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

2012 Annual Report 年報

stock code 股份代號 : 585

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman and Non-executive Director
Mr. Leung Pak To

Executive Director
Mr. Yung Tse Kwong, Steven
(Deputy Chairman and Chief Executive Officer)

Non-executive Directors
Ms. Ma Wai Man, Catherine
Mr. Yang Fei *(Mr. Lian Meng as his alternate)*

Independent Non-executive Directors
Mr. Chan Yuk Sang
Mr. Cheng Yuk Wo
Dr. Lam Lee G.
Mr. Lim Chin Leong
Ms. Wei Wei

BOARD COMMITTEES

Audit Committee
Mr. Cheng Yuk Wo *(Chairman)*
Mr. Chan Yuk Sang
Ms. Ma Wai Man, Catherine

Nomination Committee
Mr. Leung Pak To *(Chairman)*
Dr. Lam Lee G.
Ms. Wei Wei

Remuneration Committee
Mr. Chan Yuk Sang *(Chairman)*
Mr. Cheng Yuk Wo
Dr. Lam Lee G.
Mr. Lim Chin Leong
Mr. Yung Tse Kwong, Steven

COMPANY SECRETARY
Ms. Lau Siu Mui

REGISTERED OFFICE
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

8th Floor
Hung To Centre
94-96 How Ming Street
Kwun Tong
Kowloon
Hong Kong

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL BANKER

The Bank of East Asia, Limited

PRINCIPAL SHARE REGISTRAR

Butterfield Fulcrum Group (Bermuda) Limited
26 Burnaby Street
Hamilton HM 11
Bermuda

BRANCH SHARE REGISTRAR IN HONG KONG

Tricor Secretaries Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Hong Kong

STOCK CODE

HKEx 585

WEBSITE

www.imagi.com.hk

CONTACT INFORMATION

Address	8th Floor, Hung To Centre 94–96 How Ming Street Kwun Tong Kowloon, Hong Kong
Tel	(852) 3583 1486
Fax	(852) 3583 1487
Email	investor@imagi.com.hk

CHAIRMAN'S STATEMENT

2012 was an eventful year for the Company and its subsidiaries (the "Group"). On 1 April 2012, Steven Yung joined the Company as deputy chairman and chief executive officer. In June 2012, the new management streamlined the Group's operations and closed down the operation for production services on computer graphic imaging animation pictures in Hong Kong (the "Discontinued Operation") and relocated the Group's brand management team to Guangzhou, the PRC. 2012 also saw the gross consumer product royalty income derived from licensing the *Pleasant Goat and Big Big Wolf (喜羊羊與灰太狼)* brand reach a new record.

In addition, in 2012, the Group's strategic partner Creative Power Entertaining Limited Liability Company ("CPE") was involved in the production of three movies, of which two movies (namely, ***Pleasant Goat and Big Big Wolf movie V — "The Mythical Ark: Adventures in Love & Happiness***" (***喜氣羊羊過蛇年***) ("Movie V") and "***Happy Family: Snowball the Memory Gobbler***" (***寶貝女兒好媽媽之吃記憶的大雪球***)) were produced by the Group and the other one (namely, "***I Love Wolffy***" (***我愛灰太狼***)) was produced by a third party based on animation brands owned by the Group. In 2012, CPE set a record of 3,500 minutes of production of animation movies and TV episodes, and ***Pleasant Goat and Big Big Wolf movie IV —*** "***Mission Incredible: Adventure on the Dragon's Trail***" (***開心闖龍年***), launched at the beginning of 2012, has achieved a breaking box office success of HK$207 million (RMB168 million). Movie V was released on 24 January 2013, in the midst of a crowded period filled with blockbusters, and has made box office revenue of approximately HK$154 million (RMB122 million). Total accumulative box office income derived from ***Pleasant Goat and Big Big Wolf*** Movies I to V has surpassed HK$800 million (RMB650 million), which is unprecedented in China for locally produced animation movies based on one single brand franchise.

Notwithstanding the above-mentioned stellar performance, the Group incurred a loss before interest, tax, depreciation and amortization ("LBITDA") of HK$7.7 million for the year ended 31 December 2012, compared with a LBITDA of HK$2.5 million for the last financial period of nine months ended 31 December 2011. The results for the year ended 31 December 2012 were adversely affected by the closure of the Group's Chai Wan office which led to retrenchment costs and office reinstatement cost amounting to HK$7.5 million and a loss of HK$2.4 million from disposal of property, plant and equipment. These non-recurrent items were all booked in the first half of 2012 and had no impact on the results of the Group for the second half. Thus, the results for the second half were better than that of the first half as evidenced by the fact that the LBITDA for the year ended 31 December 2012 and the LBITDA for the six months ended 30 June 2012 (based on the unaudited financial statements set out in the last interim report of the Group) both amounted to approximately HK$7.7 million.

