–	–	–	(7,426)	–	7,426	–
At 30th September 2008 (unaudited)	172,875	622,469	909	899	43,493	98,982	22,650	(256,913)	705,364
Exchange differences arising on translation of foreign operations	–	–	–	97	–	–	–	–	97
Loss for the period	–	–	–	–	–	–	–	(155,606)	(155,606)
Total comprehensive income (expenses) for the period	–	–	–	97	–	–	–	(155,606)	(155,509)
Recognition of equity-settled share-based payments	–	–	–	–	–	16,948	–	–	16,948
Share options forfeited for the period	–	–	–	–	–	(1,058)	–	1,058	–
At 31st March 2009 (audited)	172,875	622,469	909	996	43,493	114,872	22,650	(411,461)	566,803

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – continued

For the Six Months Ended 30th September 2009

	Attributable to owners of the Company								
	Share capital HK$'000	**Share premium** HK$'000	**Merger reserve** HK$'000 (note i)	**Translation reserve** HK$'000	**Convertible loan notes equity reserve** HK$'000	**Share option reserve** HK$'000	**Other reserve** HK$'000 (note ii)	**Accumulated losses** HK$'000	**Total** HK$'000
Exchange differences arising on translation of foreign operations	–	–	–	(300)	–	–	–	–	(300)
Loss for the period	–	–	–	–	–	–	–	(725,646)	(725,646)
Total comprehensive expenses for the period	–	–	–	(300)	–	–	–	(725,646)	(725,946)
Placement of shares	23,000	78,430	–	–	–	–	–	–	101,430
Rights issue	43,274	64,911	–	–	–	–	–	–	108,185
Share issue expenses	–	(15,098)	–	–	–	–	–	–	(15,098)
Conversion of bridge loans	120,448	240,896	–	–	–	–	–	–	361,344
Recognition of equity-settled share-based payments	–	–	–	–	–	12,699	–	–	12,699
Exercise of share options	555	1,875	–	–	–	(904)	–	–	1,526
Share options forfeited for the period	–	–	–	–	–	(165)	–	165	–
Redemption of convertible loan note	–	–	–	–	(43,493)	–	–	43,493	–
Recognition of equity component of convertible loan note	–	–	–	–	56,588	–	–	–	56,588
Deferred tax liability on recognition of equity component of convertible loan note	–	–	–	–	(9,337)	–	–	–	(9,337)
At 30th September 2009 (unaudited)	360,152	993,483	909	696	47,251	126,502	22,650	(1,093,449)	458,194

notes:

(i) The 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.

(ii) Other reserve represents the difference between the subscription price of a share subscription by a new shareholder and the diluted subscription price after taking into account of the transfer of gift shares from an existing shareholder to the new shareholder.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the Six Months Ended 30th September 2009

	Six months ended 30th September 2009 HK$'000 (unaudited)	2008 HK$'000 (unaudited)
Cash used in operating activities		
(Increase) decrease in trade and other receivables, deposits and prepayments	**(141,603)**	5,149
Other operating activities	**(127,127)**	(25,727)
	(268,730)	(20,578)
Net cash used in investing activities		
Cost incurred in CG animation pictures	**(121,313)**	(140,178)
Purchase of property, plant and equipment	**(260)**	(5,111)
Other investing activities	**713**	1,797
	(120,860)	(143,492)
Net cash from financing activities		
Prints and advertising loan raised	**129,480**	–
Proceeds from rights issue	**108,185**	–
Proceeds from placement of shares	**101,430**	78,332
Bridge loans raised	**100,581**	–
Shares issued expenses	**(15,098)**	(416)
Repayment of prints and advertising loan	**(8,718)**	–
Other financing cash flows	**175**	(344)
	416,035	77,572
Net increase (decrease) in cash and cash equivalents	**26,445**	(86,498)
Cash and cash equivalents at beginning of the period	**3,808**	175,530
Effect of foreign exchange rate changes	**(1,625)**	(173)
Cash and cash equivalents at end of the period	**28,628**	88,859

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended 30th September 2009

1. Basis of Preparation of Financial Information

The interim financial information has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standards ("HKAS") 34, "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Group is principally engaged in the production of CG animation pictures for licensing and sale. At 30th September 2009, the Group had net current liabilities of approximately HK$20 million and it incurred net losses for the six months then ended of approximately HK$726 million. Based on the financial projections prepared by the Company's management, taking into account the estimated net cash proceeds from the Group's recent worldwide launch of a CG animation picture, the Group is required to raise an additional minimum sum of approximately HK$447 million (of which HK$252 million is expected to be utilised within the next 12 months) for it to complete a major CG animation picture in progress to its revenue-generating stage.

In order to minimise funding risks, the group would be seeking project or equity financing to finance the ongoing and new projects. The directors are also actively pursuing various funding options to meet the Group's cash flow requirements including issuance of new equity and loan capital, inviting financing partners and borrowings. The directors are of the opinion that the Group will be able to raise sufficient financial resources to meet its financial obligations as they fall due in the next twelve months from the balance sheet date and to complete the major CG animation picture in progress. Accordingly, the interim financial information has been prepared on a going concern basis and the Group's non-current assets are stated in the condensed consolidated statement of financial position in accordance with the Group's normal accounting policies.

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st March 2009. In addition, the Group has applied the following significant accounting policies for advertising and promotional activities and derecognition of financial liabilities during the current interim period.

Prepaid expenditures on advertising and promotional activities

Prepaid expenditures on advertising and promotional activities are recognised as an asset when payment for goods or services have been made in advance of the Group's obtaining a right to access the goods or receiving the services. Prepaid expenditures are expensed to the condensed consolidated statement of comprehensive income when the Group has the right to access the goods or when it receives the services.

