IMAGI INTERNATIONAL HOLDINGS LIMITED

意馬國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 585)

ANNUAL RESULTS ANNOUNCEMENT FOR THE FINANCIAL YEAR ENDED 31ST MARCH 2007

OPERATING RESULTS

The Board of Directors (the "Board") of Imagi International Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the financial year ended 31st March 2007 together with the comparative figures for the corresponding year in 2006 as follows:

Consolidated Income Statement

	Notes	2007 HK$'000	2006 HK$'000
Continuing operation			
Turnover	3	243,485	479
Cost of sales		(331,815)	(6,538)
Gross loss		(88,330)	(6,059)
Other income	5	5,353	3,473
Distribution costs		(2,104)	(633)
Impairment loss recognised in respect of computer graphics ("CG") animation pictures		(8,144)	(19,394)
Administrative and other operating expenses		(40,613)	(47,476)
Finance costs		(4,507)	(1,419)
Loss before taxation	4	(138,345)	(71,508)
Income tax expense	6	(617)	(717)
Loss for the year from continuing operation		(138,962)	(72,225)
Discontinued operation			
Loss for the year from discontinued operation		–	(27)
Loss for the year		(138,962)	(72,252)
Attributable to:			
Equity holders of the Company		(138,923)	(72,214)
Minority interests		(39)	(38)
		(138,962)	(72,252)
Basic loss per share			
From continuing and discontinued operations	7	(HK$0.109)	(HK$0.061)
From continuing operation	7	(HK$0.109)	(HK$0.061)

Consolidated Balance Sheet

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment		64,421	57,191
CG animation pictures		142,075	219,576
Goodwill		3,228	2,799
Interest in an associate		–	–
Available-for-sale investments		3,201	1,201
		212,925	280,767
Current assets			
Inventories		155	–
Trade and other receivables	8	26,968	6,882
Amount due from an associate		–	350
Tax recoverable		771	67
Bank balances and cash		367,584	105,156
		395,478	112,455
Current liabilities			
Other payables		38,186	12,358
Unearned revenue		110	3,976
Tax payable		670	862
Obligations under finance lease – due within one year		59	122
Bank borrowings – due within one year		–	50,000
		39,025	67,318
Net current assets		356,453	45,137
Total assets less current liabilities		569,378	325,904
Non-current liabilities			
Obligations under finance lease – due after one year		175	–
Bank borrowings – due after one year		–	94,463
Convertible notes		54,299	59,748
Deferred tax	6	363	–
		54,837	154,211
Net assets		514,541	171,693
Capital and reserves			
Share capital		144,113	122,035
Reserves		370,428	49,600
Equity attributable to equity holders of the Company		514,541	171,635
Minority interests		–	58
Total Equity		514,541	171,693

Notes:

1. Basis of Preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standards ("HKAS(s)"), Hong Kong Financial Reporting Standards ("HKFRS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared on the historical cost convention except for the measurement of available-for-sale investments at fair value.

2. Application of New and Revised HKFRSs

In the current year, the Group has applied, for the first time, a number of new HKFRSs and amendments issued by the HKICPA, which are either effective for accounting periods beginning on or after 1st December 2005, 1st January 2006 or 1st March 2006. The adoption of the new HKFRSs and amendments had no material effect on how the results and financial positions for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and the financial positions of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 23 (Revised)	Borrowing Costs[6]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[6]
HK(IFRIC)-Int 8	Scope of HKFRS 2[2]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[3]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[4]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions[5]
HK(IFRIC)-Int 12	Service Concession Arrangements[7]

[1] Effective for annual periods beginning on or after 1st January 2007
[2] Effective for annual periods beginning on or after 1st May 2006
[3] Effective for annual periods beginning on or after 1st June 2006
[4] Effective for annual periods beginning on or after 1st November 2006
[5] Effective for annual periods beginning on or after 1st March 2007
[6] Effective for annual periods beginning on or after 1st January 2009
[7] Effective for annual periods beginning on or after 1st January 2008

3. Turnover and Segment Information

Turnover represents the amounts received and receivable for goods sold or services rendered by the Group during the year.