The termination of the Discontinued Operation will result in future cost savings. The Discontinued Operation incurred a LBITDA of HK$12.2 million for the year ended 31 December 2012, whereas the continuing operations (which comprise licensing and management of cartoon character trademarks and copyrights and all related activities) reported earnings before interest, tax, depreciation and amortization of approximately HK$4.5 million for the same period.

CHAIRMAN'S STATEMENT

Looking forward, we expect the entertainment industry and the consumer products market in China will continue to benefit from the Chinese government's various policy measures to accelerate domestic consumption. However, we expect that the Group will face increased competition from both domestic and international producers of animation contents. To maintain the Group's leading position in the domestic animation industry in China, the Group needs to:

- continue to improve the creative contents for movies, television episodes, stage shows and interactive media programs; and

- work closely with the Group's global master licensee Disney Enterprises, Inc. to strengthen the Group's distribution competence and trade marketing prowess in order to better serve our consumers.

At the same time, we are taking steps to raise the international profile of the ***Pleasant Goat and Big Big Wolf*** brand in order to capture overseas opportunities.

On behalf of the board of directors and our management team, I would like to take this opportunity to thank our loyal shareholders, business partners and customers for their continued support and encouragement.

Leung Pak To
Chairman
Hong Kong, 25 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATIONAL REVIEW

Imagi International Holdings Limited (the "Company" or "Imagi"), together with its subsidiaries (the "Group"), continued to aim at building a world class media and entertainment company by unlocking significant values of the Number 1 cartoon characters in China, namely the *Pleasant Goat and Big Big Wolf*. Partnering with our strategic partner Creative Power Entertaining Limited Liability Company ("CPE") and our global master licensee Disney Enterprises, Inc. ("Disney" or "Master Licensee") and other Disney affiliates, we continued to provide consumers the maximum interaction and memorable experiences in terms of contents across all lines of business and consumer products through merchandise licensing respectively.

Given that China is the most important market for the Group, the management has streamlined our operations and moved key business functions to mainland China. In 2012, the Group closed down the operation for production services on computer graphic imaging ("CGI") animation pictures in Hong Kong and relocated the brand management team to Guangzhou, the PRC.

Consumer Products Licensing

Since 1 January 2011, the Group has worked closely with the Master Licensee under the Consumer Products and Related Use Agreement ("CPA") to upgrade the quality of our sub-licensees with a view to attracting and retaining those who are passionate with our brands, can meet our quality standards and commit resources to growing our brands. In 2012, Disney terminated 114 sub-licensees, renewed 20 contracts and signed up 29 new licensees with an aggregate minimum guaranteed licensing fee of HK$180.7 million spanning over three years. This is in line with Disney's policy to get reliable and reputable sub-licensees, so as to ensure the consumer products using the Group's brands are of high quality.

To further boost the sales performance and increase the brand exposure of *Pleasant Goat and Big Big Wolf*, various retail promotions in key accounts' outlets including Toys"R"Us and Walmart were held, especially during "Back to School" and Christmas periods. In addition, during the Chinese New Year holidays period, KFC Kids Meals were bundled with the licensed *Pleasant Goat and Big Big Wolf* Movie V's themed toys.

Disney has also opened up new markets. *Pleasant Goat and Big Big Wolf* consumer products were sold in Singapore and Thailand through local distributors covering a wide range of products including toys, stationery and publications.

Anti-Counterfeit Activities

To further strengthen the intellectual property rights of *Pleasant Goat and Big Big Wolf*, so as to increase the confidence of both consumers and licensees, Disney has launched a revised "Disney Licensed Merchandise" logo, which certifies that the product is licensed by Disney. In addition, the Group also launched two waves of anti-counterfeit campaigns on TV and paper media. In 2012, the Group worked on 172 IP infringement cases in which our intellectual property rights were violated.

E-Commerce

Vancl, one of the biggest online fashion and accessories E-commerce sites in China, introduced "Simple Life" T-shirt in last summer, which continued to be one of the top selling items since then.

Strategic Alliance with CPE

Under the Joint Brand Management Agreement ("JBMA") entered into with our strategic partner, CPE, we have worked closely with CPE to extend the reach of the *Pleasant Goat and Big Big Wolf* brand by offering a range of products and services via CPE's multimedia platform including movies, TV episodes, live shows, mobile carnivals and new media contents. 2012 was another productive and fruitful year for CPE, producing 220 TV episodes of 15 minutes each and two movies, and getting involved in the production of a real action movie in a year, which amounted to a total animation production of over 3,500 minutes.

