IMAGI INTERNATIONAL HOLDINGS LIMITED
意馬國際控股有限公司
Stock code 股份代號:585

Interim Report 中期報告 2010/2011

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CORPORATE INFORMATION

BOARD OF DIRECTORS
Chairman & Non-executive Director
Leung Pak To

Executive Director
Ma Wai Man, Catherine

Independent Non-executive Directors
Chan Yuk Sang
Cheng Yuk Wo
Lam Lee G.

AUDIT COMMITTEE
Cheng Yuk Wo (Chairman)
Chan Yuk Sang
Lam Lee G.

REMUNERATION COMMITTEE
Ma Wai Man, Catherine (Chairman)
Chan Yuk Sang
Cheng Yuk Wo
Lam Lee G.

COMPANY SECRETARY
Lau Siu Mui

REGISTERED OFFICE
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
22nd Floor
Eight Commercial Tower
8 Sun Yip Street
Chai Wan
Hong Kong

AUDITORS
Deloitte Touche Tohmatsu

PRINCIPAL BANKERS
The Hongkong and Shanghai Banking Corporation Limited
The Bank of East Asia, Limited

PRINCIPAL SHARE REGISTRAR
Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRAR
Tricor Secretaries Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Hong Kong

STOCK CODE
HKEx 585

COMPANY WEBSITE
www.imagi.com.hk

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATIONAL REVIEW

The Group successfully completed a drastic financial restructuring and operational rationalisation programme ("Restructuring and Rationalisation Programme") in May 2010. Notwithstanding the business disruptions caused by the rationalisation measures, our Studio, which has a team of dedicated and talented staff, remained industrious during the period under review.

The Group continues its principal operations in the production, distribution and marketing of computer graphic imaging ("CGI") animation pictures; licensing of ancillary rights of CGI animation pictures; and the provision of creative and design to integration services in all CGI products, inclusive of special CGI effects and stereoscopic 3D features.

Stereoscopic 3D CGI Animation Pictures

Our Studio is working on the production of *Gatchaman* and *Cat Tale*. These two feature films are in different stages of production. *Gatchaman*, being produced by our local talent, is qualified under the Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA") as a domestic film produced in mainland China and a certificate has been granted by the Trade and Industry Department of Hong Kong. This qualification allows our *Gatchaman* to be imported for distribution in mainland China on a quota-free basis, subject to vetting and approval by the relevant authority in mainland China.

Licensing of Ancillary Rights of CGI Animation Pictures

Coupling with the remake rights of classic anime CGI property which the Group has acquired, the Group has constructed a platform to license ancillary rights of CGI animation pictures since the release of *TMNT*, being our first CGI animation film. Revenue generated from licensing activities, though relatively small compared to box office receipts, was an important contributor to the Group's income when no feature film was released during the period under review.

CGI and Visual Effects Production

iDream Production Limited ("iDream"), a wholly-owned subsidiary of the Company, has been engaged in a number of CGI productions for advertising agencies, game developers, music studios and charitable organisations. Its clients have high regard for both the state-of-art technique developed by iDream and its enchanting CGI products.

During the period under review, iDream was invited to participate in the production of several animation pictures. iDream is in the final stage of negotiations to produce a 70-minute CGI animation television film for an international television network. The network is targeting to complete this project in the third quarter of 2011.

iDream has continued its technology research and development in producing high quality entertainment. It has been possessed of the know-how to convert live action movies into stereoscopic 3D pictures and is applying this new technology to its productions.

FINANCIAL REVIEW

Review of Results

The Group has invested heavily in the production and marketing of *Astro Boy*, but the box office performance was very disappointing when the film was released in late 2009. Consequently, the Group was in dire need of help. The directors of the Company ("Directors") are pleased to report that as a result of the successful implementation of the Restructuring and Rationalisation Programme in the early part of the period under review, the Group has been completely turned around from the distressed situation brought about by its investment in *Astro Boy*. The financial and accounting effects of the Restructuring and Rationalisation Programme have now been fully reflected in the book of accounts of the Group.

Following the completion of the Restructuring and Rationalisation Programme, the Group has broadened its revenue sources. Currently, other than producing its own feature films, the Group is also engaged in the provision of CGI animation services to the commercial sector, covering advertising agents and game developers and so on. These services generated an income of approximately HK$1.0 million in the six months ended 30 September 2010. Together with the remaining broadcasting and licensing income derived from *Astro Boy* and the ancillary rights, the Group recorded a total revenue of HK$4.5 million in the review period, representing a surge of 10 times when compared with the last corresponding period.

The Restructuring and Rationalisation Programme also involved a consolidation of the Group's resources, which entailed the closure of the Group's studio in the United States and the streamlining of the one in Hong Kong. Consequently, the Group's administrative expenses were substantially reduced from HK$50.6 million in the last corresponding period to HK$18.0 million in the review period.

Furthermore, certain items of expenditure incurred in the last corresponding period relating to the launch of *Astro Boy* no longer recurred in the review period. These items include distribution and selling expenses, impairment loss recognised in respect of CGI animation pictures and impairment loss on goodwill.

The most salient items in the income statement of the Group for the six months ended 30 September 2010 are the losses on redemption ("Redemption") of prints and advertising loans, a bridge loan and convertible loan notes which in aggregate amounted to HK$501.4 million and contributed to 96.3% of the loss of the Group for the six-month period. As part of the Restructuring and Rationalisation Programme, the Redemption was fully settled by a combination of cash, new shares of HK$0.001 each of the Company (the "Shares") and options to subscribe for new Shares (details of which are set out in Note 2(a) to the condensed consolidated financial statements). According to the current accounting standards applicable to the Group, the new Shares issued and the options granted by the Company had to be accounted for using their respective fair values which in turn were based on the closing price of the Shares as quoted on The Stock Exchange of Hong Kong Limited on the date of issue or grant (as the case may be) of the new Shares and the options ("Reference Date"), being 11 May 2010. Since the closing price of the Shares on the Reference Date was exceedingly high (being HK$0.56 per Share as compared to the issue price of such new Shares of HK$0.07 per Share and the exercise price of such options of HK$0.08 per Share), the accounting fair values of the securities issued or granted by the Company were inflated, and the resulting accounting losses due to the Redemption (being the difference between the book value of the liabilities settled and the aggregate amount of the cash paid and the fair values of the securities issued or granted) were extraordinary large. However, it should be noted that such accounting losses were technical in nature and had no impact whatsoever on the cash flow, the financial and liquidity position or the net asset value of the Group.

Loss for the six-month period ended 30 September 2010 amounted to HK$520.6 million, representing a decrease of 28.3% compared to the loss of HK$725.6 million for the last corresponding period. Excluding the accounting losses due to the Redemption, the loss for the period under review was HK$19.2 million, representing a decrease of 96.6% compared to the loss of HK$569.8 million prepared on the same basis for the last corresponding period.