1. Basis of Preparation of Financial Information – continued

Derecognition of financial liabilities

When an existing financial liability's terms are modified and such modification results in the discounted present value of the cash flows under the new terms including any fees paid net of any fees received at least 10 per cent different from the discounted present values of the remaining cash flows of the original financial liability, it is accounted for as an extinguishment of the original financial liability and a recognition of a new financial liability or equity instrument or compound instrument with the difference, being the carrying amount of the financial liability extinguished and the fair value of the financial liability or equity instrument or compound instrument issued, recognises in the condensed consolidated statement of comprehensive income.

2. Principal Accounting Policies

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKRSs") issued by the HKICPA.

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC)-Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC)-Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendments to HKFRS 5 that is effective for annual periods beginning on or after 1st July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of these new and revised HKFRSs had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

HKAS 1 (Revised 2007) has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure.

2. Principal Accounting Policies – continued

Hong Kong Financial Reporting Standards ("HKFRS") 8 is a disclosure Standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor Standard, HKAS 14, "Segment Reporting", required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was geographical segment by locations of assets. The application of HKFRS 8 has resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 (see Note 3).

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009[2]
HKAS 27 (Revised 2008)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[3]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKAS 24 (Revised)	Related Party Disclosure[6]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopers[4]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[4]
HKFRS 3 (Revised 2008)	Business Combinations[1]
HKFRS 9	Financial Instruments[5]
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners[1]

1 Effective for annual periods beginning on or after 1st July 2009
2 Amendments that are effective for annual periods beginning on or after 1st July 2009 or 1st January 2010, as appropriate
3 Effective for annual periods beginning on or after 1st February 2010
4 Effective for annual periods ending on or after 1st January 2010
5 Effective for annual periods ending on or after 1st January 2013
6 Effective for annual periods ending on or after 1st January 2011

The adoption of HKFRS 3 (Revised 2008) may affect the Group's accounting for business combination for which the acquisition date is on or after 1st April 2010. HKAS 27 (Revised 2008) will affect the accounting treatment for changes in the Group ownership interest in a subsidiary.

The directors of the Company anticipate that the application of these new or revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. Segment Information

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1st April 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance. In contrast, the predecessor standard (HKAS 14 "Segment Reporting") required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. In the past, the Group's primary reporting format was geographical segments by location of assets. The application of HKFRS 8 has resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14.

In prior year, primary segment information was analysed on the basis of geographical segments by location of assets, i.e., the United States of America (the "US"), Hong Kong, and others. Information reported to the chief operating decision maker, being the Chief Executive Director of the Company, for the purpose of resource allocation and performance assessment focus on CG animation pictures' performance in different geographical markets, which resulted the inclusion of Hong Kong in the Greater China Region and the separation of Japan and Europe from the previous others segment under HKAS 14. The Group's reportable segments under HKFRS 8 are therefore as follows:

1. US;
2. Greater China Region – including Hong Kong;
3. Japan; and
4. Europe

3. Segment Information – continued

Six months period ended 30th September 2009

	US HK$'000	Greater China Region HK$'000 (note)	Japan HK$'000	Europe HK$'000	Eliminations HK$'000	Consolidated HK$'000
Revenue						
External sales	366	38	–	–	–	404
Inter-segment sales	–	86,434	–	–	(86,434)	–
Total	366	86,472	–	–	(86,434)	404
Segment loss	(107,397)	(430,999)	(185)	(1,241)		(539,822)
Bank interest income						11
Central administration costs						(31,838)
Loss on redemption of bridge loans						(150,560)
Loss on redemption of convertible loan note						(5,332)
Finance costs						(482)
Loss before tax						(728,023)

note: The impairment losses recognised in respect of CG animation pictures and goodwill of approximately HK$396,178,000 and HK$3,228,000 respectively are included in the Greater China Region segment as it is where the subsidiary holds the CG animation pictures and the subsidiary from which the goodwill arises.

3. Segment Information – continued

Six months period ended 30th September 2008

	US HK$'000	Greater China Region HK$'000	Japan HK$'000	Europe HK$'000	Eliminations HK$'000	Consolidated HK$'000
Revenue						
External sales	1,561	–	–	–	–	1,561
Inter-segment sales	–	96,093	–	–	(96,093)	–
Total	1,561	96,093	–	–	(96,093)	1,561
Segment loss	(7,892)	(9,029)	(129)	(338)		(17,388)
Bank interest income						545
Central administration costs						(5,048)
Finance costs						(54)
Loss before tax						(21,945)

Segment loss represents the loss incurred by each segment without allocation of bank interest income, central administration cost, loss on redemption of bridge loans, loss on redemption of convertible loan note and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

The following is an analysis of the Group's assets by operating segments:

	30th September 2009 HK$'000	31st March 2009 HK$'000
US	**164,517**	34,858
Greater China Region	**547,985**	799,973
Japan	**52**	229
Europe	**5,965**	159
Total segment assets	**718,519**	835,219

4. Share Options

The Company has a share option scheme for the primary purpose of providing incentives to employees, executives or officers, directors of the Company or any of its subsidiaries and any business consultants, agents, legal or financial advisers of the Company or any of its subsidiaries for their contribution to the Group.

Details of the share options for each category outstanding during the current period are as follows:

	Number of share options			
	Directors	**Employees**	**Consultant**	**Total**
Outstanding at the beginning of the period	16,000,000	70,625,000	5,000,000	91,625,000
Exercised during the period before rights issue (note i)	–	(5,000,000)	–	(5,000,000)
Cancelled during the vesting period before rights issue (note ii)	–	(80,000)	–	(80,000)
Forfeited during the period before rights issue (note iii)	–	(120,000)	–	(120,000)
Adjustment on rights issue (note iv)	1,634,816	6,970,956	510,880	9,116,652
Exercised during the period after rights issue (note v)	–	(550,000)	–	(550,000)
Granted during the period after rights issue (note vi)	23,000,000	167,738,000	–	190,738,000
Outstanding at the end of the period	40,634,816	239,583,956	5,510,880	285,729,652

notes:

(i) 2,000,000, 200,000 and 2,800,000 share options were exercised by the employees on 2nd July 2009, 9th July 2009 and 12th August 2009 at exercise price of HK$0.420, HK$0.196 and HK$0.196 respectively before rights issue. The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HK$0.454.