Business segments

During the year ended 31st March 2006, the Group was organised into two operating divisions which formed the basis on which the Group reported its primary segment information:

CG animation pictures division	–	Production, licensing and sales of CG animation pictures
Management consultancy services division	–	Provision of management consultancy services

Subsequent to 31st March 2006, the Directors resolved to cease the Group's management consultancy services operation. Accordingly, no business segment analysis is presented for the year ended 31st March 2007 as less than 10% of the Group's turnover and results were contributed by activities other than the production, licensing and sales of CG animation pictures.

Segment information about the two operating divisions for the year ended 31st March 2006 is presented below:

CONSOLIDATED INCOME STATEMENT
For the year ended 31st March 2006

	Continuing operation	Discontinued operation	
	CG animation pictures	**Management consultancy services**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*
TURNOVER			
External sales	479	6,167	6,646
RESULTS			
Segment results	(26,086)	(27)	(26,113)
Other income			3,473
Unallocated corporate expenses			(47,476)
Finance costs			(1,419)
Loss before taxation			(71,535)
Income tax expense			(717)
Loss for the year			(72,252)

Geographical segments
Analysis of the Group's turnover by geographical segments is as follows:

	Total turnover	
	2007	**2006**
	HK$'000	*HK$'000*
North America	124,364	-
Other than North America	119,121	6,646
	243,485	6,646

4. Loss Before Taxation

	2007	2006
	HK$'000	*HK$'000*
Continuing operation		
Loss before taxation has been arrived at after charging:		
Directors' emoluments	21,113	23,966
Other staff costs	92,203	67,101
Equity-settled share-based payments expenses other than Directors	19,953	15,410
Total staff costs	133,269	106,477
Less: amounts capitalised in CG animation pictures and inventories	(109,635)	(69,547)
	23,634	36,930
Depreciation of property, plant and equipment	16,729	13,518
Less: amounts capitalised in CG animation pictures and inventories	(15,354)	(12,341)
	1,375	1,177
Rentals in respect of premises under operating leases	8,399	5,934
Less: amounts capitalised in CG animation pictures and inventories	(7,653)	(5,049)
	746	885
Auditor's remuneration:		
Current year	1,100	938
Overprovision in previous year	–	(10)
Amortisation of CG animation pictures (included in cost of sales)	330,006	5,619
Loss on disposal of property, plant and equipment	218	221
Cost of inventories recognised as expenses	1,762	919
Net foreign exchange losses	423	123
and after crediting:		
Bank interest income	3,755	1,375

5. Other Income

Included in other income for the year ended 31st March 2007 is a tax refund of HK$1,590,000 (2006: HK$2,078,000) from Boto International Holdings Limited ("BIHL"). On 23rd August 2002, the Group disposed of its Christmas festive products and leisure furniture businesses to BIHL (the "Disposal"). Immediately subsequent to the Disposal, the Group acquired an equity interest in BIHL and thereafter BIHL became an associate of the Group. Pursuant to the relevant Disposal agreements, in the event that BIHL or any of the disposed subsidiaries receives any tax relief or refund of any tax paid which is attributable to the above disposed businesses and to any period prior to 23rd August 2002, BIHL or such respective subsidiary shall pay to the Group a sum equal to such tax relief or refund.

6. Income Tax Expense

	2007	2006
	HK$'000	*HK$'000*
The charge comprises:		
Continuing operation		
Hong Kong Profits Tax		
The Company and its subsidiaries		
– Current tax	4	–
– Overprovision in prior years relating to a tax settlement	–	(191)
– Other underprovision in prior years	–	3
	4	(188)
Other jurisdictions		
The Company and its subsidiaries		
– Current tax	676	1,164
– Overprovision in the prior year	(426)	(259)
	250	905
Deferred tax	363	–
Total	617	717

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

No tax is payable on the result for the prior year arising in Hong Kong since there was no assessable profit for prior year.

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

7. Loss Per Share

From continuing and discontinued operations

The calculation of the basic loss per share is based on the loss attributable to equity holders of the Company for the year of HK$138,923,000 (2006: HK$72,214,000) and on the weighted average number of 1,279,316,192 (2006: 1,174,412,175) shares in issue during the year.

For the purpose of calculating basic loss per share for 2006, the weighted average number of ordinary shares has been adjusted for the effect of the share subdivision of the Company on 22nd September 2006.

No diluted loss per share for each of the years ended 31st March 2006 and 2007 are presented as the exercise of share options and the conversion of convertible notes would result in a decrease in loss per share.