Movies

Pleasant Goat and Big Big Wolf movie IV "Mission Incredible: Adventure on the Dragon's Trail" (開心闖龍年) ("Movie IV") launched at the beginning of 2012 (immediately prior to the Chinese New Year of Dragon) has recorded a breaking box office success of HK$207 million (RMB168 million). CPE launched another movie "Happy Family: Snowball the Memory Gobbler" (寶貝女兒好媽媽之吃記憶的大雪球) on 30 September 2012 and was involved in the production of a movie by Mr. Cartoon Pictures Industry Co., Ltd. based on animation brands owned by the Group, namely "I Love Wolffy" (我愛灰太狼), which was launched on 10 August 2012. "I Love Wolffy" achieved total box office revenue of over HK$90 million (RMB73 million) and "Happy Family" received a lot of applauses among fans and animation commentators. This is a major leap for the Group to be involved in three movie productions in a year.

Pleasant Goat and Big Big Wolf movie V "The Mythical Ark: Adventures in Love & Happiness" (喜氣羊羊過蛇年) ("Movie V") was released on 24 January 2013 and recorded box office of approximately HK$154 million (RMB122 million). During this year's Lunar New Year holiday, blockbusters released in China included "007 Skyfall" and two other Chinese local animation productions, namely "Roco kingdom: the desire of dragon" (洛克王國2聖龍的心願) and "Balala the Fairies" (巴啦啦小魔仙). Among the five *Pleasant Goat and Big Big Wolf* movies ever launched by CPE, Movie V has faced the toughest competition. Analysis of the box office results for Movie V provides food for thought. On one hand, CPE is very pleased that it has consistently maintained its leadership position in the "Top 10 Chart of Local Cartoon Movies in China", in which the top five hits are CPE's movies featuring "*Pleasant Goat and Big Big Wolf*". On the other hand, heightened competition and rapid market changes entail more creativity and better responsiveness to consumer's needs in order to maintain *Pleasant Goat and Big Big Wolf*'s leading position in the animation industry.

MANAGEMENT DISCUSSION AND ANALYSIS

TV Series Broadcast Performance

CPE continued to be one of the strongest animation producers and distributors of TV episodes in the Greater China region. In 2012, total production of CPE reached 220 episodes, including two series of *Pleasant Goat and Big Big Wolf*, namely *The Athletic Carousel (競技大聯盟)* and *Happy Diary (開心日記)*, and one series of *Happy Family (寶貝女兒好媽媽)*, namely *Family of Joy (快樂的家庭)*. TV ratings of *Pleasant Goat and Big Big Wolf: Smart Dodging (奇思妙想喜羊羊)* received the highest ratings amongst 4–14 years old (China nationwide) at 3.30% in the 3rd quarter of 2012, while that of *The Athletic Carousel* was 3.27% in the 4th quarter of 2012.

Publications

188 titles were developed and more than 7.3 million copies of *Pleasant Goat and Big Big Wolf* publications (books and magazines) were sold in 2012.

New publication products were developed, including interactive reading books which intended to enhance the learning pace and explore different talents of kids.

Stage Shows and Carnivals

The third sequel, *Wilie's Cherished Desire (小灰灰的心願)*, was launched in April 2012 with 69 shows performed in the year. Together with the first two sequels, a total of 134 shows were performed in 2012.

In Taiwan, Jinho Communication Co., Ltd, our stage show partner, ran 12 *Pleasant Goat and Big Big Wolf* stage shows in 2012 and has undertaken to perform six shows in early 2013.

Overseas Activities

In Taiwan, Weslie and Wolffy of *Pleasant Goat and Big Big Wolf* attended the balloon parade festival "Open Your Dream" (夢時代大汽球遊行) organised by Uni-President Group (統一企業集團) during the Christmas holidays, which attracted over 300,000 visitors.

Buena Vista International, an affiliate of Disney, introduced Movie IV and *The Athletic Carousel* in Disney Channel and Eastern Broadcasting Company's ETTV (東森電視) in Taiwan.

In Hong Kong, CPE entered into a contract with TVB to show *The Athletic Carousel* and *Happy Diary* in TVB Jade, followed by *Smart Dodging* in TVB's paid Kids Channel.

In Singapore, CPE entered into another contract with MediaCorp's Channel 8 to show more *Pleasant Goat and Big Big Wolf* episodes. During the Easter holidays in 2012, MediaCorp partnered with the Group in the Singapore Book Fair 2012 to hold a quiz competition via its TV platform and a prize ceremony in the venue of the book fair.

In Thailand, a new contract was signed with TrueVisions to broadcast *Pleasant Goat and Big Big Wolf* TV episodes. Concurrently, our Meet and Greet mascots were introduced for the first time in Thailand, to create the interactive experience with the local fans.