(ii) During the current reporting period, 80,000 share options were cancelled as a result of the resignation of employees prior to the vesting of relevant share options. The impact of the cancellation is either to adjust the CG animation pictures where the share options were previously capitalised or to recognise in the profit and loss, with a corresponding adjustment to the share options reserve.

(iii) 120,000 share options were forfeited due to the resignation of employees after the vesting period.

4. Share Options – continued

(iv) As a result of the rights issue as set out in note 16(iv), the number of the outstanding share options was adjusted accordingly based on the adjustment factor of rights issue and the exercise prices of the share options were also adjusted as follows:

Date of grant	Original exercise price HK$	Revised exercise price HK$	Vesting period
Directors			
9th October 2006	2.570	2.332	Nil to 5 years
7th April 2008	2.178	1.976	2.74 to 4.74 years
22nd July 2008	0.860	0.780	1 to 4 years
29th December 2008	0.402	0.365	Nil to 1 year
Employees			
24th May 2005	0.196	0.178	Nil
7th June 2005	0.195	0.177	Nil
13th February 2006	0.535	0.485	Nil
8th November 2006	3.070	2.785	Nil
15th May 2007	2.178	1.976	0.67 to 3 years
25th September 2007	2.178	1.976	0.33 to 3 years
17th January 2008	2.178	1.976	1 to 3 years
7th April 2008	2.178	1.976	1 to 3 years
22nd December 2008	0.420	0.381	Nil
Consultant			
12th January 2009	0.412	0.374	0.05 to 1.97 years

(v) 550,000 share options were exercised by an employee on 16th September 2009 at exercise price of HK$0.178 after rights issue. The closing price of the Company's shares immediately before the date on which the options were exercised was HK$0.450.

(vi) On 21st August 2009, 23,000,000 and 167,738,000 share options were granted to directors and employees respectively. The closing prices of the Company's shares immediately before 21st August 2009 was HK$0.285.

The fair value of the options granted on 21st August 2009 calculated using the Binomial Option Pricing model range from HK$0.144 to HK$0.184, resulting in a total fair value of approximately HK$32,500,000. The shares options granted have a vesting period of 1 to 3 years. The following assumptions were used to calculate the fair values of these share options:

	Options granted on 21st August 2009
Grant date share price	HK$0.280
Exercise price	HK$0.315
Expected life	6 to 8 years
Expected volatility	69.39% to 93.31%
Expected dividend yield	0%
Risk free interest rate	1.99% to 2.30%

4. Share Options – continued

The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies when variables and assumptions, which are necessarily subjective in nature, are changed.

Recognition of share-based payment expenses

With reference to the vesting period attached to the respective share options, the Group recognised share-based payment expenses for the period as follows:

	Options granted on									
	9th October 2006 HK$'000	15th May 2007 HK$'000	25th September 2007 HK$'000	17th January 2008 HK$'000	7th April 2008 HK$'000	22nd July 2008 HK$'000	29th December 2008 HK$'000	12th January 2009 HK$'000	21st August 2009 HK$'000	Total HK$'000
Capitalised in CG animation pictures	–	6,295	493	124	172	–	–	–	–	7,084
Charged to condensed consolidated statement of comprehensive income	1,099	1,211	57	–	276	56	684	352	1,880	5,615
Recognised in share option reserve	1,099	7,506	550	124	448	56	684	352	1,880	12,699

5. Loss before Tax

	Six months ended 30th September 2009 HK$'000	2008 HK$'000
Loss before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	**11,098**	13,234
Less: amounts capitalised in CG animation pictures	**(10,348)**	(12,483)
	750	751
Amortisation of CG animation pictures (included in cost of sales)	**–**	2,286
Prints and advertising expenses (included in distribution and selling expenses)	**95,665**	–

6. Income Tax Credit

	Six months ended 30th September 2009 HK$'000	2008 HK$'000
Under(over)provision in prior years in other jurisdictions	**19**	(124)
Deferred tax	**(2,396)**	–
	(2,377)	(124)

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

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

7. Dividend

No dividend was paid, declared or proposed during the reported period. The directors do not recommend the payment of an interim dividend.

8. Loss Per Share

The calculation of the basic loss per share attributable to the owners of the Company is based on the following data:

	Six months ended 30th September 2009	2008
Loss for the period attributable to owners of the Company	**(HK$725,646,000)**	(HK$21,821,000)
Number of shares (note):		(restated)
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	**2,393,198,052**	1,810,329,783

No diluted loss per share is presented as the exercise of share options and the conversion of convertible loan note during the period would result in a decrease in loss per share.

note: The weighted average of ordinary shares for the purpose of calculating basic loss per share for the period ended 30th September 2008 have been retrospectively adjusted for the effect of rights issue completed in current period.

9. Property, Plant and Equipment

During the period, the Group incurred approximately HK$260,000 (2008: HK$5,111,000) on the acquisition of property, plant and equipment mainly for the purpose of improving and expanding the Group's production capability.

10. CG Animation Pictures

The Group's CG animation pictures mainly consist of *Astro Boy* and a major CG animation picture in progress.

As part of their review of the Group's interim financial information for the current reporting period, the directors have conducted an impairment review of the Group's CG animation pictures.

The recoverable amount of *Astro Boy* has been determined using a value in use calculation based on the box office and other cash flows expected to be generated from *Astro Boy* and the directors have concluded that an impairment loss of approximately HK$396 million is required against *Astro Boy*, which was officially launched in October 2009. Accordingly, an impairment loss of approximately HK$396 million was recognised in the condensed consolidated statement of comprehensive income.