From continuing operation

The calculation of the basic loss per share from continuing operation attributable to the equity holders of the Company is based on the following data:

Loss figures are calculated as follows:

	2007	2006
	HK$'000	*HK$'000*
Loss for the year attributable to equity holders of the Company	138,923	72,214
Less: Loss for the year from discontinued operation attributable to equity holders of the Company	–	(27)
Loss for the purpose of basic loss per share from continuing operation	138,923	72,187

The denominators used are the same as those detailed above for basic loss per share from continuing and discontinued operations.

From discontinued operation

For the year ended 31st March 2006, basic loss per share from the discontinued operation is insignificant, based on the loss for the year from the discontinued operation attributable to the equity holders of the Company of HK$27,000 and the denominators detailed above for basic loss per share from continuing and discontinued operations.

8. 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 0 to 90 days.

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

	2007	2006
	HK$'000	*HK$'000*
Total trade receivables		
– 0 to 30 days	6,647	–
– 31 to 60 days	1,207	–
– Over 60 days	11,661	39
Other receivables	7,453	6,843
Total	26,968	6,882

Trade and other receivables included HK$5,653,000 (2006: Nil) that are denominated in US$725,000 (2006: Nil) at the balance sheet date.

FINAL DIVIDEND

The Board does not recommend the payment of a dividend for the year ended 31st March 2007 (2006: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Financial

Over 98.9%, representing HK$240.7 million, of this year's turnover was contributed from the full completion and delivery of one CG animation film, namely *TMNT (stands for "Teenage Mutant Ninja Turtles")* and one 2D anime film, namely *The Highlander: The Search for Vengeance ("Highlander"),* to our distributors in the first quarter of 2007. As such, total turnover of the Group increased substantially to HK$243.5 million for the year ended 31st March 2007 representing an increase of over 36 times in comparison with HK$6.6 million for the year ended 31st March 2006.

Taking into effect film amortization, which was allocated by the percentage from the actual revenue over the projected revenue by the management, the costs of production for these two animation films were approximately HK$330.0 million. With the inclusion of amortization cost, the net loss attributable to the shareholders for the year ended 31st March 2007 was HK$138.9 million compared with a loss of HK$72.2 million last year.

The loss for the year reflects:

(1) the adoption of a prudent amortization policy, which takes a more conservative approach that includes a write-down of the vast majority of the films that entered distribution in 2007;

(2) expenses of HK$9.0 million recognized in relation to share options granted to employees by the Group as part of its incentive scheme; and

(3) an impairment loss on game projects of HK$8.1 million recognized in light of recent market conditions.

Visual effects and video game development are the two other lines of business with which the Group has been involved due to the similarity in certain skill sets, technologies and infrastructure requirements between CG films, visual effects and video games. The revenue derived from the visual effects division was around HK$1.8 million for the year ended 31st March 2007, showing an increase of around 260% compared with HK$0.5 million last year. The game development division has developed one new game which may be released to the market and start to generate revenue in the coming financial year.

Corporate

During the year, there were three corporate activities conducted by the Group:

1. On 22nd September 2006, the Company successfully completed the share subdivision, whereby both the issued and unissued shares of HK$0.50 each in the share capital of the Company was subdivided into 5 Subdivided Shares of HK$0.10 each. The Board believed the share subdivision could further enhance the trading liquidity of the Company's share in Hong Kong Stock Exchange and thereby would attract more investor interest and widen on the shareholders' base.

2. On 15th January 2007, Sunni International Limited (the "Vendor"), being the controlling shareholder of the Company, CLSA Limited (the "Placing Agent") and the Company entered into a placing agreement (the "Placing Agreement") pursuant to which the Placing Agent agreed to procure, as agent of the Vendor, purchasers for up to 125,000,000 shares of the Company (the "Placing Shares") at HK$3.50 (the "Placing Price") per Placing Share on a best-endeavour basis. The placing, in respect of the total of 125,000,000 Placing Shares, was completed on 18th January 2007. The total 125,000,000 Placing Shares were placed to not fewer than six placees, who were independent third parties and not connected persons (as defined under the Listing Rules) of the Group.