Liquidity and Financial Resources

During the period under review, the Company raised approximately HK$301 million in aggregate from the financial restructuring exercise completed in May 2010 and the exercise by an optionholder of its options to subscribe for Shares in June 2010 (details of which are set out in Note 2 to the condensed consolidated financial statements). The funds so raised were applied as to HK$69.7 million to settle the Redemption; as to HK$33.2 million to settle other outstanding liabilities of the Group; as to HK$29.6 million as working capital of the Group and the remaining balance of HK$168.5 million, being surplus cash with no immediate use, has been placed on short term deposits with licensed banks in Hong Kong to earn interest income.

The financial and liquidity position of the Group as at 30 September 2010 remained healthy and strong, with bank balances amounting to HK$168.5 million and a current ratio of 26.8.

After repaying its core creditors and other liabilities in May 2010, the Group has become debt-free. As at 30 September 2010, the Group had no bank or other borrowings and therefore had a zero gearing (expressed as a percentage of total borrowings over total capital).

Capital Structure

The Company ceased to have any debt capital in May 2010 after the Redemption. As at 30 September 2010, the Company had in issue 5,515,707,577 Shares and outstanding options granted in May 2010 to subscribe for 1,838,800,000 Shares at an exercise price of HK$0.08 per Share.

Charge on Assets

As at 30 September 2010, the Group's all rights in *Astro Boy* (except for the exploitation rights throughout the territories of China, Hong Kong and Japan) were pledged as collateral to secure a loan granted to a former subsidiary of the Company in the United States for funding the launch of *Astro Boy* in October 2009. This former subsidiary is currently under a procedure called Assignment for the Benefit of Creditor, which is a recognised form of voluntary liquidation in California. The carrying value of *Astro Boy* in the book of accounts of the Group as at 30 September 2010 was nil.

Exposure to Exchange Rates

During the review period, most of the Group's business transactions, assets and liabilities were denominated in Hong Kong dollar, United State dollar or Euro. Presently, the Group does not have any currency hedging policy and has not entered into any hedging or other instrument to reduce currency risks. However, the management will closely monitor the Group's exposure to the fluctuation of exchange rates and take appropriate measures to minimise any adverse impact that may be caused by such fluctuation.

Contingent Liabilities

As at 30 September 2010, the Group had no significant contingent liabilities.

PROSPECTS

The new management, led by the Group's chairman, Mr. Francis Leung Pak To, believes that the Group needs to rapidly undergo vast expansion in order to regain critical mass and capture the market leadership status in the animation, media and entertainment industry, with particular focus on the Greater China market, and indeed, growth by judicious mergers and acquisitions with transformational impacts is considered to be in the best interest of the Group and its shareholders. To this end, and with its balance sheet and financial health having been restored, the Group has been actively seeking mergers and acquisitions opportunities in the mainland China, and certain sizeable acquisition opportunities have been identified. The Directors believe that each of these opportunities has great potentials and is expected to be earnings and value accretive in both short-term and long term. Whilst no definitive arrangement has been entered into, the Directors are pleased to report that satisfactory progress has been made. Further announcement on this will be made if and when appropriate.

In the meantime, the Directors desire to reduce the Group's exposure to the production of high-budget CGI animation pictures. The Group will not invest in any new high-budget CGI animation pictures unless and until it has teamed up with a strategic partner who has strong distribution capabilities in the Group's major target markets and it is satisfied that strong measures have been put into place to limit and control cost over-run risk and execution risk. The Restructuring and Rationalisation Programme has substantially streamlined the Group. It is expected that barring unforeseen circumstances, the Group's administrative expenses for the second half of this year will be significantly lower than that for the first half. The Directors believe that the Group is well placed to implement the growth strategy by mergers and acquisitions in the fast growing media industry in the mainland China.

HUMAN RESOURCES

The Group employed 76 staff as at 30 September 2010. Emolument policy is reviewed regularly to ensure that compensation and benefit package are in line with the market in the countries where the Group has operations. Remuneration package of the Directors are recommended by the remuneration committee of the Company and approved by the board of Directors (the "Board"), as authorised by the shareholders at the annual general meeting of the Company. In addition to the basic salaries, incentives in the form of bonus and share option may also be offered to eligible employees on the basis of individual performance and the Group's results.

The Group is committed to continuously developing and deploying the potential of its staff to the fullest extent by keeping them abreast of 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.

CORPORATE GOVERNANCE

CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 September 2010, the Company has complied with the applicable code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the deviations described below.

On 1 April 2010, the Company had only one executive Director, Mr. Phoon Chiong Kit, and one independent non-executive Director, Mr. Ng See Yuen, and therefore failed to comply with:

(1) Rule 3.10 of the Listing Rules which set out that the minimum number of independent non-executive directors is three and that at least one of them must have appropriate professional qualification;

(2) Rule 3.21 of the Listing Rules which requires that the audit committee must comprise a minimum of three members;

(3) Code A.2.1 of the CG Code which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual; and

(4) Code B.1.1 of the CG Code in respect of the composition of the remuneration committee.

Subsequent to 1 April 2010, the Board and its committees have made the following changes and henceforth the Company has fulfilled the requirements under the above-mentioned Listing Rules and CG Codes:

(a) both Mr. Phoon and Mr. Ng resigned as Directors in May 2010;

(b) on 11 May 2010, Mr. Chan Yuk Sang and Dr. Lam Lee G. were appointed as independent non-executive Directors and members of the audit committee of the Company;

(c) Mr. Leung Pak To was appointed as chairman of the Company and non-executive Director on 18 May 2010;

(d) Ms. Ma Wai Man, Catherine was appointed as an executive Director on 1 July 2010 and since then, has also taken up the function of chief executive officer. Mr. Cheng Yuk Wo, who possesses accounting professional qualifications, was appointed as an independent non-executive Director and a member of the audit committee on 1 July 2010; and

(e) by a resolution passed by the Directors on 6 July 2010, the remuneration committee of the Company was reorganised. Ms. Ma Wai Man, Catherine was nominated as the chairman of the remuneration committee and Mr. Chan Yuk Sang, Mr. Cheng Yuk Wo and Dr. Lam Lee G. were appointed as members.

Furthermore, none of the non-executive Directors was appointed for a specific fixed term which deviates from Code A.4.1 of the CG Code. In accordance with the bye-laws of the Company, one-third of the Directors for the time being shall retire from office by rotation and every Director shall be subject to retirement by rotation at least once every three years. The Board considers that sufficient measures have been in place to ensure the corporate governance practices of the Company are no less exacting than those in the CG Code.

CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. In response to the specific enquiry made by the Company, all the existing Directors confirmed that they fully complied with the Model Code throughout the six months ended 30 September 2010.

CHANGES IN INFORMATION OF DIRECTORS

On 24 November 2010, Dr. Lam Lee G, was appointed as an independent non-executive director of Sino Resources Group Limited, the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Save for the above, there is no other change in Directors' information since 21 July 2010, the date of the 2010 annual report of the Company, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

GENERAL INFORMATION

INTERIM DIVIDEND

The Directors have not recommended the payment of any interim dividend for the six months ended 30 September 2010.