The recoverable amount of the major CG animation picture in progress has been determined using a value in use calculation based on the film's projected future box office and other cash flows and on the assumptions that the Group will be able to raise the necessary funding to finance the production to completion. On this basis, no impairment loss is provided by the Group for the period.

11. Goodwill

For the purpose of impairment testing, goodwill has been allocated to a single individual cash generating unit ("CGU"), being the production and licensing of CG animation picture in the Greater China Region segment.

The recoverable amount of the CGU has been determined based on a value in use calculation. The calculation uses cash flow projections based on financial budgets prepared by management covering a 4-year period and a discount rate of 38.8%. The cash flows beyond the 4-year period are extrapolated with zero growth rates. Other key assumptions for the value in use calculations relate to the estimation of cash flows and budged revenue and gross margin. Such estimations are based on the CGU's past performance and management's expectations for market performance including the launch of *Astro Boy* in October 2009 and the subsequent box office falling short of the budgeted revenue. In accordance with the latest market performance and based on the calculation, the directors have determined to recognise an impairment loss for the full amount of the goodwill of HK$3,228,000 for the period.

12. Trade and Other Receivables, Deposits and Prepayments

	30th September 2009 HK$'000	31st March 2009 HK$'000
Trade receivables over 60 days (note i)	**133**	201
Prepayment to Summit (note ii)	**137,218**	4,680
Other receivables, deposits and prepayment	**15,187**	6,054
	152,538	10,935

notes:

(i) The Group allows its trade customers a credit period in accordance with the terms specified in the contracts, normally ranging from 0 days to 90 days. The trade receivable at the end of the reporting period were aged over 60 days.

(ii) The amount represents prepayment to Summit Entertainment, LLC ("Summit"), the film distributor who performs promotion activities in connection with the launch of the Group's *Astro Boy*.

13. Prints and Advertising Loan

The loan was granted by Endgame Funding, LLC, a California limited liability company ("Endgame"), for the specific purpose of funding the promotion expenses to be incurred in connection with the launch of *Astro Boy* (the "P&A Loan").

The P&A Loan carries interest at an annum rate equal to 3-month LIBOR plus 5% and is repayable upon maturity on 15th May 2010. The P&A Loan is secured by properties of the Company's certain subsidiaries including *Astro Boy*, together with the revenue to be generated from *Astro Boy*.

In addition to the above P&A Loan, a bank has granted the Group a further credit facility of US$10 million which can be utilised by the Group for the same purpose (the "P&A Facility"). The P&A Facility is secured by a cash collateral as detailed in Note 18.

As at 30th September 2009, the P&A Facility was not yet drawn.

14. Bridge Loans

During the year ended 31st March 2009, the Company was granted US dollar denominated loan facilities by various bridge loan lenders for an aggregate sum of US$26.5 million (equivalent to approximately HK$206.7 million), of which US$12 million (equivalent to approximately HK$93.6 million) was drawn and outstanding at 31st March 2009.

The bridge loans were to be repayable on maturity date and would become convertible conditional on the entry of a subsequent conversion agreement (the "Conversion Agreement"). On 15th May 2009, the Conversion Agreement was entered into between the Company and the bridge loan lenders whereby each of the bridge loan lenders has agreed, subject to, inter-alia, completion of a rights issue, to convert, contemporaneously with the redemption of CN Jan 2008 (as defined in Note 15), all its respective outstanding bridge loan principal and accrued interest into shares in the Company at a conversion price of HK$0.175 per share.

On 19th August 2009, the bridge loan conversion was completed and a total of 1,204,476,068 new shares were issued to the bridge loan lenders (Note 16).

Upon the bridge loan conversion, the bridge loans were extinguished by the issue of the Company's shares and the differences, being the carrying amount of the bridge loans and the fair value of the shares issued, of approximately HK$150,560,000 was recognised as a redemption loss and charged to the condensed consolidated statement of comprehensive income for the current period.

15. Convertible Loan Note

The Company issued convertible loan note with a principal amounts of HK$132,000,000 on 30th January 2008 ("CN Jan 2008"). CN Jan 2008 was denominated in Hong Kong dollars with zero coupon rate.

CN Jan 2008 was convertible by the holder into shares of the Company at a conversion price of HK$1.768 per share during the period from the 90th day after its issue to the 15th day prior to its maturity which is 29th January 2011. Unless previously converted or early redeemed, CN Jan 2008 would be redeemed at its principal sum of HK$132,000,000 upon maturity.

CN Jan 2008 entitled the holder to require the Company to redeem, in whole or in part, the outstanding principal during the period commencing from the 30th month from the date of issue and ending on the date which is not later than 60 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. However, upon occurrence of certain events including (i) a delisting of the Company's shares on the Stock Exchange, (ii) a change in control in the Company (as defined in the CN Jan 2008 agreement) or (iii) a pledge of the Group's assets on other liabilities, the holders of CN Jan 2008 could early exercise their redemption right by issuing early redemption notices. The early redemption feature of CN Jan 2008 was included in the liability portion as it is closely related to the host liability contract.

15. Convertible Loan Note – continued

During the year ended 31st March 2009, the Group pledged assets of the Group in favour of its bridge loan lenders and hence breached certain covenants contained in CN Jan 2008 and as a result of which the holder of CN Jan 2008 was entitled to exercise its early redemption right. The carrying amount of CN Jan 2008 was re-measured at its redemption amount of HK$132,000,000, resulting in a loss on re-measurement of approximately HK$34,490,000. Accordingly, the convertible loan note was classified as current in the consolidated balance sheet as at 31st March 2009.