   On 15th January 2007, the Vendor also entered into a subscription agreement (the "Subscription Agreement") with the Company pursuant to which the Vendor had agreed to subscribe for, and the Company had agreed to allot and issue to the Vendor, the Subscription Shares (the number of which should be equivalent to the number of Placing Shares successfully placed by the Placing Agent pursuant to the Placing Agreement) at HK$3.50 (the "Subscription Price") per Subscription Share, which was the same as the Placing Price. This subscription was completed on 26th January 2007 and the net proceeds from the subscription amounted to HK$428.1 million which would be used to fund the development of new CG animation feature film projects and the expansion of studios in both Hong Kong and the U.S..

3. On 28th March 2007, one of our convertible note holders, Mr. Kao Cheung Chong, Michael ("Mr. Kao"), Chairman of the Company, exercised his right given under the convertible note to convert HK$10 million of the principal amount outstanding into 29,411,765 shares of HK$0.10 each in the capital of the Company at the conversion price of HK$0.34. After such conversion, Mr. Kao still effectively holds HK$10 million in principal amount of convertible notes.

PROSPECTS

Imagi's first CG-animated theatrically released feature film, *TMNT*, debuted at number one at the U.S. box office in its opening weekend in March 2007 and subsequently exceeded US$90 million in worldwide exhibition revenue. *TMNT* will be released on DVD in North America on 7th August 2007.

As *TMNT* opened, Imagi announced a significant expansion of the creative team at both the U.S. satellite and Hong Kong headquarters, spearheaded by the appointment of Ms. Cecil Kramer as Executive Vice President of Production. Among many other credits, Ms. Kramer served as an executive producer on *Wallace & Gromit: The Curse of the Were-Rabbit*, which won the 2005 Academy Award® for Best Animated Feature Film.

With the increase in capacity of the production pipelines on both sides of the Pacific, Imagi is now on track to deliver one theatrical release CG motion picture approximately every eight months, starting with the completion of *Gatchaman* in late 2008, and followed by *Astro Boy* in mid-2009.

To accommodate the increased story development requirements, Imagi's U.S. production crew will expand to over 100 staff by end of 2007.

Imagi's development group is headed by Mr. Paul Wang, Executive Vice President of Development. Mr. Wang's group evaluates and develops candidate properties for future productions. Among the projects in the development group is *TMNT 2,* along with other licensed and original properties appealing to Imagi's 8 to 18-year-old core audience.

In keeping with Imagi's focus on superhero-themed action movies, the next two motion pictures will be the aforementioned *Gatchaman* and *Astro Boy*, both proven properties that have gained a worldwide following. Budget of each film is approximately US$40 million.

Based on the successful Japanese anime franchise created by Mr. Tatsuo Yoshida (*Speed Racer*) in 1972, *Gatchaman* revolves around a team of five young superhero ninjas who are called upon to save the world from alien invaders. With over 200 TV episodes, *Gatchaman* has delighted fans around the world for more than 30 years. The property's popularity in the U.S. and Europe stems from dubbed versions of the TV series released as *Battle of the Planets* and *G-Force*.

Gatchaman is being directed by *TMNT's* Director, Mr. Kevin Munroe, and produced by Ms. Lynne Southerland. Mr. Robert Mark Kamen, a veteran screenwriter whose credits include *The Karate Kid* and its sequels, *The Fifth Element* and *The Transporter* movies, is writing the screenplay for *Gatchaman*.

Gatchaman will push the visual boundaries of CG animation through dynamic camerawork, special effects and action sequences. *Gatchaman* is targeted as a must-see film for teenagers and gamers.

Created by the "father of anime" Mr. Osamu Tezuka, *Astro Boy* originated as a manga in 1952. The animated series first aired in 1963 on Japanese and American TV – as well as around the world – to great acclaim and success. Its popularity grew when in the 1980s and 2003 two new *Astro Boy* television series were released. *Astro Boy* is one of the best known and most iconic characters in the world, and one of the top licensed properties for merchandising.

Astro Boy tells the timeless story of a young robot boy created by a brilliant scientist in the image of the son he has lost. *Astro Boy* embarks on a journey to find acceptance in the human world and to learn how to use his powers for good.

Directed by Mr. Colin Brady, *Astro Boy* is a story that will appeal to all ages, full of heart and exciting action. Ms. Maryann Garger is producing.

Media announcements about the talent signed, creative evolution, and other news pertaining to *Gatchaman* and *Astro Boy* will be regularly posted on our website.

