# IMAGI INTERNATIONAL HOLDINGS LIMITED
# 意 馬 國 際 控 股 有 限 公 司 *

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 00585)**

## INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2008

The board of directors (the "Board") of Imagi International Holdings Limited (the "Company") hereby announces the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th September 2008 together with the unaudited comparative figures for the corresponding period in 2007 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

| | | Six months ended 30th September | |
|---|---|---|---|
| | | **2008** | 2007 |
| | *NOTES* | ***HK$'000*** | *HK$'000* |
| | | **(Unaudited)** | (Unaudited) |
| Turnover | *3* | **1,561** | 12,502 |
| Cost of sales | | **(2,286)** | (18,297) |
| Gross loss | | **(725)** | (5,795) |
| Other income | | **545** | 5,089 |
| Administrative expenses | | **(21,711)** | (24,031) |
| Finance costs | | **(54)** | (2,102) |
| Loss before taxation | *4* | **(21,945)** | (26,839) |
| Income tax credit (expense) | *5* | **124** | (226) |
| Loss for the period | | **(21,821)** | (27,065) |
| Basic loss per share | *7* | **(1.33 HK cents)** | (1.86 HK cents) |

* *For identification purpose only*

## CONDENSED CONSOLIDATED BALANCE SHEET

| | NOTE | At 30th September 2008 HK$'000 (Unaudited) | At 31st March 2008 HK$'000 (Audited) |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | | **76,777** | 86,364 |
| Computer graphic animation pictures | | **635,462** | 463,757 |
| Goodwill | | **3,228** | 3,228 |
| Rental deposits | | **10,935** | 9,644 |
| Club debentures | | **3,261** | 3,201 |
| | | **729,663** | 566,194 |
| Current assets | | | |
| Trade and other receivables, deposits and prepayments | *8* | **6,993** | 12,142 |
| Tax recoverable | | **814** | 666 |
| Bank balances and cash | | **88,859** | 175,530 |
| | | **96,666** | 188,338 |
| Current liabilities | | | |
| Other payables and accruals | | **16,873** | 20,257 |
| Unearned revenue | | **62** | 67 |
| Tax payable | | **345** | 593 |
| Obligations under finance lease – due within one year | | **691** | 670 |
| | | **17,971** | 21,587 |
| Net current assets | | **78,695** | 166,751 |
| Total assets less current liabilities | | **808,358** | 732,945 |
| Non-current liabilities | | | |
| Obligations under finance lease – due after one year | | **1,684** | 2,034 |
| Convertible notes | | **91,858** | 83,095 |
| Deferred tax | | **9,452** | 9,973 |
| | | **102,994** | 95,102 |
| Net assets | | **705,364** | 637,843 |
| Capital and reserves | | | |
| Share capital | | **172,875** | 163,795 |
| Reserves | | **532,489** | 474,048 |
| Total equity attributable to equity holders of the Company | | **705,364** | 637,843 |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
*FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2008*

### 1. BASIS OF PREPARATION OF FINANCIAL INFORMATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standards 34, "Interim Financial Reporting".

The Group is principally engaged in the production of computer graphic ("CG") animation pictures for licensing and sale. At 30th September 2008, the CG animation pictures in progress amounted to approximately HK$635 million and it is expected that further HK$512 million cash outlays will have to be incurred to complete the pictures and to meet the Group's daily operating expenditures in coming years up to June 2010 (of which approximately HK$353 million is required within the next twelve months) before revenue from the animation pictures is generated.

At 30th September 2008, the Group had bank and cash balances of approximately HK$88.9 million. Subsequent to the balance sheet date, on 10th November 2008, the Company entered into two subscription agreements with an independent third party not connected to the Group, in relation to the subscription of 190,000,000 shares and 200,000,000 shares, respectively, in the Company, at a subscription price of HK$0.40 per share. Pursuant to an amendment to the long-stop date in the subscription agreement, the conditions precedent of the subscriptions are expected to be fulfilled on or before 23rd December 2008 and 31st December 2008 respectively, and result in net proceeds of approximately HK$155,500,000. Details of the subscriptions are set out in the Company's announcements dated 12th November and 2nd December 2008.