DIRECTORS INTERESTS IN SECURITIES

As at 30 September 2010, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company were as follows:

Long positions in the shares and underlying shares of the Company

Name of Director	**Capacity**	**Number of Shares**	**Number of underlying Shares**	**% of the issued share capital** (note 1)
Leung Pak To	Interest of controlled corporation	1,875,000,000 (note 2)	–	33.99%
		–	1,500,000,000 (note 3)	27.20%

Notes:

1. It was based on 5,515,707,577 Shares in issue as at 30 September 2010.

2. The Shares were held by Idea Talent Limited ("ITL"), a company owned as to 60% by Grandwin Enterprises Limited which in turn is wholly and beneficially owned by Mr. Leung Pak To.

3. The underlying Shares represented the option shares that may be issued to ITL at a subscription price of HK$0.08 per Share pursuant to an option agreement approved by the shareholders of the Company on 16 April 2010.

Save as disclosed above, as at 30 September 2010, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 September 2010, the interests and short positions of those persons (other than the Directors or chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register kept by the Company were as follows:

Long positions in the shares and underlying shares of the Company

Name	**Capacity**	**Number of Shares**	**Number of underlying Shares**	**% of the issued share capital** (note 1)
Idea Talent Limited	Beneficial owner	1,875,000,000	–	33.99%
		–	1,500,000,000 (note 3)	27.20%
Grandwin Enterprises Limited	Interest in controlled corporation	1,875,000,000 (note 2)	–	33.99%
		–	1,500,000,000 (note 3)	27.20%
Better Lead Limited	Interest in controlled corporation	1,875,000,000 (note 2)	–	33.99%
		–	1,500,000,000 (note 3)	27.20%
Chung Cho Yee, Mico	Interest in controlled corporation	1,875,000,000 (note 2)	–	33.99%
		–	1,500,000,000 (note 3)	27.20%
Trophy Fund	Beneficial owner	438,722,397	–	7.95%
		–	209,200,000 (note 6)	3.79%
Trophy Asset Management Limited ("Trophy Asset")	Investment manager	452,446,573 (note 4)	–	8.20%
		–	209,200,000 (note 6)	3.79%
Winnington Capital Limited ("Winnington")	Beneficial owner	50,666,237	–	0.92%
	Investment manager	452,446,573 (note 4)	–	8.20%
		–	209,200,000 (note 6)	3.79%

Name	**Capacity**	**Number of Shares**	**Number of underlying Shares**	**% of the issued share capital** (note 1)
Hung Kam Biu ("Mr. Hung")	Beneficial owner	1,414,194	–	0.03%
	Interest in controlled corporation	503,112,810 (note 5)	–	9.12%
		–	209,200,000 (note 6)	3.79%
Chu Jocelyn ("Ms Chu")	Interest of spouse	1,414,194 (note 5)	–	0.03%
	Interest in controlled corporation	503,112,810 (note 5)	–	9.12%
		–	209,200,000 (note 6)	3.79%
Citigroup Inc.	Lending agent	64,600	–	0.00%
	Person having a security interest in shares	440,717,475	–	7.99%

Notes:

1. It was based on 5,515,707,577 Shares in issue as at 30 September 2010.

2. The Shares were held by Idea Talent Limited ("ITL"), a company owned as to 60% by Grandwin Enterprises Limited, which in turn is wholly and beneficially owned by Mr. Leung Pak To, and as to 40% by Better Lead Limited, which in turn is wholly and beneficially owned by Mr. Chung Cho Yee, Mico.

3. The underlying Shares represented the option shares that may be issued to ITL at a subscription price of HK$0.08 per Share pursuant to an option agreement approved by the shareholders of the Company on 16 April 2010.

4. To the Directors' best knowledge, Trophy Fund is managed by Trophy Asset and is also advised by Winnington. Therefore, both Trophy Asset and Winnington were deemed to have interest in the 438,722,397 Shares beneficially owned by Trophy Fund.

5. To the Directors' best knowledge, Trophy Asset is wholly owned by Mr. Hung whilst Winnington is 50% owned by each of Mr. Hung and his wife, Ms. Chu. Hence, both Mr. Hung and Ms. Chu were deemed to have interest in the 50,666,237 Shares held by Winningon and the 438,722,397 Shares beneficially owned by Trophy Fund.

6. The underlying Shares represented the option shares that might be issued to Trophy Fund at a subscription price of HK$0.08 per share pursuant to the option agreements approved by the shareholders of the Company on 16 April 2010. The options were exercised on 30 September 2010 and accordingly 209,200,000 new Shares were allotted and issued on 8 October 2010.

Save as disclosed above, as at 30 September 2010, no other persons had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

SHARE OPTIONS

Movements of the share options under the share option scheme adopted by the Company on 16 August 2002 were as follows:–

	Date of grant	Vesting period	Exercise period	Exercise price per Share (note) HK$	Number of share options: As at 1 April 2010	Adjustments (note)	Granted during the period	Exercised during the period	Cancelled during the period	Forfeited during the period	As at 30 September 2010
Former Directors											
Douglas Esse Glen	09.10.2006	nil to 5 years	5 years	5.590	5,510,880	(4,959,792)	–	–	(495,979)	(55,109)	–
	07.04.2008	2.74 to 4.74 years	5 years	4.737	3,306,528	(2,975,875)	–	–	(330,653)	–	–
	29.12.2008	nil to 1 year	5 years	0.875	7,715,232	(6,943,709)	–	–	–	(771,523)	–
Ng See Yuen	22.07.2008	1 to 4 years	5 years	1.870	551,088	(321,196)	–	–	(174,718)	(55,174)	–
	21.08.2009	1 to 3 years	5 years	0.755	1,500,000	(874,260)	–	–	(625,740)	–	–
Phoon Chiong Kit	21.08.2009	1 to 3 years	5 years	0.755	10,000,000	(5,828,402)	–	–	(4,171,598)	–	–
William Montgomerie Courtauld	21.08.2009	1 to 3 years	5 years	0.755	2,000,000	(1,165,680)	–	–	–	–	834,320
					30,583,728	(23,068,914)	–	–	(5,798,688)	(881,806)	834,320
Employees	21.08.2009	1 to 3 years	5 years	0.755	18,412,000	(14,492,135)	–	–	(1,967,557)	–	1,952,308
	17.11,2009	nil to 3 years	3 to 5 years	0.755	4,368,392	(3,763,755)	–	–	–	(383,939)	220,698
					22,780,392	(18,255,890)	–	–	(1,967,557)	(383,939)	2,173,006
Consultant	12.01.2009	0.05 to 1.97 years	5 years	0.897	5,510,880	(3,211,963)	–	–	–	–	2,298,917
					58,875,000	(44,536,767)	–	–	(7,766,245)	(1,265,745)	5,306,243

Note: The exercise prices and numbers of share options were adjusted to reflect the share consolidation and the rights issue of the Company (details of which are set out in Notes 2(c) and 2(d) to the condensed consolidated financial statements) effected during the six months ended 30 September 2010.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 September 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

REVIEW OF INTERIM RESULTS

The audit committee of the Company has reviewed with the management and the independent auditor of the Company the accounting principles and practices adopted by the Group and the unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2010.