On 15th May 2009, the Company and the holder of CN Jan 2008 entered into another agreement whereby, subject to, inter-alia, completion of a rights issue and the contemporaneous completion of the bridge loan conversion, CN Jan 2008 would be redeemed by the issue of a new convertible loan note (the "CN Exchange").

On 19th August 2009, upon the completion of the rights issue and bridge loan conversion, the Company effected the CN Exchange by the issue of a zero coupon rate convertible loan note (the "CN Aug 2009") with the same principal amount.

CN Aug 2009 is convertible by the holder thereof into shares of the Company at a conversion price of HK$0.30 per share during the period from the 90th day after its issue to the 15th day prior to its maturity which is 18th August 2011. Unless converted, CN Aug 2009 would be redeemed at its principal sum of HK$132,000,000 upon maturity. However, upon occurrence of certain events including (i) a delisting of the Company's shares on the Stock Exchange, (ii) a change in control in the Company (as defined in the CN Aug 2009 agreement) or (iii) a pledge of the Group's assets on other liabilities, the holders of CN Aug 2009 could early exercise their redemption right by issuing early redemption notices.

The effect of the CN Exchange represents the extinguishment of CN Jan 2008 having a carrying amount of HK$132,000,000 by the issue of CN Aug 2009 having a fair value of approximately HK$137,332,000 comprising liability portion of approximately HK$80,744,000 and equity portion of approximately HK$56,588,000. The difference of approximately HK$5,332,000 between CN Jan 2008 and CN Aug 2009 on the date of the CN Exchange was charged to the condensed consolidated statement of comprehensive income.

The fair value of the entire CN Aug 2009 was calculated using Binomial Option Pricing model while the fair value of the liability portion of CN Aug 2009 was calculated based on the present value of the contractually determined stream of future cash flows discounted at 24.8%, being the effective interest rate of CN Aug 2009.

The valuation of the entire CN Aug 2009 including the equity portion and liability portion was performed by Greater China Appraisal Limited. The following assumptions were used to calculate the fair value using Binomial Option Pricing model:

15. Convertible Loan Note – continued

	19th August 2009
Grant date share price	HK$0.30
Exercise price	HK$0.30
Expected life	2 years
Expected volatility	86.94%
Expected dividend yield	0%
Risk free interest rate	0.56%

The movement of the liability portions for the period is set out below:

	CN Jan 2008 HK$'000	CN Aug 2009 HK$'000	Total HK$'000
At 1st April 2008	83,095	–	83,095
Interest charged and capitalised in CG animation pictures	14,415	–	14,415
Loss on re-measurement of liability component	34,490	–	34,490
At 31st March 2009	132,000	–	132,000
Redemption during the period	(132,000)	–	(132,000)
Issue during the period	–	80,744	80,744
At 30th September 2009	–	80,744	80,744

16. Share Capital

	Number of ordinary shares '000	Values HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1st April 2009	2,500,000	250,000
Increase during the period (note i)	7,500,000	750,000
At 30th September 2009	10,000,000	1,000,000
Issued and fully paid:		
At 1st April 2009, at HK$0.10 each	1,728,754	172,875
Exercise of share options (note ii)	5,550	555
Placement of shares (note iii)	230,000	23,000
Conversion of bridge loans (Note 14)	1,204,476	120,448
Rights issue (note iv)	432,738	43,274
At 30th September 2009	3,601,518	360,152

The movements in the ordinary share capital for the six months ended 30th September 2009 were as follows:

(i) Pursuant to a special general meeting held on 30th July 2009, the increase in authorised share capital of HK$7,500,000,000 was approved.

(ii) The Company issued 2,000,000, 200,000, 2,800,000 and 550,000 ordinary shares of HK$0.10 each in the Company for cash at HK$0.420, HK$0.196, HK$0.196 and HK$0.178 per share, respectively, as a result of the exercise of share options.

(iii) Pursuant to the placing agreement entered into on 15th June 2009, a placing agent agreed to subscribe or procure subscription for 130,000,000 shares and on a best efforts basis an additional 100,000,000 shares at the price of HK$0.441 per placing share. The placing was completed on 29th July 2009 and an aggregate of 230,000,000 ordinary share of the Company were issued.

(iv) On 19th August 2009, a rights issue on the basis of one rights share for every four shares in issue then held by the shareholders on the register of members on 28th July 2009 was effected at an subscription price of HK$0.25 per rights share. A total of 432,738,463 rights shares were issued resulting in gross proceeds of approximately HK$108 million to the Company.

All the shares issued during the period ranked pari passu with the then existing shares in all respect.

17. Major Non-cash Transactions

During the period ended 30th September 2009, the major non-cash transactions are as follows:

(a) The Company recognised share-based payment expenses of approximately HK$12,699,000 of which approximately HK$7,084,000 was capitalised in CG animation pictures and approximately HK$5,615,000 was charged to the condensed consolidated statement of comprehensive income.

(b) The bridge loans as mentioned in Note 14 were converted into 1,204,476,068 ordinary shares of the Company of HK$0.10 each at a conversion price of HK$0.175 per share.

(c) CN Jan 2008 was redeemed by the issue of CN Aug 2009 with the same principal amount of HK$132 million as detailed in Note 15.

18. Related Party Transactions

During the period, the following compensations were payable to the Company's directors and the Group's key management personnel, which were determined by the remuneration committee having regard to the performance of individuals and market trends:

	For the six months ended 30th September	
	2009	2008
	HK$'000	HK$'000
Short-term benefits	**23,450**	14,532
Post-employment benefits	**48**	26
Equity-settled share-based payment expenses	**2,867**	5,640
	26,365	20,198
Less: amounts capitalised in CG animation pictures	**(15,445)**	(11,960)
	10,920	8,238

In addition, the P&A Facility as stated in Note 13 is secured by a cash collateral provided by Fortunate City Investment Limited ("FCI"), a company in which Mr. Hung Kam Biu, a substantial shareholder of the Company, is interested, to the bank.