Completion in full of the above-mentioned subscriptions may, however, result in the exercise of the early redemption right by the holders of the Company's convertible note.

At present, the directors are actively pursuing further funding sources to meet the Group's cash flow requirements, including further placement of shares, pre-sale/licensing of, and inviting financing partners for, the animation pictures.

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

Provided that the Group is able to obtain the necessary financing in a timely manner, the directors also believe that the Group will continue to operate as a going concern and have the ability to complete the CG animation pictures in progress and meet its other financial obligations.

### 2. PRINCIPAL ACCOUNTING POLICIES

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

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 2008.

In the current interim period, the Group has applied, for the first time, the following new standard and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1st April 2008.

| | |
|---|---|
| HKAS 39 & HKFRS 7 (Amendments) | Reclassification of Financial Assets |
| HK(IFRIC)-Int 12 | Service Concession Arrangements |
| HK(IFRIC)-Int 14 | HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction |

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

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) | Improvements to HKFRSs[1] |
| HKAS 1 (Revised) | Presentation of Financial Statements[2] |
| HKAS 23 (Revised) | Borrowing Costs[2] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[3] |
| HKAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation[2] |
| HKAS 39 (Amendment) | Eligible Hedged Items[3] |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an Investment in a subsidiary, Jointly Controlled Entity or Associate[2] |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations[2] |
| HKFRS 3 (Revised) | Business Combinations[3] |
| HKFRS 8 | Operating Segments[2] |
| HK(IFRIC)-Int 13 | Customer Loyalty Programmes[4] |
| HK(IFRIC)-Int 15 | Agreements for the Construction of Real Estate[2] |
| HK(IFRIC)-Int 16 | Hedges of a Net Investment in a Foreign Operation[5] |
| HK(IFRIC)-Int 17 | Distribution of Non-cash Assets to Owners[3] |

[1] Effective for annual periods beginning on or after 1st January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1st July 2009
[2] Effective for annual periods beginning on or after 1st January 2009
[3] Effective for annual periods beginning on or after 1st July 2009
[4] Effective for annual periods beginning on or after 1st July 2008
[5] Effective for annual periods beginning on or after 1st October 2008

The adoption of Hong Kong Financial Reporting Standard 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

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

## 3. SEGMENT INFORMATION

The Group is operating in a single business of production, licensing and sales of CG animation pictures of which revenue for the period was mainly generated from the United States of America. The revenue, operating results and assets relating to other countries other than United States of America are collectively and individually below 10% of the total revenue, total results and total assets respectively. Accordingly, no disclosure on segment information is presented.

## 4. LOSS BEFORE TAXATION

| | Six months ended 30th September | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Loss before taxation has been arrived at after charging: | | |
| Depreciation of property, plant and equipment | **13,234** | 9,781 |
| Less: amounts capitalised in CG animation pictures | **(12,483)** | (8,899) |
| | **751** | 882 |
| Amortisation of CG animation pictures (included in cost of sales) | **2,286** | 17,731 |

## 5. INCOME TAX (CREDIT) EXPENSE

| | Six months ended 30th September | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| (Over) underprovision in prior years in other jurisdictions | **(124)** | 226 |

On 26th June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the reduction in corporate profit tax rate by 1% to 16.5% effective from the year of assessment 2008/2009. The effect of such decrease has been reflected in measuring the current and deferred tax for the six months ended 30th September 2008. The current Hong Kong Profits Tax rate is 16.5% (2007: 17.5%).

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.