On behalf of the Board
Leung Pak To
Chairman

Hong Kong, 30 November 2010

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

Deloitte.
德勤

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 14 to 36, which comprises the condensed consolidated statement of financial position of Imagi International Holdings Limited and its subsidiaries as of 30 September 2010 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 30 November 2010

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2010

	NOTES	Six months ended 30 September 2010 HK$'000 (unaudited)	2009 HK$'000 (unaudited)
Revenue	4	**4,459**	404
Cost of sales		**(3,384)**	(3)
Gross profit		**1,075**	401
Other income		**496**	1,024
Other gains and losses		**(1,588)**	1,287
Distribution and selling expenses		**–**	(101,624)
Administrative expenses		**(17,960)**	(50,634)
Other expenses		**–**	(22,697)
Impairment loss recognised in respect of computer graphic imaging ("CGI") animation pictures	10	**–**	(396,178)
Impairment loss on goodwill	10	**–**	(3,228)
Loss on redemption of bridge loans	12	**(57,091)**	(150,560)
Loss on redemption of prints and advertising loan	13	**(187,078)**	–
Loss on redemption of convertible loan notes	14	**(257,269)**	(5,332)
Loss on disposal of subsidiaries		**(66)**	–
Finance costs		**(3,316)**	(482)
Loss before tax	5	**(522,797)**	(728,023)
Income tax credit	6	**2,203**	2,377
Loss for the period		**(520,594)**	(725,646)
Other comprehensive income (expenses) representing exchange differences arising on translation of foreign operations		**357**	(300)
Total comprehensive expenses for the period		**(520,237)**	(725,946)
			(restated)
Loss per share basic and diluted	8	**(HK$0.112)**	(HK$0.727)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2010

	NOTES	**At 30 September 2010 HK$'000 (unaudited)**	At 31 March 2010 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	*9*	**3,132**	1,446
CGI animation pictures	*10*	**88,415**	82,572
		91,547	84,018
Current assets			
Inventories		**529**	–
Trade and other receivables, deposits and prepayments	*11*	**1,625**	1,264
Bank balances and cash		**168,481**	2,368
		170,635	3,632
Current liabilities			
Other payables and accruals		**6,106**	36,435
Unearned revenue		**266**	–
Tax payable		**–**	1,788
Bridge loans	*12*	**–**	36,000
Prints and advertising loan	*13*	**–**	78,000
Convertible loan notes	*14*	**–**	34,403
		6,372	186,626
Net current assets (liabilities)		**164,263**	(182,994)
Total assets less current liabilities		**255,810**	(98,976)
Non-current liabilities			
Convertible loan notes	*14*	**–**	59,597
Deferred tax		**–**	6,270
		–	65,867
Net assets (liabilities)		**255,810**	(164,843)
Capital and reserves			
Share capital	*15*	**5,516**	360,152
Reserves		**250,294**	(524,995)
Total equity attributable to owners of the Company		**255,810**	(164,843)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2010

	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	Share award reserve HK$'000	Option shares reserve HK$'000	Deemed contribution reserve HK$'000 (note ii)	Accumulated losses HK$'000	Total HK$'000
At 1 April 2009 (audited)	172,875	622,469	909	996	43,493	114,872	–	–	22,650	(411,461)	566,803
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	–	(6,748)	–	–	–	–	–	–	–	–	(6,748)
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 30 September 2009 (unaudited)	360,152	1,001,833	909	696	47,251	126,502	–	–	22,650	(1,093,449)	466,544
Exchange differences arising on translation of foreign operations	–	–	–	2,797	–	–	–	–	–	–	2,797
Loss for the period	–	–	–	–	–	–	–	–	–	(641,440)	(641,440)
Total comprehensive income (expenses) for the period	–	–	–	2,797	–	–	–	–	–	(641,440)	(638,643)
Recognition of equity-settled share-based payments	–	–	–	–	–	5,901	1,355	–	–	–	7,256
Share options forfeited for the period	–	–	–	–	–	(105,100)	–	–	–	105,100	–
At 31 March 2010 (audited)	360,152	1,001,833	909	3,493	47,251	27,303	1,355	–	22,650	(1,629,789)	(164,843)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended 30 September 2010

	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	Share award reserve HK$'000	Option shares reserve HK$'000	Deemed contribution reserve HK$'000 (note ii)	Accumulated losses HK$'000	Total HK$'000
At 31 March 2010 (audited)	360,152	1,001,833	909	3,493	47,251	27,303	1,355	–	22,650	(1,629,789)	(164,843)
Exchange differences arising on translation of foreign operations	–	–	–	357	–	–	–	–	–	–	357
Loss for the period	–	–	–	–	–	–	–	–	–	(520,594)	(520,594)
Total comprehensive expenses for the period	–	–	–	357	–	–	–	–	–	(520,594)	(520,237)
Capital Reorganisation (Note 2(d))	(359,792)	(1,001,833)	–	–	–	–	–	–	–	1,361,625	–
Issue of conversion shares (Note 2(a))	790	441,610	–	–	–	–	–	–	–	–	442,400
Issue of share award (Note 15(vi))	1	1,354	–	–	–	–	(1,355)	–	–	–	–
Recognition of fair value in respect of share options arising from using equity to settle liabilities (Note 2(a))	–	–	–	–	–	–	–	196,240	–	–	196,240
Share subscription and top-up share subscription (Note 2(b))	2,863	197,547	–	–	–	–	–	–	–	–	200,410
Rights issue (Note 2(c))	1,441	99,402	–	–	–	–	–	–	–	–	100,843
Share issue expenses	–	(1,008)	–	–	–	–	–	–	–	–	(1,008)
Exercise of share options (Note 15(v))	61	34,859	–	–	–	–	–	(30,025)	–	–	4,895
Recognition of equity-settled share-based payments	–	–	–	–	–	(8,723)	–	–	–	–	(8,723)
Share options forfeited for the period	–	–	–	–	–	(15,733)	–	–	–	15,733	–
Reversal of deferred tax liability on redemption of convertible loan notes	–	–	–	–	5,833	–	–	–	–	–	5,833
Redemption of convertible loan notes	–	–	–	–	(53,084)	–	–	–	–	53,084	–
At 30 September 2010 (unaudited)	5,516	773,764	909	3,850	–	2,847	–	166,215	22,650	(719,941)	255,810

notes:

(i) 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) Deemed contribution 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 a then existing shareholder to the new shareholder.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2010