In Macau, *Pleasant Goat and Big Big Wolf* images were used to decorate a public library named Wong Ieng Kuan Children's Library (黃營均兒童圖書館) located in Areia Preta Urban Park (黑沙環公園). Macau government officials participated in an opening ceremony held on 1 December 2012. This is the first time the images of *Pleasant Goat and Big Big Wolf* were used in the design of a public facility.

FINANCIAL REVIEW

Review of Results

As the financial year of the Group was changed from 31 March to 31 December effectively after the year ended 31 March 2011, the current reporting period covers the twelve months ended 31 December 2012 (the "Year under Review"), whereas for the purposes of this report the comparative period is the nine months ended 31 December 2011 (the "Last Comparative Period").

During 2012, the directors of the Company ("Directors") decided to discontinue its operation in its Chai Wan office which was primarily engaged in the production, broadcasting and licensing of the Group's CGI animation pictures not developed by Toon Express International Limited, its intermediate holding company and its subsidiaries (together "TE Group"), and moved its operation centre to the PRC in order to lower the cost base of the Group and improve the efficiency of the TE Group by its moving closer to CPE. As a result of this change, the Directors presented the previous CGI operation based in Hong Kong as a discontinued operation (the "Discontinued Operation") in the consolidated financial statements of the Group for the year ended 31 December 2012, while licensing and management of cartoon character trademarks and copyrights and all related activities managed by TE Group were presented as continuing operations (the "Continuing Operations").

Continuing Operations

The Group's revenue for Continuing Operations mainly includes licensing income based on the CPA signed with Disney on 30 August 2010, income arising from the JBMA entered into between TE Group and CPE on the commercial exploitation of cartoon characters, and other revenue from brand related activities. For the Year under Review, total revenue of the Continuing Operations amounted to HK$151.1 million, representing an increase of HK$40.3 million or 36% compared with the Last Comparative Period, which was primarily attributable to the increase in revenue of HK$43.6 million under the JBMA, offset by a decrease of HK$3.3 million derived from the consumer product licensing business.

In the Year under Review, the Group's revenue from *Pleasant Goat and Big Big Wolf* TV series increased by HK$5.3 million and revenue from movies increased by HK$39.4 million compared with the Last Comparative Period, which consisted of nine months only. In particular, the box office revenue derived from *Pleasant Goat and Big Big Wolf* Movie IV launched in early 2012 set a record among domestically produced animation films, reaching HK$207 million (RMB168 million) in mainland China. The Group recorded revenue of around HK$30 million related to Movie IV, while a majority of the revenue related to *Pleasant Goat and Big Big Wolf* Movie III (which was launched in early 2011) was recognised prior to the Last Comparative Period, which commenced on 1 April 2011.

The cost of sales for the Continuing Operations increased by HK$24.5 million in 2012 compared to that of the Last Comparative Period, which mainly represents an increase of HK$21 million in the cost of sales related to movies, including *Pleasant Goat and Big Big Wolf* Movie IV, "I Love Wolffy" and "Happy Family". In the Last Comparative Period, there was no corresponding recognition of production costs related to *Pleasant Goat and Big Big Wolf* Movie III as such costs and a majority of the related revenue were recognised prior to the Last Comparative Period. As the gross profit margin of movie business is usually lower than that of TV episodes, the gross profit margin (before the amortisation of intangible assets) therefore decreased from 72% to 64%.

The acquisition of TE Group by the Group in April 2011 resulted in certain commercial contracts entered into by TE Group and the trademarks owned by it being recognised as intangible assets, which are subject to amortisation under the accounting policies adopted by the Group. For the Year under Review, the amortisation of intangible assets charged to the income statement and the associated reversal of deferred tax amounted to HK$99.9 million and HK$24.8 million respectively, compared to HK$73.7 million and HK$18.3 million for the Last Comparative Period respectively.

Other income from Continuing Operations for the Year under Review mainly comprised of interest income of HK$3.2 million arising from cash and bank balances and compensation of HK$4.0 million for infringement of our intellectual property rights.

Selling expenses from Continuing Operations increased by HK$10.1 million due to increased marketing and promotion activities to support the brand extension program of *Pleasant Goat and Big Big Wolf* and the rejuvenation of the *Happy Family* brand, reclassification of certain service fees as selling expenses in the Year under Review, and higher marketing expenses to raise awareness of our existing brands in the Greater China area.