## 6. DIVIDEND

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

## 7. LOSS PER SHARE

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

| | Six months ended 30th September | |
|---|---|---|
| | **2008** | 2007 |
| Loss for the period attributable to equity holders of the Company | **(HK$21,821,000)** | (HK$27,065,000) |
| Number of shares: | | |
| Weighted average number of ordinary shares for the purpose of calculating basic loss per share | **1,642,505,219** | 1,455,758,273 |

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

## 8. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

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 following is an aging analysis of trade receivables at the balance sheet dates:

| | **30th September 2008** *HK$'000* | 31st March 2008 *HK$'000* |
|---|---|---|
| 0 to 60 days | **–** | 415 |
| Over 60 days | **–** | 1,636 |
| Total trade receivables | **–** | 2,051 |
| Other receivables, deposits and prepayment | **6,993** | 10,091 |
| | **6,993** | 12,142 |

## 9. CAPITAL COMMITMENTS

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

| | **30th September 2008** *HK$'000* | 31st March 2008 *HK$'000* |
|---|---|---|
| Capital expenditure in respect of CG animation pictures authorised but not contracted for in the consolidated financial statements | **162,004** | 301,771 |
| Capital expenditure in respect of CG animation pictures and property, plant and equipment contracted for but not provided in the consolidated financial statements | **9,439** | 8,500 |

## 10. CONTINGENT LIABILITY

A former senior executive of a subsidiary of the Company filed a demand for arbitration with the America Arbitration Association against the subsidiary, alleging breach of a written agreement to entitle the former senior executive a guaranteed price to the shares of the Company he held. The former senior executive contends the subsidiary owes him the difference between the guaranteed price and the open market price of approximately HK$2,500,000 (US$318,411). The subsidiary and its consel are resisting this claim and, accordingly, no provision for any potential liability has been made in these condensed consolidated financial statements.

## EXTRACT FROM REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION BY THE EXTERNAL AUDITORS

### Basis for disclaimer of conclusion

As set out in note 1 to the condensed consolidated financial statements, at 30th September 2008, the Group had bank and cash balances of approximately HK$88.9 million, while it is expected to incur approximately HK$512 million cash outlay to complete its animation pictures and to meet its daily operating expenses in coming years up to June 2010 (of which approximately HK$353 million is required within the next twelve months) before revenue from the animation pictures is generated. The directors are actively pursuing various funding sources to meet the Group's cash flows requirements, including (i) entering into two share subscription agreements with an independent third party which, subject to fulfillment of the conditions precedent, are expected to raise approximately HK$156 million for the Group; and (ii) other negotiations regarding further placement of shares, pre-sale/licensing of, and inviting financing partners for, the animation pictures.

However, it is uncertain whether these fund raising exercises will be successful. In addition, completion in full of the above-mentioned subscription agreements may result in the early redemption of the convertible note included in the condensed consolidated balance sheet. Consequently, 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 which may cast significant doubt on the Group's ability to operate as a going concern. This uncertainty also affects the recoverability of the carrying amount of the computer graphic animation pictures included in the condensed consolidated balance sheet as non-current assets, as it is uncertain whether the Group will have the necessary financial resources to complete these animated pictures, and thereby realise this asset in the normal course of business.

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 above paragraphs, we are unable to and do not express any conclusion as to whether the condensed consolidated financial information for the six months ended 30th September 2008 is prepared, in all material respects, in accordance with HKAS 34.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

For the six months ended 30th September 2008, the Group reported a turnover of HK$1.6 million, representing a decrease of approximately 87% as compared to HK$12.5 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 2008 was HK$21.8 million, a decrease of 20% as compared to HK$27.1 million for the same period of last year.