	Six months ended 30 September 2010 HK$'000 (unaudited)	Six months ended 30 September 2009 HK$'000 (unaudited)
Cash used in operating activities		
Increase in trade and other receivables, deposits and prepayment	**(393)**	(141,603)
(Decrease) increase in other payables and accruals	**(17,745)**	29,784
Other operating activities	**(23,087)**	(156,911)
	(41,225)	(268,730)
Net cash used in investing activities		
Cost incurred in CGI animation pictures	**(5,641)**	(121,313)
Purchase of property, plant and equipment	**(3,247)**	(260)
Other investing activities	**(2,568)**	713
	(11,456)	(120,860)
Net cash from financing activities		
Proceeds from equity subscription	**200,410**	–
Proceeds from rights issue	**100,843**	108,185
New bridge loans drawndown	**7,000**	100,581
Repayment of convertible loan notes	**(34,403)**	–
Repayment of bridge loans	**(29,812)**	–
Repayment of prints and advertising loan	**(29,035)**	(8,718)
Shares issued expenses	**(1,008)**	(15,098)
Prints and advertising loan raised	**–**	129,480
Proceeds from placement of shares	**–**	101,430
Other financing cash flows	**4,448**	175
	218,443	416,035
Net increase in cash and cash equivalents	**165,762**	26,445
Cash and cash equivalents at beginning of the period	**2,368**	3,808
Effect of foreign exchange rate changes	**351**	(1,625)
Cash and cash equivalents at end of the period	**168,481**	28,628

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2010

1. Basis of Preparation

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 and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. Significant Transactions During the Period

A series of significant transactions in relation to the restructuring of the Group's debts and equity were completed during the current period:

(a) On 10 February 2010, the Company, Idea Talent Limited (the "Investor"), a then independent third party to the Group, and the then core creditors of the Group, comprising Goodyear Group Limited, Trophy LV Master Fund, Trophy Fund and Fortunate City Investment Limited (the "Core Creditors"), entered into an agreement (the "Intercreditors' Agreement") pursuant to which the Core Creditors agreed not to exercise or enforce any of their rights or remedies or take or commence any legal proceedings or accelerate or demand repayment of any principal or interest owing to them (the "Standstill") and, subject to fulfillment of certain conditions, to accept full settlement of their relevant debts as at 10 February 2010 in the manner as set out below:

		To be settled by		
Relevant debts	**Amount** HK$	**Cash** HK$	**Number of conversion shares of HK$0.001 each**	**Number of share options**
Trophy US Bridge Loan (as defined in Note 12)	19,983,160	6,312,033	71,491,100	63,900,000
P&A Loans (as defined in Note 13)	89,125,000	29,035,351	328,859,200	129,600,000
CN Aug 2009 (as defined in Note 14)	132,000,000	34,402,615	389,649,700	206,500,000
	241,108,160	69,749,999	790,000,000	400,000,000

The exercise price of the share options is HK$0.08 per Adjusted Share (as defined below).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2010

2. Significant Events During the Period (continued)

(b) On 10 February 2010, the Company and the Investor entered into a share subscription agreement pursuant to which the Investor agreed, subject to fulfillment of certain conditions, to subscribe for 1,880,000,000 Adjusted Shares at a subscription price of HK$0.07 per Adjusted Share for a total amount of HK$131,600,000 (the "Share Subscription").

In addition to the aforementioned subscription and depending on the amount of shares that the Investor might acquire by virtue of its participation in the 2010 Rights Issue (as defined below), pursuant to the share subscription agreement, the Investor could at its option further subscribe for up to a maximum of 988,000,000 Adjusted Shares (the "Top-up Subscription") within a period of 45 days from completion of the Share Subscription at a subscription price of HK$0.07 per Adjusted Share such that immediately after the issuance of the Adjusted Shares under the Share Subscription and Top-up Subscription, the Investor shall beneficially own approximately 52.5% of the then enlarged issued share capital of the Company.

In conjunction with the above arrangements, the Company has also granted an option to the Investor to subscribe for a total of 1,500,000,000 Adjusted Shares at an exercise price of HK$0.08 per Adjusted Share within a period of 12 months, but in no event that the exercise of this option will result in the public float of the Company's shares falling below 25% (the "Investor Option").

(c) On 17 February 2010, the Company announced that it proposed to raise approximately HK$100.8 million, before expenses, by issuing not less than 1,440,607,352 rights shares of HK$0.001 each (the "Right Shares") at a subscription price of HK$0.07 per Rights Share (the "2010 Rights Issue"), on the basis of four Rights Shares for every Adjusted Share in issue, subject to fulfillment of certain conditions. The net proceeds of the 2010 Rights Issue were to be approximately HK$95.9 million.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2010

2. Significant Events During the Period (continued)

(d) On 17 February 2010, the Company also announced that it proposed to effect a capital reorganisation pursuant to which (a) every ten issued and unissued shares of par value HK$0.10 each in the Company (the "Unadjusted Shares") were to be consolidated into one consolidated share of par value HK$1.00 each; (b) the par value of each consolidated share was then to be reduced from HK$1.00 to HK$0.001 by the cancellation of HK$0.999 of the par value, resulting in a new par value of HK$0.001 for each adjusted share (the "Adjusted Share"); (c) the authorised share capital of the Company was to be restored back to HK$1,000,000,000 by the creation of such number of additional Adjusted Shares as was to be necessary; and (d) the credit standing at the share premium account of the Company was to be cancelled and together with the credit arising from the capital reduction were to be transferred to offset the accumulated losses of the Company as permitted by the Company Act 1981 of Bermuda and the bye-laws of the Company (the "Capital Reorganisation").

The Capital Reorganisation was approved by shareholders of the Company in a special general meeting held on 16 April 2010.

Details of the above transactions were set out in the Company's circular dated 24 March 2010. All the conditions precedent to these transactions were fulfilled by 11 May 2010 and accordingly,

(i) on 10 May 2010, a total of 1,440,607,352 Rights Shares were issued pursuant to the 2010 Rights Issue, raising gross proceeds of approximately HK$100.8 million, before expenses. The proceeds have been applied in settling the Group's outstanding financial obligations and as working capital of the Group;

(ii) on 11 May 2010, the relevant debts contemplated in the Intercreditors' Agreement were settled in the manner as described above;

(iii) on 11 May 2010, a total of 2,863,000,000 Adjusted Shares, comprising 1,880,000,000 Adjusted Shares under the Share Subscription and 983,000,000 Adjusted Shares under the Top-up Subscription, were issued to the Investor, representing approximately 52.5% of the enlarged issued share capital of the Company following the completion of the 2010 Rights Issue, the Share Subscription, the Intercreditors' Agreement and the Top-up Subscription. The Investor then became the controlling shareholder of the Company. In addition, the Company granted the Investor Option to the Investor on the same date.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2010

3. Principal 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 31 March 2010, except as described below.

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 HKFRSs") issued by the HKICPA.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 (Amendment)	Classification of Rights Issues
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners

The Group applies Hong Kong Financial Reporting Standard ("HKFRS") 3 (Revised) "Business Combinations" prospectively to business combinations for which the acquisition date is on or after 1 April 2010. The requirements in HKAS 27 (Revised) "Consolidated and Separate Financial Statements" in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 April 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the six months ended 30 September 2010

3. Principal Accounting Policies (continued)

The application of the other new and revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKAS 24 (Revised)	Related Party Disclosures[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[2]
HKFRS 7 (Amendment)	Disclosures – Transfer of Financial Assets[4]
HKFRS 9	Financial Instruments[5]
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[3]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 "Financial Instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 would not affect the classification and measurement of the Group's financial assets.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2010

4. Revenue and Segment Information

The management of the Group regularly reviews revenue as set out below in respect of the Group's CGI animation pictures and the consolidated loss for the period for the purpose of performance assessment and making decision about resources allocation. As no other discrete financial information is available for the assessment of performance of different business activities, no segment information is presented.