18. Related Party Transactions – continued

In consideration of and as a condition to the provision of the cash collateral by FCI, the Group has agreed to, among other things, (i) pay a fixed fee of US$1,500,000, (ii) entitle FCI a bonus to be determined by a certain percentage of the cumulative domestic box office revenue generated by *Astro Boy*, and (iii) charge all exploitation rights of *Astro Boy* including certain of its future revenue in favour of FCI. Details of the P&A Facility are set out in the Company's announcement dated 9th September 2009.

Shareholders' approval of the P&A Facility was obtained in a special general meeting held on 17th December 2009.

19. Capital Commitments

At the end of reporting period, the Group had the following commitments for capital expenditure in respect of CG animation pictures and property, plant and equipment:

	30th September 2009 HK$'000	31st March 2009 HK$'000
Capital expenditure in respect of CG animation pictures authorised but not contracted for	**–**	35,690
Capital expenditure in respect of CG animation pictures and property, plant and equipment contracted for but not provided in the condensed consolidated statements of financial position	**5,552**	5,645

20. Events after the end of Reporting Period

The following significant events took place subsequent to 30th September 2009:

(i) On 19th October 2009, the Company was granted a US$2.5 million loan facility by Trophy Fund, a company in which Mr. Hung Kam Biu is interested. The loan facility was fully drawn down by the Company on 20th October 2009.

(ii) Shareholders in the Company's special general meeting held on 17th November 2009 granted approval to:

- cancel 43,580,000 unexercised share options and re-grant the same number of new options to the affected grantees;
- issue 1,000,000 shares to Mr. William Courtauld, a Non-executive Director of the Company, for each month during his term of service; and
- pay Mr. Phoon Chiong Kit, an Executive Director, Deputy Chairman and Chief Executive Officer of the Company, a non-cash bonus comprising an one-time grant of 2,000,000 shares.

(iii) The US$10 million P&A Facility as stated in Note 13 was drawn down by the Company on 30th November 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 30th September 2009, the Group reported a turnover of HK$0.4 million, representing a decrease of approximately 74% as compared to HK$1.6 million for the same period of last year. The decrease in turnover is due to the fact that new CG films are under production for the period under review and no new CG film was released to generate revenue during the period. Loss attributable to shareholders for the six months ended 30th September 2009 was HK$726 million, substantially increased as compared to HK$22 million for the same period of last year. The loss for the period included an impairment loss recognized in respect of CG animation pictures of HK$396 million and the prints and advertising expenses of HK$96 million. The loss on redemption of convertible loan note of HK$5 million and the loss on redemption of bridge loans of HK$151 million during the period were recognised in the condensed consolidated statement of comprehensive income.

Corporate

Major corporate events that took place since 1st April 2009 include the following:

Share placement

On 29th July 2009, the Company completed a share placement of 230,000,000 shares at a price of HK$0.441 each with Guotai Junan Securities (Hong Kong) Limited ("Guotai Junan") acting as our placing agent. The placement raised net proceeds of approximately HK$98 million.

Rights Issue

In August 2009, the Company completed the Rights Issue exercise by issuing 432,738,463 Rights Shares at the Subscription Price of HK$0.25 per Rights Share payable in full on acceptance, on the basis of one Rights Share for every four Shares in issue on the Record Date. With the over-subscription of the Rights Shares, a total of 1,997 valid acceptances and applications in respect of 6,198,061,082 Rights Shares, representing approximately 1,432.29% of the total number of Rights Shares available under the Rights Issue, had been received. The Rights Issue circular was issued on 14th July 2009 and is fully underwritten by Guotai Junan and raising net proceeds of HK$100 million.

Bridge loan conversion and The new Winnington Convertible Note

Concurrently with the closing of the Rights Issue, the Company also completed Bridge Loan Conversion and the issue of the New Winnington Convertible Note at the conversion price of HK$0.30. These transactions were approved by the shareholders at the SGM on 30th July 2009 and became effective on 19th August 2009. Pursuant to the Bridge Loan Conversion, a total of 1,204,476,068 new Shares were issued to the Bridge Lenders, comprising 963,726,718, 194,499,189 and 46,250,161 new Shares to each of (i) the lenders to Evertop, (ii) Asia CGI Investment Limited and (iii) Mehta-Imagi LLC, respectively.

Prints and Advertising ("P&A") financing

As part of the marketing support for the launch of *Astro Boy*, the Company is required to raise P&A Financing to cover the P&A expenses related to the distribution and promotion of the film, ahead of its release in North America. On 27th August 2009 the Company was granted a P&A loan of US$16.6 million (equivalent to approximately HK$129.5 million) by a specialised US P&A Fund ("P&A Financier"). The loan was drawn down in a number of tranches. In addition, on 9th September 2009, the Company also obtained a Letter of Credit from a bank for US$10 million issued in favour of Summit Entertainment, LLC ("Summit"), our primary distributor in order to enable Summit to make various media bookings on behalf of the Company. The issuance of the Letter of Credit was backed by a cash collateral provided to the bank by Fortunate City Investment Limited ("FCI").

CG Animation Pictures

Astro Boy

The Company completed the production of its feature film *Astro Boy* in September 2009 and the film was released on 23rd October 2009 in North America in more than 3,200 screens and other markets. Whilst the initial box office performance in certain markets has been disappointing, the film is particularly well received in China where the film obtained a co-production status. In addition, the film is yet to open in certain markets.

Gatchaman

The Company is working on its next feature film project *Gatchaman*. Like *Astro Boy* is based on a classic Japanese anime property. Gatchaman will be delivered in 100% Stereoscopic 3D.

Other projects

The Company is also exploring various other CG projects – a number of them are tailored for China, a market that is set for significant growth in the coming years.