**Corporate**

*The Subscription for the Oxley Convertible Notes*

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

*Subscription of Shares by Oxley*

On 2nd July 2008, the Company and Oxley Spring Media Limited ("**Oxley**") entered into the subscription agreements pursuant to which the Company has agreed to issue, and Oxley has agreed to subscribe for, 181,395,349 shares of the Company (the "**Shares**") and 181,395,349 Shares pursuant to the first and the second subscription agreements, respectively, at a subscription price of HK$0.86 per subscription Share. On 7th August 2008, the Company and Oxley entered into supplemental agreements to delay the completion for the first and second subscription agreements to 29th August 2008 and 30th September 2008 respectively. However, on 29th August 2008, the Company did not receive any subscription money from Oxley relating the first subscription agreement. Accordingly, completion for the first subscription agreement has not taken place and the first subscription agreement has terminated. Besides, the conditions precedent to completion of the second subscription agreement could not be satisfied in full in accordance with the second subscription agreement (as amended by the supplemental agreement) and the second subscription agreement has been terminated automatically on 23rd September 2008 in accordance with the terms thereof.

*Secondary Listing on the International OTCQX*

The Company has appointed Merriman Curhan Ford & Co. (the "**US Financial Adviser**"), an investment bank registered with the Securities and Exchange Commission of the United States of America (the "**United States**"), as its financial advisor in connection with its proposed application of the Company's shares for listing on the International OTCQX tier in the United States and the Company has made an application for listing of the existing ordinary shares of a nominal value of HK$0.10 each in the share capital of the Company on the International OTCQX (the "**Proposed Secondary Listing**") and instructed the US Financial Adviser to make a filing with the applicable regulators for the Proposed Secondary Listing on 18th July 2008 (United States time). The International OTCQX provides a gateway to securities markets in the United States for international companies that are listed on a qualified international exchange and provide ongoing disclosure to investors in the United States.

*Subscription of Shares by Smart Will*

On 2nd September 2008, the Company and Smart Will Investments Limited ("**Smart Will**") entered into the subscription agreement pursuant to which the Company has agreed to issue, and Smart Will has agreed to subscribe for 90,600,000 Shares at the HK$0.86 each. The Company has been informed by Sunni International Limited ("**Sunni**"), a controlling shareholder of the Company, has executed the deed poll on 2nd September 2008, pursuant to which upon completion of the subscription, it would transfer the gift Shares (being 40,000,000 Shares) to Smart Will by way of gift at nil consideration. The Company has further been informed by Sunni that it has executed another deed poll on 5th September 2008 pursuant to which it would, on or before 22nd September 2008, transfer the further gift Shares (being 30,000,000 Shares) to Smart Will by way of gift at nil consideration. The net proceeds from the issue of the subscription Shares, after deduction of related expenses payable by the Company, was approximately HK$77,500,000. The Directors intended that the net proceeds would be used for the development of four full length feature computer graphics imagery animation movies scheduled tentatively to be released from 2009 to 2011.

*Subscription of Shares by Mehta-Imagi LLC*

On 5th September 2008, the Company and Mehta-Imagi LLC ("**Mehta**") entered into the subscription agreement pursuant to which the Company has agreed to issue, and Mehta has agreed to subscribe for 181,200,000 new Shares at HK$0.86 each. The Company has been informed by Sunni that it has executed the deed poll on 5th September 2008, pursuant to which it would, on or before 30th September 2008, transfer the 140,000,000 Shares to Mehta by way of gift at nil consideration. On 29th September 2008, the Board received from the legal advisers of Mr. Kao Wai Ho, Francis ("**Mr. Kao**"), a copy of the facsimile issued on 27th September 2008 by the High Court of Hong Kong advising that an order (the "**Order**") granted by the court should continue until trial or further order by the court. The Board understood that pursuant to the Order, Mr. Kao had been restrained from causing or procuring Sunni to transfer or complete the transfer of the gift Shares to Mehta in accordance with the deed poll. Mr. Kao and Sunni could not anticipate the time-frame when the relevant condition precedent could be fulfilled due to the Order, the Company and Mehta could not agree on other time or date for the fulfillment of the relevant condition precedent of the subscription agreement. Thus, the Company and Mehta acknowledged that the subscription agreement should lapse in accordance with its terms.