Revenue analysis in respect of the Group's CGI animation pictures is as follows:

	Six months ended 30 September	
	2010	2009
	HK$'000	HK$'000
Revenue from broadcasting CGI animation pictures	**3,194**	–
Production service income from CGI animation pictures	**955**	–
Income from licensing ancillary rights of CGI animation pictures	**310**	404
	4,459	404

5. Loss Before Tax

	Six months ended 30 September	
	2010	2009
	HK$'000	HK$'000
Loss before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	**373**	11,098
Less: amounts capitalised in CGI animation pictures	**(202)**	(10,348)
	171	750
Impairment loss recognised in respect of trade receivables	**2,512**	–
Prints and advertising expenses (included in distribution and selling expenses)	**–**	95,665

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2010

6. Income Tax Credit

	Six months ended 30 September	
	2010	2009
	HK$'000	HK$'000
(Over)underprovision in prior years in other jurisdictions	**(1,766)**	19
Deferred tax	**(437)**	(2,396)
	(2,203)	(2,377)

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

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

7. Dividends

No dividend was paid, declared or proposed during the reported period. The directors have not recommended the payment of any interim dividend for both periods.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2010

8. Loss Per Share

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

	Six months ended 30 September 2010	2009
Loss for the period attributable to owners of the Company	**(HK$520,594,000)**	(HK$725,646,000)
Number of shares (note):		(restated)
Weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share	**4,632,424,530**	998,345,933

The computation of diluted loss per share does not assume the exercise of share options (six months ended 30 September 2009: the exercise of share options and the conversion of convertible loan notes) since their exercise would result in a decrease in loss per share. Therefore, the basic and diluted loss per share are the same.

note: The weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share for the period ended 30 September 2009 have been retrospectively adjusted for the effect of the Capital Reorganisation and the bonus element in connection with the 2010 Rights Issue completed in current period.

9. Property, Plant and Equipment

During the period, the Group incurred approximately HK$3,247,000 (six months ended 30 September 2009: HK$260,000) on the acquisition of property, plant and equipment mainly for the purpose of improving and expanding the Group's production capability.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2010

10. CGI Animation Pictures

The Group's CGI animation pictures mainly represent CGI animation picture in progress and are stated at production cost incurred to date, including borrowing costs capitalised less accumulated impairment losses.

For the purpose of impairment testing, CGI animation pictures in progress are allocated to the Group's single individual cash generating unit ("CGU"), being the production, broadcasting and licensing of CGI animation pictures.

The recoverable amount of the CGU has been determined based on a value-in-use calculation representing the present value of expected future cash flows based on financial budgets covering a 4–year period prepared by the management for each of the CGI animation pictures. Other key assumptions for the value in use calculations relate to the expected release date, estimation of cash flows and budgeted box office and other receipts including receipt from licensing ancillary rights of CGI animation pictures and gross margin. Such estimations are based on the CGU's past performance and management's expectations of the market performance.

During the six months ended 30 September 2009, the Group recognised impairment losses of approximately HK$3.2 million in respect of a write-down in full of the amount of goodwill and approximately HK$396.2 million in respect of the Group's CGI animation pictures. The impairment loss recognised for the CGU was first to reduce the carrying amount of goodwill and then to the CGI animation pictures.

Management has concluded that no impairment loss is required to be recognised for the six months ended 30 September 2010.

11. Trade and Other Receivables, Deposits and Prepayments

	30 September 2010 HK$'000	31 March 2010 HK$'000
Trade receivables (note)	**43**	–
Other receivables, deposits and prepayment	**1,582**	1,264
	1,625	1,264

note: The Group allows its trade customers a credit period in accordance with the terms specified in the contracts, normally ranging from 0 day to 90 days. The trade receivables at 30 September 2010 were aged less than 30 days based on the invoice date.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the six months ended 30 September 2010

12. Bridge Loans

2009 Bridge loans

As at 1 April 2009, the Company was granted loan facilities by various bridge loans lenders (the "2009 Bridge Loans Lenders"), of which US$12 million (equivalent to approximately HK$93.6 million) was drawn and outstanding (the "2009 Bridge Loans").

On 15 May 2009, a conversion agreement was entered into between the Company and the 2009 Bridge Loans Lenders whereby each of the 2009 Bridge Loans Lenders agreed, subject to fulfillment of certain conditions, to convert all their respective outstanding bridge loan principal and accrued interest into Unadjusted Shares in the Company at a conversion price of HK$0.175 per Unadjusted Share.

Upon the completion of the conversion on 19 August 2009, the 2009 Bridge Loans were extinguished by the issue of 1,204,476,068 new Unadjusted Shares of the Company and a difference of approximately HK$150,560,000, being the excess of the fair value of the Unadjusted Shares issued over the carrying amount of the 2009 Bridge Loans, was recognised as a redemption loss and charged to the condensed consolidated statement of comprehensive income for the six months ended 30 September 2009.

2010 Bridge loans

Subsequent to the extinguishment of the 2009 Bridge Loans, the Company was granted other bridge loans by various parties, details of which are as follows:

Lenders	Maximum loan facilities $'000	Balance at 1 April 2010 $'000	Drawndown during the period $'000	Settlement through Intercreditors' Agreement $'000	Other settlement $'000	Balance at 30 September 2010 $'000	Fixed interest rate	Maturity date
Trophy Fund	HK$19,500 (US$2,500)	HK$19,500 (US$2,500)	–	HK$19,500	–	–	10% per annum	12 February 2010 (note)
Trophy Fund	HK$3,500	HK$3,500	–	–	HK$3,500	–	20% per annum	Repayable on demand
Idea Talent Limited	HK$20,000	HK$13,000	HK$7,000	–	HK$20,000	–	20% per annum	10 June 2010
	HK$43,000	HK$36,000	HK$7,000	HK$19,500	HK$23,500	–		

note: The amount was subject to the Standstill under the Intercreditors' Agreement as detailed in Note 2(a).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2010

12. Bridge Loans (continued)

On 10 February 2010, the principal sum of US$2,500,000 and accrued interest thereon of US$78,472 due to Trophy Fund, amounting to HK$19,983,000 in aggregate (the "Trophy US Bridge Loan"), were included in the Intercreditors' Agreement. Upon completion of the Intercreditors' Agreement on 11 May 2010, the Trophy US Bridge Loan, together with additional accrued interest of US$63,194 (of which US$27,778 (approximately HK$217,000) was charged to the condensed consolidated statement of comprehensive income for the six months ended 30 September 2010) for the period between 10 February 2010 and 11 May 2010, amounting to US$2,641,666 (approximately HK$20,605,000) in aggregate, was settled through a combination of (i) cash; (ii) conversion shares; and (iii) share options, as set out in Note 2(a).