MANAGEMENT DISCUSSION AND ANALYSIS

As a result of the closure of its Chai Wan office in 2012, the Group incurred retrenchment costs and office reinstatement cost amounting to HK$7.5 million, of which HK$6.0 million was included in administrative expenses of Continuing Operations. Furthermore, some of the managerial staff joined the Group in mid 2011, leading to an increase in staff costs when compared with the Last Comparative Period. Although the increase in administrative expenses was offset in part by the reversal of share option expenses due to staff departure and the reclassification of certain service fees as selling expenses in the Year under Review, an increase in overall administrative expenses of HK$20.6 million was recorded when compared to the Last Comparative Period.

As a result of the decrease in the Group's gross profit margin (before the amortisation of intangible assets) and increase in administrative expenses, the earnings before interest, tax, depreciation and amortisation from Continuing Operations for the Year under Review decreased to approximately HK$4.5 million, compared with HK$16.6 million for the Last Comparative Period. After taking into account, among others, the amortisation of intangible assets and the related reversal of the deferred tax liabilities of HK$75.1 million (2011: HK$55.4 million), loss after tax from the Continuing Operations for the Year under Review amounted to HK$79.1 million, compared with HK$50.2 million for the Last Comparative Period.

Discontinued Operation

In May 2012, an exercise was conducted to streamline the Group's operations which resulted in the closure of its Chai Wan office and a loss of HK$2.4 million from disposal of property, plant and equipment. The streamlining exercise also incurred retrenchment costs and office reinstatement cost amounting to HK$7.5 million, of which HK$6.0 million was included in administrative expenses of Continuing Operations. The Group also recognised impairment loss of HK$5.2 million for intangible assets relating to Discontinued Operation. Consequently, the Group suffered a loss of HK$12.4 million from Discontinued Operation for the Year under Review, compared with a loss of HK$17.2 million in the Last Comparative Period.

The total loss of the Group (comprising both Discontinued Operation and Continuing Operations) for the Year under Review amounted to HK$91.6 million, compared with HK$67.4 million for the Last Comparative Period.

Disposal of an Associate

To focus on our core activities, 2012 also saw the disposal of our associated company, Sino Light Enterprise Limited ("SLE"). On 14 March 2012, Toon Express International Limited, a member of TE Group, sold its 20.63% equity interest in SLE and cancelled the related share options and liabilities. TE Group's share of loss from SLE was HK$5.6 million for the period from 1 January 2012 to 14 March 2012. The sale and cancellation resulted in a gain of HK$7.7 million.

Liquidity and Financial Resources

The liquidity and financial position of the Group as at 31 December 2012 remained healthy and strong, with bank balance amounting to HK$253.5 million and a current ratio of 10.6.

As at 31 December 2012, the Group had no bank or other borrowings and therefore a zero gearing (expressed as a percentage of total borrowings over total capital).

Capital Structure

As at 31 December 2012, the Company had in issue 10,020,180,720 shares of HK$0.001 each ("Shares") and an outstanding option to subscribe for 50,000,000 Shares at an exercise price of HK$0.35 per Share which will expire on 31 December 2013. Details of the share options granted under the share option schemes of the Company are set out under the heading "Share Options" in the Directors' Report.

Exposure to Exchange Rates

In the Year under Review, most of the Group's business transactions, assets and liabilities were denominated in Hong Kong dollar, Renminbi and United States dollar. 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 as necessary to minimize any adverse impact that may be caused by such fluctuation.

Contingent Liabilities

On 14 September 2011, the Company and its wholly-owned subsidiary, Imagi Diamond Limited ("IDL"), received a summons (the "Summons") dated 9 August 2011 served by Tatsunoko Production Co., Ltd ("Tatsunoko"). Tatsunoko asserted numerous causes of action and seeking an unspecified amount of damages and a declaration that the Gatchaman CGI Feature Film Agreement (the "Gatchaman Production Agreement") has been terminated. On 7 June 2006, IDL entered into the Gatchaman Production Agreement with Tatsunoko in relation to the development of a CGI animated motion picture based on the *Gatchaman* animated television series owned by Tatsunoko (the "Picture"). Under the Gatchaman Production Agreement, the Company guaranteed the performance of IDL. Between 7 June 2006 and 31 March 2011, the Group invested a total of HK$457.9 million in this project, inclusive of two payments of rights fee to Tatsunoko which were paid in June 2006 and October 2009 respectively. On 21 June 2011, the Company announced that it would focus its efforts on the business of its newly acquired TE Group and stopped investing further money in the production of the Picture. As a result, the Group has made a provision of impairment loss amounting to HK$457.9 million for its investment in the production of the Picture. It was announced on 18 October 2012 that a mutual settlement and general release agreement was entered into by the parties and the Group paid a settlement sum of US$40,000 (equivalent to approximately HK$312,000) to Tatsunoko.

As at 31 December 2012, the Group had no significant contingent liabilities.