*Subscription of Shares by MPI-Imagi LLC*

On 29th September 2008, the Company and MPI-Imagi LLC ("**MPI**") entered into the subscription agreement pursuant to which the Company has agreed to issue, and MPI has agreed to subscribe for 377,938,144 new Shares at HK$0.485 each. MPI has also agreed to grant to the Company a loan facility of US$23,500,000 (the "**Loan**") pursuant to a facility letter dated 3rd October 2008 and that the Loan would form the entire subscription money payable by MPI to the Company upon the fulfillment of the conditions precedent as set out in the subscription agreement. The Company should seek approval from the shareholders of the Company (the "**Shareholders**") for the issue and allotment of the subscription Shares at a special general meeting of the Company (the "**SGM**") to be convened for approving the subscription agreement by way of poll. On 7th November 2008, the ordinary resolution approving the allotment and issue of the subscription Shares to MPI pursuant to the subscription agreement as set out in the notice of SGM was not passed by the Shareholders. As a result, the subscription agreement became null and void. The Company has not drawn down from MPI any portion of the Loan as the subscription agreement has not become unconditional, the Company was not required to repay any part of the loan nor any interest.

*Further Subscription of Shares by MPI-Imagi LLC*

On 10th November 2008, the Company and MPI entered into the subscription agreements pursuant to which the Company has agreed to issue, and MPI has agreed to subscribe for, 190,000,000 Shares and 200,000,000 Shares pursuant to the first and the second subscription agreements, respectively, at a subscription price of HK$0.40 per subscription Share. The completion for the first and the second subscription agreements will be taken place on 2nd December 2008 and 31st December 2008 respectively. The Company shall seek approval from the Shareholders for the allotment and issue of the subscription Shares for the second subscription agreement at the SGM to be convened for approving such specific mandate by way of poll.

Due to factors beyond the Company's control, the conditions precedent for the first subscription agreement have not become fulfilled on or before 2nd December 2008. Therefore, the Company and MPI entered into a supplemental agreement on 2nd December 2008 for the purposes of extending the long stop date to 23rd December 2008 (or such other date as the Company and MPI may agree in writing) in order to allow more time for the fulfilment of the conditions precedent.

In response to the Shareholders' concerns and reservations in relation to voting for the resolution in the SGM held on 19th December 2008 and enable them to have in hand the latest financial information before the voting, the chairman of the SGM, with the consent of the Shareholders, adjourned the SGM until further notice.

The net proceeds from the issue of the subscription Shares, after deduction of related expenses payable by the Company, will be approximately HK$155.5 million. The Directors intend that the net proceeds will be used for the production of the feature film Astro Boy and for the development and pre-production of films that will enter production after the completion of Astro Boy.

**CG Animation Pictures**

*Astro Boy*

Santa Monica based Summit Entertainment and Imagi Studios have entered into a global alliance for the global distribution of Imagi's upcoming CG-animated motion picture *Astro Boy*, except for Imagi's reserved territories of Japan, Hong Kong and China. Summit Entertainment currently plans to release the film on October 23, 2009 in North America and many other markets. In Japan, *Astro Boy* will be released by Kadokawa Entertainment.

The release of Astro Boy will be accompanies by a wide variety of promotional and licensing activity. A leading quick service restaurant partner will offer customers a selection of *Astro Boy* action figures with special meal packages. American Greetings, D3 Games, Penguin Group, and IDW Publishing will market a variety of products based on the *Astro Boy* movie.

*Astro Boy* will feature the voices of Academy Award®-winning actor Nicolas Cage, Bill Nighy, Kristen Bell, Donald Sutherland, Nathan Lane and Eugene Levy with Freddie Highmore in the title role. David Bowers is directing from a screenplay written by Timothy Harris, with Maryann Garger producing.