The fair value of the consideration to settle the Trophy US Bridge Loan together with the additional accrued interest was approximately HK$77,696,000, comprising cash of HK$6,312,033, conversion shares of approximately HK$40,035,000 based on the closing price of the Company's shares on 11 May 2010 of HK$0.56 per share, and share options of approximately HK$31,349,000 based on the fair value of the share options granted on 11 May 2010 of HK$0.491 per share option. The fair value was determined by an independent valuation firm, Greater China Appraisal Limited ("Greater China"), using the Binomial Option Pricing Model. The following assumptions were used to calculate the fair values of these share options.

	Share Options granted on 11 May 2010
Grant date share price	HK$0.56
Exercise price	HK$0.08
Expected life	1 year
Expected volatility	144.27%
Expected dividend yield	0%
Risk free interest rate	0.19%

The excess of the fair value of the consideration to settle the Trophy US Bridge Loan and additional accrued interest, over their carrying value, amounting to approximately HK$57,091,000, was recognised by the Group as a redemption loss of bridge loans and charged to the condensed consolidated statement of comprehensive income for the six months ended 30 September 2010.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2010

13. Prints and Advertising Loan

In September 2009, a bank granted the Group a credit facility of US$10 million (equivalent to HK$78 million) for the specific purpose of funding the promotion expenses to be incurred in connection with the launch of *Astro Boy* (the "P&A Facility"). The P&A Facility was secured by a cash collateral provided to the bank by Fortunate City Investment Limited ("FCI"), a company in which Mr. Hung Kam Bui, a then substantial shareholder of the Company, was interested.

The P&A Facility was fully drawn down by the Group on 30 November 2009. The Group agreed to indemnify and keep FCI indemnified against all liabilities arising from the cash collateral in a written notice dated 9 September 2009. Accordingly, the draw-down of the P&A Facility effected a contemporaneous incurrence of liability to FCI by the Group (the "P&A Loan").

The P&A Loan was interest-free and had no fixed repayment term while a fixed arrangement fee of US$1.5 million was payable by the Group to FCI in respect of this P&A Loan on or before 8 January 2010.

On 10 February 2010, the principal sum of US$10 million and the accrued fixed arrangement fee thereon of US$1.5 million, amounting to HK$89,125,000 (as translated to HK$ on 10 February 2010) in aggregate (the "P&A Loans"), were included in the Intercreditors' Agreement. Upon completion of the Intercreditors' Agreement on 11 May 2010, the P&A Loans of HK$89,700,000 (as translated to HK$ on 11 May 2010) were settled through a combination of (i) cash; (ii) conversion shares; and (iii) share options, as set out in Note 2(a).

The fair value of the consideration to settle the P&A Loans was approximately HK$276,778,000, comprising cash of HK$29,035,351, conversion shares of approximately HK$184,161,000 based on the closing price of the Company's shares on 11 May 2010 of HK$0.56 per share, and share options of approximately HK$63,582,000 based on the fair value of the share options granted on 11 May 2010 of HK$0.491 per share option. The fair value was determined by Greater China, using the Binomial Option Pricing Model as per the assumptions in Note 12.

The excess of the fair value of the consideration to settle the P&A Loans over the carrying value, amounting to approximately HK$187,078,000, was recognised by the Group as a redemption loss of the P&A Loans and charged to the condensed consolidated statement of comprehensive income for the six months ended 30 September 2010.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2010

14. Convertible Loan Notes

The Company issued a convertible loan note with a principal amount of HK$132,000,000 on 30 January 2008 ("CN Jan 2008"). The Group breached certain covenants contained in CN Jan 2008 and as a result, on 19 August 2009 the Company redeemed CN Jan 2008 by the issue of a new convertible loan note ("CN Aug 2009") with the same principal amount (the "CN Exchange").

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 for the six months ended 30 September 2009.

On 10 February 2010, the principal sum of CN Aug 2009 of HK$132,000,000 was included in the Intercreditors' Agreement. Upon completion of the Intercreditors' Agreement on 11 May 2010, CN Aug 2009 was settled through a combination of (i) cash; (ii) conversion shares; and (iii) share options, as set out in Note 2(a).

The fair value of the consideration to settle CN Aug 2009 was approximately HK$353,916,000, comprising cash of HK$34,402,615, conversion shares of approximately HK$218,204,000 based on the closing price of the Company's shares on 11 May 2010 of HK$0.56 per share, and share options of HK$101,309,000 based on the fair value of the share options granted on 11 May 2010 of HK$0.491 per share option. The fair value was determined by Greater China, using the Binomial Option Pricing Model as per the assumptions in Note 12.

The excess of the fair value of the consideration to settle CN Aug 2009 over the carrying value of the liability portion of CN Aug 2009 of HK$90,853,000, and an additional interest accrual for the period between 10 February 2010 and 11 May 2010 of approximately HK$5,794,000 (of which approximately HK$2,647,000 was charged to the condensed consolidated statement of comprehensive income for the six months ended 30 September 2010), amounting to approximately HK$257,269,000, was recognised by the Group as a redemption loss of convertible loan note and charged to the condensed consolidated statement of comprehensive income for the six months ended 30 September 2010.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2010

15. Share Capital

	Number of ordinary shares '000	Value HK$'000
Authorised:		
At 1 April 2010, at HK$0.10 each	10,000,000	1,000,000
Share consolidation (note i(a))	(9,000,000)	–
Capital reduction (note i(b))	–	(999,000)
Increase of authorised capital (note i(c))	999,000,000	999,000
At 30 September 2010, at HK$0.001 each	1,000,000,000	1,000,000
Issued and fully paid:		
At 1 April 2010, at HK$0.10 each	3,601,518	360,152
Share consolidation (note i(a))	(3,241,366)	–
Capital reduction (note i(b))	–	(359,792)
2010 Rights Issue (note ii)	1,440,607	1,441
Issue of conversion shares (note iii)	790,000	790
Issue of shares to Investor (note iv)	2,863,000	2,863
Exercise of share options by a Core Creditor (note v)	61,200	61
Share award (note vi)	748	1
At 30 September 2010, at HK$0.001 each	5,515,707	5,516

The movements in the ordinary share capital for the six months ended 30 September 2010 were as follows:

(i) By resolutions passed in the Company's special general meeting held on 16 April 2010, the Company effected the Capital Reorganisation as follows:

(a) every ten issued and unissued shares of par value HK$0.10 each in the Company were consolidated into one consolidated share of par value HK$1.00 each;

(b) the par value of each consolidated share was then reduced from HK$1.00 to HK$0.001 by the cancellation of HK$0.999 of the par value, resulting in a new par value of HK$0.001 for each Adjusted Share;

(c) the authorised share capital of the Company was restored back to HK$1,000,000,000 by the creation of such number of additional Adjusted Shares as was necessary.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the six months ended 30 September 2010

15. Share Capital (continued)

(ii) On 10 May 2010, the Company effected the 2010 Rights Issue as set out in Note 2(c).