FUTURE PLANS AND PROSPECTS

To enhance the value and popularity of the key franchising brand *Pleasant Goat and Big Big Wolf*, the Group continues its various strategies to uplift the brand position and penetrate into different age segments.

Contents Development and Distribution

(1) *TV Episodes and Movies*

CPE plans to produce at least 3,300 minutes of movies and TV episodes in 2013. Two *Pleasant Goat and Big Big Wolf* TV series will be produced and released, one of which will be the first *Pleasant Goat and Big Big Wolf* TV series with duration of 30 minutes per episode, compared to the previous ones of 15 minutes each.

To further increase the brand's awareness outside mainland China, CPE has entered into a new contract with Momo Kids Channel in Taiwan to broadcast the *Happy Diary* series in 2013.

Outside Greater China, *Pleasant Goat and Big Big Wolf* will be introduced into Indonesia and 22 Arabic countries in 2013. The cartoon series will be dubbed in Arabic language.

Apart from traditional TV series production, CPE has scheduled to produce *Pleasant Goat and Big Big Wolf* Mandarin learning series. CPE plans to distribute this Mandarin learning series outside China.

Production of Movies VI and VII has already commenced. Movie VII, which will be shown in 2015, will be our key focus as 2015 is the Year of Goat as well as the *Pleasant Goat and Big Big Wolf* brand's 10th anniversary.

(2) *Stage Shows and Carnivals*

A newly featured stage show with musical elements will be introduced to China this summer. This 90-minute musical stage show, *Pleasant Goat and Big Big Wolf Amazing Music Tour (喜羊羊與灰太狼之奇幻音樂之旅)*, will combine drama, dancing and singing, bringing out all the sound tracks from the *Pleasant Goat and Big Big Wolf* TV series and movies.

To further expand into overseas market, CPE plans to bring the stage shows to Singapore and Thailand.

(3) *Publications*

"Babies" images of *Pleasant Goat and Big Big Wolf* will be used in infants and pre-school learning materials published by a new licensee in Taiwan.

Licensing and Strategic Marketing Initiatives

(1) Expansion of Core Franchise

After the Chinese New Year promotion event held in Hong Kong Langham Place in early 2012, "Simple Life", the new image of *Pleasant Goat and Big Big Wolf*, has become more popular. Many shopping malls in China have shown their interest in organising similar event in 2013. With the success of its initial launch, the Group will collaborate with Disney to launch fashion events, so as to further expand the brand into the Teens and Young Adults segments.

Disney continues to explore licensing opportunity to uplift the brand status and increase market share. A crossover project with a famous fashion brand in China will be launched this summer on apparels and accessories, as well as contents (being micro film and music).

Leveraging the *Pleasant Goat and Big Big Wolf* brand's solid foundation based on families with children from 4 to 14 years old, the Group is extending its core brand to capture revenue opportunities in adjacent segments including babies, teens and young adults. The Group's key target consumer product categories include food, fashion and home products, toys and stationary. Despite the current disruption in the growth of licensing income caused by the adoption of a strategy to upscale sub-licensees, the Directors believe that the future prospects for the Group's licensing business are promising.

(2) Interactive Media Initiatives

Following the success of "Where's My Water?" launched by Disney Mobile, *Pleasant Goat and Big Big Wolf* will also have its own version of "Where's My XYY?" (abbreviation of Xi Yang Yang, being the Chinese name of Pleasant Goat) developed by Disney Mobile. This will be the first collaboration between a Chinese animation brand and a successful international mobile game.

In view of the importance and long term demand of education in China, the Group plans to extend its business to the education sector. The Group is currently working with a leading educational courseware provider to develop *Pleasant Goat and Big Big Wolf* online learning programs in the Greater China and South East Asia regions. The Group is also evaluating the feasibility of investing in and/or partnering with experienced companies or organizations to operate, schools or learning centers using the *Pleasant Goat and Big Big Wolf* brand. The Directors believe that this is a sustainable business with stable income.

E-Commerce

To diversify and expand the revenue stream, a flagship store selling consumer products carrying the *Pleasant Goat and Big Big Wolf* brand will be opened in Tmall of Taobao by mid 2013. This is to provide fans and customers an easy shopping experience. By providing sub-licensees with more sales channels, the Directors believe e-commerce will bring in more licensing income, as well as enhance the customers' loyalty towards the brand.

In 2012, the Group completed the restructuring of its operations with the termination of the Discontinued Operation. The loss of HK$12.4 million attributable to the Discontinued Operation and the retrenchment costs of HK$6.0 million incurred by the Continuing Operations for the Year under Review will not recur in the future. The Group now is operated under a leaner but more efficient structure. All in all, the Group will focus its resources on extending its target audience to include infants, teens and young adults, increasing its target consumer's brand loyalty, driving distribution, enhancing marketing and ensuring flawless execution to deliver results for stakeholders.