*Gatchaman*

Slated for release in the Fall of 2010, *Gatchaman* like *Astro Boy* is based on a classic Japanese anime property. Under the supervision of Dr. Nambu and the International Science Organization, five adolescent superheroes race to unlock their remarkable hidden powers. They are earth's last hope against an invasion of bloodthirsty aliens known as Galactor under control of super villain, Katse.

Gatchaman is directed by Tommy Tanaka and Steve Lumley from a script by Tom Rogers, with Paul Wang producing.

*Tusker*

*Tusker* does for Elephants what *The Lion King* did for Lions. Set against a beautiful India landscape, Tusker is a heartwarming and exhilarating road film, pairing a world-weary old warrior elephant with a courageous young female elephant. Together, they overcome adversity and free the herd from a group of callous poachers.

Tusker is directed by Lorna Cook from a script by Ted Talley, with Brooke Breton producing.

**Prospects**

Imagi's prospects in development include *Cat Tale*, a delightful all-family film about a baby cat whose cradle gets switched and ends up being raised as a dog.

Imagi has secured the services of the William Morris Agency, the largest and most diversified talent and literary agency in the world. With the assistance of William Morris, Imagi is constantly exploring new opportunities for film properties, promotional alliances, and talent relationships.

Technologically, Imagi stays at the cutting edge of computer graphic animation through research and development activities at both the Hong Kong and Los Angeles facilities. Imagi develops proprietary software to enhance all aspects of animation, modelling, lighting and effects. In addition, Imagi explores alliances with best-of-class developers of technologies including motion capture, pre-visualization, and digital asset management.

Imagi plans to produce its future films in Stereo 3D to capitalize on the growing number of screens that offer immersive 3D experiences. *Astro Boy* will have its most exciting sequences delivered in Stereo 3D, while *Gatchaman* and *Tusker* will be delivered in 100% Stereo 3D.

### Liquidity and Capital Resources

As at 30th September 2008, the Group's cash deposits and bank balances amounted to approximately HK$88.9 million (31st March 2008: 175.5 million). At as the period end date, the Group's current ratio is 5.4 (31st March 2008: 8.7) and a gearing ratio, measured as total debts over total assets, is 14.6% (31st March 2008: 15.5%).

### 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

At 30th September 2008, the Group did not pledge any of its assets.

### Human Resources

As at 30th September 2008, the Group employed over 530 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. The Group believes that staff is its most valuable asset.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period ended 30th September 2008.

## AUDIT COMMITTEE

The Audit Committee meets regularly with the Group's senior management and the external auditors to consider and review the Group's financial statements, the nature and scope of audit reviews, the effectiveness of the system of internal controls and compliance, and to make recommendations to the Board. The members of the Audit Committee are Mr. Oh Kok Chi (Chairman of the Committee) and Mr. Ng See Yuen.

The said condensed consolidated financial statements for the period covered by this interim announcement 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 Entity" 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 2008, except the following deviations.

Under the Code Provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. During the period, none of 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 have been taken to ensure the corporate governance practices of the Company are not less exacting than those in the Code.

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

## 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 2008.

## PUBLICATION OF FURTHER INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

The interim report of the Company for the six months ended 30th September 2008 containing all the applicable information required by the Listing Rules will be despatched to the shareholders of the Company and published on the Stock Exchange's website at http://www.hkex.com.hk and the Company's website at http://www.imagi.com.hk in due course.

## APPRECIATION

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

On behalf of the Board
**Kao Wai Ho, Francis**
*Chairman and Chief Creative Officer*

Hong Kong, 19th December 2008

*Website: www.imagi.com.hk*

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

| | |
|---|---|
| *Executive Directors:* | Mr. Kao Wai Ho, Francis *(Chairman and Chief Creative Officer)*<br>Mr. Douglas Esse Glen *(Chief Executive Officer)* |
| *Independent non-executive Directors:* | Mr. Ng See Yuen<br>Mr. Oh Kok Chi |