(iii) On 11 May 2010, the Company issued a total of 790,000,000 Adjusted Shares to the Core Creditors upon completion of the Intercreditors' Agreement as set out in Note 2(a).

(iv) On 11 May 2010, the Company (a) issued a total of 2,863,000,000 Adjusted Shares, comprising 1,880,000,000 Adjusted Shares under the Share Subscription and 983,000,000 Adjusted Shares under the Top-up Subscription, to the Investor, at HK$0.07 per share; and (b) granted the Investor the Investor Option to subscribe for a total of 1,500,000,000 additional Adjusted Shares at an exercise price of HK$0.08 per share, as set out in Note 2(b).

In the opinion of the then directors of the Company, the above transactions with the Investor, being the Share Subscription, the Top-up Subscription and the Investor Option, were part of a package to incentivise the Investor to become the controlling shareholder of the Company and to re-capitalise the Company when the Group's financial and liquidity position had been adversely impacted by the disappointing performance of its latest feature film, *Astro Boy*. The then directors were also of the opinion that the Share Subscription price, the Top-up Subscription price and the Investor Option exercise price were fair and reasonable under the circumstances.

(v) A Core Creditor subscribed for 61,200,000 Adjusted Shares at HK$0.08 per Adjusted Share through exercising its share options as set out in Note 2(a).

(vi) Pursuant to a resolution approved in a special general meeting of the Company held on 17 November 2009, the Group granted to the late Mr. William Montgomerie Courtauld, a then non-executive director of the Company, and Mr. Phoon Chiong Kit, a then executive director, deputy chairman and chief executive officer of the Company, 5,483,870 Unadjusted Shares and 2,000,000 Unadjusted Shares, respectively, totaling 7,483,870 Unadjusted Shares, as part of their service compensation. The Group recognised an equity settled shared-based payment expense of HK$1,355,000 in aggregate with a corresponding credit to share award reserve based on the closing price of the Company's Unadjusted Shares as at the date of approval of HK$0.181 per share.

After adjusting for the share consolidation as set out in (i) (a) above, a total of 748,387 Adjusted Shares were issued in May 2010.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2010

16. Share Options

Options granted to Core Creditors and Investor

As set out in Note 2, on 11 May 2010, the Company granted options to the Core Creditors and the Investor to subscribe for 400,000,000 and 1,500,000,000 Adjusted Shares, respectively, at an exercise price of HK$0.08 per share. These options are exercisable, in whole or in part, for a period of 12 months from the date of grant.

Share option scheme

The Company also 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.

The movements of the share options during the current period are as follows:

	Number of share options
Outstanding at the beginning of the period	58,875,000
Adjustment on share consolidation (note i)	(52,987,500)
Cancelled during the period after share consolidation and before 2010 Rights Issue (note ii)	(2,012,432)
Forfeited during period after share consolidation and before 2010 Rights Issue (note iii)	(1,210,571)
Adjustment on 2010 Rights Issue (note i)	8,450,733
Cancelled during the period after share consolidation and 2010 Rights Issue (note ii)	(5,753,813)
Forfeited during the period after share consolidation and 2010 Rights Issue (note iii)	(55,174)
Outstanding at the end of the period	5,306,243

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2010

16. Share Options (continued)

notes:

(i) As a result of the share consolidation and 2010 Rights Issue as set out in Note 15(i) and (ii) respectively, the number of the outstanding share options was adjusted accordingly based on the adjustment factor of share consolidation and 2010 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
Former Directors			
9 October 2006	2.332	5.590	Nil to 5 years
7 April 2008	1.976	4.737	2.74 to 4.74 years
22 July 2008	0.780	1.870	1 to 4 years
29 December 2008	0.365	0.875	Nil to 1 year
21 August 2009	0.315	0.755	1 to 3 years
Employees			
21 August 2009	0.315	0.755	1 to 3 years
17 November 2009	0.315	0.755	Nil to 3 years
Consultant			
12 January 2009	0.374	0.897	0.05 to 1.97 years

(ii) During the current reporting period, 7,766,245 share options were cancelled as a result of the resignation of the directors and employees prior to the vesting of relevant share options. The impact of the cancellation is to recognise a reversal of share-based payment in the profit and loss, with a corresponding adjustment to the share options reserve.

(iii) 1,265,745 share options were forfeited due to the resignation of the directors and employees after the vesting period. For forfeiture of share options when the vesting period of the share options has completed, the relevant recognised share-based payment previously charged to profit or loss is not reversed but credited to accumulated losses, with a corresponding adjustment to share options reserve. During the current reporting period, an adjustment of approximately HK$15,733,000 was credited to accumulated losses due to forfeiture of share options.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2010

16. Share Options (continued)

Recognition of share-based payment expenses

During the current reporting period, the Group recognised a reversal of share-based payment expense of HK$8,723,000 (six months ended 30 September 2009: an expense of HK$12,699,000 of which HK$7,084,000 was capitalised in CGI animation pictures) as a result of the cancellation of the share options subsequent to the resignation of directors and employees as per Note 16(ii).

17. Major Non-Cash Transactions

During the six months ended 30 September 2010, the major non-cash transactions were as follows:

(a) As referred to in Note 16, the Company recognised a reversal of share-based payment expense of approximately HK$8,723,000 (six months ended 30 September 2009: an expense of HK$12,699,000 in which HK$7,084,000 was capitalised in CGI animation pictures) which was credited to the condensed consolidated statement of comprehensive income.

(b) The extinguishment of financial liabilities pursuant to the Intercreditors' Agreement as set out in Note 2(a).

18. Related Party Transactions

During the current reporting period, the following compensations were paid to the Company's directors and the Group's key management personnel, having regard to the performance of individuals and market trends:

	For the six months ended 30 September	
	2010	2009
	HK$'000	HK$'000
Short-term benefits	**2,433**	23,450
Post-employment benefits	**25**	48
(Reversal of) equity-settled share-based payment expenses	**(677)**	2,867
	1,781	26,365
Less: amounts capitalised in CGI animation pictures	**(499)**	(15,445)
	1,282	10,920

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