HUMAN RESOURCES

The Group currently employs a total of 78 employees in the PRC, Taiwan and Hong Kong. Emolument policy is reviewed regularly to ensure compliance of the latest labour laws and market norms where the Group has operations.

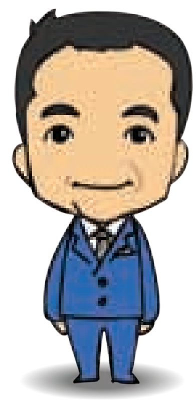
In addition to basic salaries, incentives in the form of bonus and share options may also be offered to eligible employees on the basis of individual performance and the Group's business results.

DIRECTORS' PROFILE

CHAIRMAN

Mr. Leung Pak To, aged 58, joined the Company as the Chairman and non-executive Director in May 2010. Mr. Leung has over 30 years of experience in investment banking, in particular, the field of corporate finance involving capital raising, mergers and acquisitions, corporate restructuring and reorganisation, investments and other general finance advisory activities in Hong Kong and the PRC. Mr. Leung is currently the Chairman (Greater China) and a managing partner of CVC Asia Pacific Limited. Between June 2001 and July 2006, Mr. Leung was the Chairman of Citigroup Global Markets in Asia. Prior to Citigroup, he was the Chief Executive and Vice Chairman of BNP Paribas Peregrine Ltd. Mr. Leung holds a MBA and an undergraduate degree from the University of Toronto in Canada.

EXECUTIVE DIRECTOR



Mr. Yung Tse Kwong, Steven, aged 63, joined the Company as the executive deputy chairman, executive Director and chief executive officer in April 2012. He has extensive management experience earned from leading multinational companies in the media, entertainment, consumer and retail industries. Mr. Yung has served as the Executive Chairman of Clear Media Limited which is a joint venture with NYSE-listed Clear Channel Worldwide and as an independent non-executive director of Kingmaker Footwear Holdings Limited. On 8 November 2012, Mr. Yung was appointed as an independent non-executive director of NVC Lighting Holding Limited. All three are public companies whose securities are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Yung began his career as a producer with HK Commercial Broadcasting Company Limited and has since held various senior management positions at The Coca-Cola Company in the U.S.A. and Asia, served as Regional Managing Director of AC Nielsen China, Hong Kong, Taiwan and Korea and as President of Nielsen Media International. He had also served as a Board Director of the Cable and Satellite Broadcasting Association of Asia (CASBAA), and is currently a Director of the Child Development Matching Fund and the Tao Fong Shan Foundation Limited.

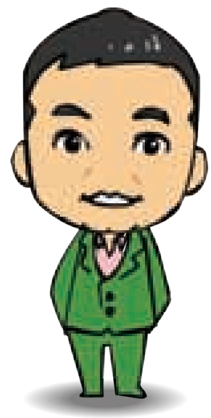
DIRECTORS' PROFILE

NON-EXECUTIVE DIRECTORS

Ms. Ma Wai Man, Catherine, aged 47, joined the Company in May 2010 as the company secretary, was appointed as an executive Director in July 2010 and re-designated as a non-executive Director in July 2011. Ms. Ma is a graduate of the City University of Hong Kong, a chartered secretary, a fellow of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Ms. Ma has extensive management experience in companies with diversified interests ranging from manufacturing, telecommunications to infrastructure and property investments. She has previously held executive directorships in a number of companies listed on local and overseas stock exchanges.

On 1 March 2013, Ms. Ma was appointed as the company secretary of 21 Holdings Limited, the shares of which are listed on the Stock Exchange.

Mr. Yang Fei, aged 55, joined the Company as a non-executive Director in April 2011. Mr. Yang graduated from Sun Yat Sen University with a Bachelor of Science degree in 1982 and a master degree in 1989. He started in IDG Capital Partners in 1997 and is currently a general partner of IDG Capital Partners. Previously he was the Director of IPO Division of Guangdong Government Securities Regulatory Commission, Vice President of Guangdong United Future Exchange and the Director of Consultant Division of Guangdong Foreign Trade and Economy Institute. Mr. Yang was also engaged in the research of the PRC economy, having worked on the project of "Strategy of Pushing Area Economy Forward" awarded in 1996 by the central government of the PRC.



Mr. Lian Meng, aged 33, was appointed as an alternate to Mr. Yang Fei, a non-executive director of the Company, in May 2012. Mr. Lian is the Vice President of IDG Capital Partners. Prior to joining IDG Capital Partners in 2008, Mr. Lian worked at New Oriental Education & Technology Group (NYSE: EDU), where he held many managerial roles. Mr. Lian is a Bachelor of Law from Jinan University (Guangzhou) and holds a MBA from The Hong Kong University of Science and Technology.