Imagi has secured the services of the William Morris Agency, the largest and most diversified entertainment industry agency in the world. In concert with the William Morris Agency, Imagi is in negotiation with major studio partners for distribution of future movies. Discussions are also underway with potential licensees for games, toys, merchandising and other promotional partners.

Technologically, Imagi stays at the cutting edge of CG animation through development of proprietary software. Research and development continue to be essential elements in bringing innovative computer graphics to our movies.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has built up a very solid liquidity position after the successful shares placement in January 2007 coupled with the revenue generated from the Company's films. The Group's cash deposits and bank balances as at 31st March 2007 amounted to approximately HK$367.6 million (2006: HK$105.2 million). All bank loans were repaid in March 2007 immediately after receiving the cash revenue generated from *TMNT* and *Highlander*. Backed by existing available banking facilities amounting to approximately HK$80 million, the Group will have sufficient financial resources to fund its operations and future expansion.

Furthermore, the Group has maintained a sound capital structure with a current ratio of 10.1 (2006: 1.7) and successfully trimmed down the gearing ratio, measured as total debts over total assets, from 56.3% for the year ended 31st March 2006 to 15.4% for the year ended 31st March 2007.

FOREIGN EXCHANGE EXPOSURE

Major portions the Group's transactions were predominately denominated in Hong Kong dollars, US dollars, Euros and Japanese Yen. No hedging or other instruments to minimize currency risks were adopted during the year. However, a close monitoring of political, economic, and business factors is conducted frequently and periodically, taking into consideration all of the Group's foreign exchange exposures, as well as our business plan with relevant countries exposed. The Group will adopt financial instruments including derivative available in the market to hedge against foreign currency risk when it is necessary.

PLEDGE OF ASSETS

At 31st March 2007, the Group did not pledge any of its assets.

CONTINGENT LIABILITIES

At 31st March 2007, no significant contingent liabilities were reported.

HUMAN RESOURCES

At 31st March 2007, the total workforce of the Group was about 400 full-time staff worldwide and, of which, around 350 are production staff and 50 are supporting staff. Remuneration policies are reviewed regularly to ensure that compensation and benefit packages are in line with and remain competitive to the market of the respective countries where the Group has operations. Remuneration packages of Directors and senior management are reviewed and approved by the Remuneration Committee formed by two Independent Non-Executive Directors and one Executive Director of the Company. In addition to the basic salary, incentives in the form of bonuses and share options may also be offered to eligible employees on the basis of individual performance and at the discretion of the Board.

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

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 15th August 2007 to 17th August 2007, both days inclusive, and during the period no transfer of shares will be effected.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31st March 2007.

AUDIT COMMITTEE

The Audit Committee meets regularly with the Group's senior management and the external auditors to consider and review the Group's financial statements, the nature and scope of audit reviews, the effectiveness of the system of internal controls and compliance, and to make recommendations to the Board. The members of the Audit Committee are Mr. Oh Kok Chi (Chairman of the Committee), Mr. Lai Chi Kin, Lawrence and Mr. Ng See Yuen. The Group’s final results for the year ended 31st March 2007 have been reviewed by the Audit Committee.

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 financial year ended 31st March 2007 except the following deviation.

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

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 year ended 31st March 2007.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the websites of the Company (www.imagi.com.hk) and the Stock Exchange (www.hkex.com.hk). An annual report for the year ended 31st March 2007 containing all the information required by the Listing Rules will be dispatched to shareholders of the Company and available on the same websites in due course.

On behalf of the Board
Kao Wai Ho, Francis
Deputy Chairman,
Co-Chief Executive Officer &
Chief Creative Officer

Hong Kong, 9th July 2007

* *For identification only*

As at the date of this Announcement, the Board comprises:

Executive Directors:	Mr. Kao Cheung Chong, Michael *(Chairman)* Mr. Kao Wai Ho, Francis *(Deputy Chairman, Co-Chief Executive Officer and Chief Creative Officer)* Mr. Douglas Esse Glen *(Co-Chief Executive Officer and Chief Production Officer)* Mr. Tse Chi Man, Terry *(President and Chief Financial Officer)* Mr. Thomas Knox Gray
Non-Executive Director:	Mr. Lam Pak Kin, Philip
Independent Non-Executive Directors:	Mr. Lai Chi Kin, Lawrence Mr. Ng See Yuen Mr. Oh Kok Chi