Outlook

Following the completion of its last feature film, the Company has recently taken steps to reposition its cost base by trimming costs in its Hong Kong and Los Angeles studios. This would enable the company to improve its operational efficiencies and increase its flexibility in the range of projects it will take on. The Company currently has at least 5 different projects in various stages of development. With its proven ability to produce world-class CGI animation films, the Company is excited about its future prospects, and in particular, about its growth potential in China. There are also plans in place to further reduce production cost by expanding the production in China. This plan will eventually allow the Company to gain further advantage over its competition by maintaining the animation quality of its feature films while lowering the production costs overall.

Liquidity and Financial Resources

As at 30th September 2009, the Group's cash deposits and bank balances amounted to approximately HK$28.6 million (31st March 2009: HK$3.8 million). At as the period end date, the Group's current ratio is 0.90 (31st March 2009: 0.05) and a gearing ratio, measured as total debts over total assets, is 38.9% (31st March 2009: 32.6%).

Foreign Exchange Exposure

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

Pledge of Assets

As part of the P&A Loan as noted above, the Group has pledged the rights in, and income derived from *Astro Boy* (other than China, Japan and Hong Kong) to the P&A Financier. In addition, the cash collateral provided by FCI was also secured on the income from *Astro Boy* in China, Japan and Hong Kong.

Contingent Liabilities

At 30th September 2009, the Group had no significant contingent liabilities.

Human Resources

As at 30th September 2009, the Group employed over 450 full-time staff worldwide. Remuneration policies are reviewed regularly to ensure that compensation and benefit packages are in line with the market in respective countries where the Group has operations. In addition to basic salary, incentives in the form of bonuses and share options may also be offered to eligible employees on the basis of individual performance and at the discretion of the Board.

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.

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

At 30th September 2009, 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

	Number of issued ordinary shares held				Percentage
Name of Directors	Personal interest	Corporate interest	Other interest	Total interest	of issued share capital
Mr. William Montgomerie Courtauld	5,483,870	12,170,085	–	17,653,955	0.49%
Mr. Ng See Yuen	1,000,000	–	–	1,000,000	0.03%
Mr. Phoon Chiong Kit	2,000,000	–	–	2,000,000	0.06%
Mr. Richard Arthur Witts (Note 1)	1,250,000	–	–	1,250,000	0.03%

Note 1: Subsequent to the balance sheet date, Mr. Richard Arthur Witts has retired as the Chairman and Independent Non-executive Director at the Annual General Meeting on 17th November 2009 by withdrawing from seeking re-election as Director.

(B) Share options of the Company

Name of Directors	Capacity	Number of options held	Number of underlying shares
Mr. Ng See Yuen	Beneficial owner	2,051,088	2,051,088
Mr. Oh Kok Chi	Beneficial owner	2,051,088	2,051,088
Mr. Phoon Chiong Kit	Beneficial owner	10,000,000	10,000,000
Mr. William Montgomerie Courtauld	Beneficial owner	2,000,000	2,000,000
Mr. Richard Arthur Witts (Note 1)	Beneficial owner	4,000,000	4,000,000
Ms. Ting Chuk Kwan (Note 2)	Beneficial owner	2,000,000	2,000,000

Note 2: Subsequent to the balance sheet date, Ms. Ting Chuk Kwan resigned as an Executive Director and Acting CEO on 1st November 2009.

SUBSTANTIAL SHAREHOLDERS

To the best knowledge of the Directors and according to the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO, other than the interest disclosed above in the section "Directors' and Chief Executives' Interests in Shares, Underlying Shares and Convertible Notes", the following shareholders were interested in the issued share capital of the Company as at 30th September 2009.

(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
Happy Nation Limited	Interest of controlled corporation	585,618,505	16.26%
	Beneficial owner	12,197,985	0.34%
China Link Holding Limited	Interest of controlled corporation	597,816,490	16.60%
Sunni International Limited (Note 1)	Beneficial owner	585,618,505	16.26%
Kao Cheung Chong	Beneficial owner	12,306,765	0.34%
	Interest of controlled corporation	9,373,020	0.26%
	Beneficiary of a trust	597,816,490	16.60%
Kao Wai Ho, Francis	Beneficiary of a trust	585,618,505	16.26%
Chu Jocelyn	Interest of Spouse	100,000,000	2.78%
	Interest of controlled corporation	684,040,373	18.99%
Hung Kam Biu	Beneficial owner	100,000,000	2.78%
	Interest of controlled corporation	684,040,373	18.99%
Winnington Capital Limited (Note 2)	Beneficial owner	250,000	0.01%
	Investment manager	683,790,373	18.99%
Trophy Asset Management Limited	Investment manager	683,790,373	18.99%
Trophy Fund	Beneficial owner	597,219,634	16.58%
Citigroup Inc.	Custodian corporation	129,200	0.004%
	Person having a security interest shares	613,475,012	17.04%
	Interest of controlled	303,660,812	8.43%

Name of shareholders	Capacity	Number of issued ordinary shares held	Percentage of issued share capital
Bosrich Holdings (PTC) Inc. (Note 3)	Trustee	209,950,000	5.83%
Lo Hong Sui, Vincent (Note 3)	Founder of discretionary trust	209,950,000	5.83%
Shui On Company Limited (Note 3)	Interest of controlled corporation	209,950,000	5.83%
Chu Loletta (Note 3)	Interest of spouse	209,950,000	5.83%
Shui On Holdings Limited (Note 3)	Interest of controlled corporation	209,950,000	5.83%
Shui On Investment Company Limited (Note 3)	Interest of controlled corporation	209,950,000	5.83%
Smart Will Investments Limited (Note 3)	Beneficial owner	209,950,000	5.83%
Asia CGI Investments Limited	Beneficial owner	194,499,189	5.40%

Notes:

1. Sunni International Limited is 54.67% beneficially owned by Mr. Kao Wai Ho, Francis. Happy Nation Limited is wholly owned by China Link Holding Limited, the entire issued share capital of which 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 excluding, Mr. Kao Wai Ho, Francis are discretionary objects.

2. To the best knowledge of the Directors, having made all reasonable enquiries, the 597,219,634 Shares and 57,734,266 Shares out of Winnington Capital's shareholdings are held by Trophy Fund and Trophy LV Fund, respectively, both capitals of which are managed by Trophy Asset Management Limited, which in turn is wholly owned by Mr. Hung. Trophy Fund is advised by Winnington Capital (delegated management by Trophy Asset Management Limited), which is 50% owned by each of Mr. Hung and his wife, Ms. Chu Jocelyn. In addition, another 28,836,473 Shares out of Winnington Capital's shareholdings are held by FMG Special Opportunity Fund Ltd., which is advised by Winnington Capital. Mr. Hung and Mr. Wong Joon Kwang (a director of Trophy Fund) hold 100,000,000 and 1,290,000 Shares, respectively.

3. Smart Will Investments Limited is ultimately controlled by Lo Hong Sui, Vincent through Bosrich Holdings (PTC) Inc., Shui On Company Limited, Shui On Holdings Limited and Shui On Investment Company Limited. Chu Loletta is the wife of Lo Hong Sui, Vincent and the sister of Chu Jocelyn.

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 ended 30th September 2009.

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. Ms. Ting Chuk Kwan was appointed as a Non-executive Director on 8th May 2009 and was re-designated as an Independent Non-executive Director and appointed as Chairman of the Audit Committee on 5th June 2009. Following Ms. Ting's appointment as an Executive Director and Acting Chief Executive Officer on 23rd September 2009, she stepped down as the chairman of the Audit Committee. Ms. Ting resigned on 1st November 2009. Mr. Oh Kok Chi was appointed as chairman of the Audit Committee on 23rd September 2009. Mr. Paul Steven Serfaty was appointed as a member of the Audit Committee on 23rd September 2009 and has retired as a Non-executive Director at the Annual General Meeting on 17th November 2009 by withdrawing from seeking re-election as a Director and ceased to be a member of the Audit Committee. Currently, members of Audit Committee comprises of Mr. Oh Kok Chi, as chairman of the Audit Committee and Mr. Ng See Yuen.

The said condensed consolidated financial statements for the period covered by this interim report have also been reviewed by the Audit Committee and the Company's external auditors, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Equity" issued by the HKICPA.

CORPORATE GOVERNANCE

The Company is committed to maintain good corporate governance standards and procedures to safeguard the interests of all shareholders and to enhance accountability and transparency. The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the period ended 30th September 2009, except the following deviations.

Under the Code Provision A.4.1, Non-executive directors should be appointed for a specific term, subject to reelection. During the period, 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 retirement of Mr. Paul Steven Serfaty on 17th November 2009 as a Non-executive Director and a member of Audit Committee and the retirement of Mr. Richard Arthur Witts on 17 November 2009 as Independent Non-executive Director, the chairman of the Company and a member of Remuneration Committee, the Company then had two Independent Non-executive Directors and Audit Committee members which fell 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. Currently, members of the Audit Committee are Mr. Oh Kok Chi (chairman of the Committee) and Mr. Ng See Yuen.

The Company then had two remuneration committee members following resignation of Mr. Richard Arthur Witts, 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. Currently members of Remuneration Committee comprises of Mr. Phoon Chiong Kit and Mr. Oh Kok Chi.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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. 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 period ended 30th September 2009.

APPRECIATION

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

On behalf of the Board
Mr. Phoon Chiong Kit
Deputy Chairman and Chief Executive Officer

Hong Kong, 17 December 2009

Deloitte.
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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

Introduction

We have reviewed the interim financial information set out on pages 3 to 26, which comprises the condensed consolidated statement of financial position of Imagi International Holdings Limited and its subsidiaries as of 30th September 2009 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, 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.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for disclaimer of conclusion

As set out in note 1 to the condensed consolidated financial statements, at 30th September 2009, the Group had net current liabilities of approximately HK$20 million and it incurred net losses for the six months to that date of approximately HK$726 million. Based on the financial projections prepared by the Company's management, taking into account the estimated net cash proceeds from the Group's recent worldwide launch of a computer graphic ("CG") animation picture, the Group is required to raise an additional minimum sum of approximately HK$447 million (of which HK$252 million is expected to be utilised within the next 12 months) for it to complete a major CG animation picture in progress to its revenue-generating stage. In order to minimise funding risks, the Group would be seeking project or equity financing to finance the ongoing and new projects. The directors are also actively pursuing various funding options to meet the Group's cash flow requirements including issuance of new equity and loan capital, inviting financing partners and borrowings.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

Basis for disclaimer of conclusion – continued
As set out in note 10 to the condensed consolidated financial statements, the Group has performed an impairment review of the major CG animation picture in progress based on the film's projected future box office and other cash flows and on the assumptions that the Group will be able to raise the necessary funding to finance the production to completion.

However, in the absence of evidence that the Group will be successful in raising the necessary funding as and when it is required, we consider that there is a material uncertainty as to whether the Group will have the necessary financial resources to complete the major CG animation picture in progress, the carrying value of which at 30th September 2009 is approximately HK$419 million, and thereby realise this asset in the normal course of business. In case of a failure to obtain the necessary funding as and when it is required, the Group may not be able to recover the carrying value of this asset and an impairment loss will need to be recognised.

In view of the extent and potential impact of the significant uncertainties described above, we disclaim our conclusion in these respects.

Disclaimer of conclusion

Because of the significance of the matter described in the basis for disclaimer of conclusion paragraphs, we are unable to and do not express any conclusion as to whether the interim financial information for the six months ended 30th September 2009 is prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

17th December 2009