DIRECTORS'
PROFILE

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Yuk Sang, aged 67, joined the Company as an independent non-executive Director in May 2010. Mr. Chan has more than 30 years of experience in the banking and finance industry. He was the chairman of Century Legend (Holdings) Limited from September 1999 to July 2002 and a director of Hong Kong Building & Loan Agency Limited from 1993 to 1995, both are companies listed on the Stock Exchange. He was a senior general manager of a local bank and an executive director of a joint Chinese foreign bank in Shenzhen.

Mr. Cheng Yuk Wo, aged 52, joined the Company as an independent non-executive Director in July 2010. Mr. Cheng is a fellow of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants of Ontario, Canada. He is the managing director of a certified public accounting practice limited and the proprietor of a certified public accountant practice in Hong Kong. Mr. Cheng holds a Master of Science (Economics) degree in Accounting and Finance and a Bachelor of Arts (Honours) degree in Accounting.

Dr. Lam Lee G., aged 53, joined the Company as an independent non-executive Director in May 2010. Dr. Lam holds a Bachelor of Science in Mathematics and Sciences, a Master of Science in Systems Science and a Master of Business Administration, all from the University of Ottawa in Canada, a Post-graduate Diploma in Public Administration from Carleton University in Canada, a Post-graduate Diploma in English and Hong Kong Law and a Bachelor of Law (Hons) from Manchester Metropolitan University in the U.K., a PCLL in Law from the City University of Hong Kong, a Certificate in Professional Accountancy from the Chinese University of Hong Kong SCS, a LLM in Law from the University of Wolverhampton in the U.K. and a Doctor of Philosophy from the University of Hong Kong.

Dr. Lam has over 30 years of multinational experience in general management, corporate governance, investment banking and direct investment across the telecommunications/media/technology (TMT), retail/consumer, infrastructure/real estate and financial services sectors. He is Chairman — Indochina, Myanmar and Thailand (and formerly Chairman — Hong Kong), and Senior Adviser — Asia, of

Macquarie Capital. Having served as a Part-time Member of the Central Policy Unit of the Government of the Hong Kong Special Administrative Region for two terms and as a Member of the Legal Aid Services Council of Hong Kong, Dr. Lam is a Member of the Jilin Province Committee (and formerly a Specially-invited Member of the Zhejiang Province Committee) of the Chinese People's Political Consultative Conference (CPPCC), a Member of the Hong Kong Institute of Bankers, a Board Member of the East-West Center Foundation, a Member of the World Presidents' Organization (WPO), a Member of the Chief Executives Organization (CEO), a Fellow of the Hong Kong Institute of Directors, a Fellow of the Hong Kong Institute of Arbitrators, an Accredited Mediator of the Centre for Effective Dispute Resolution (CEDR), a Member of the General Council and the Corporate Governance Committee of the Chamber of Hong Kong Listed Companies, a Vice President of the Hong Kong Real Estate Association, a founding Board Member and the Honorary Treasurer of the Hong Kong — Vietnam Chamber of Commerce, a Board Member of the Australian Chamber of Commerce in Hong Kong, Chairman of Monte Jade Science and Technology Association of Hong Kong, and a visiting professor (in the fields of corporate governance and investment banking) at the School of Economics & Management of Tsinghua University in Beijing.

On 27 September 2012, Dr. Lam resigned as an independent non-executive director of TMC Life Sciences Berhad, a company listed on the Malaysia Stock Exchange. On 1 January 2013, Dr. Lam was appointed as an independent non-executive director of China Communication Telecom Services Company Limited and Wai Chun Mining Industry Group Company Limited, both are companies listed on the Stock Exchange.

Mr. Lim Chin Leong, aged 58, joined the Company as an independent non-executive Director in December 2011. Mr. Lim graduated from University of Singapore with a bachelor degree of Electrical Engineering in 1980. Since then, he has worked for Schlumberger, a global oilfield service company, in various positions in various countries until his retirement in January 2010 after 30 years in the company, as Chairman of Asia. Mr. Lim is currently a non-executive independent director for Keppel Offshore & Marine, a subsidiary of Keppel Corporation Limited of Singapore.

Ms. Wei Wei, aged 43, joined the Company as an independent non-executive Director in December 2011. Ms. Wei holds a bachelor degree in Arts from Shanghai International Studies University and a MBA from INSEAD in France. She has extensive experience in providing advisory services in the areas of strategy, marketing, sales, operations, information technology, organisations and corporate finance. Ms. Wei was the chief executive officer of a leading private-owned food and beverage company in Beijing and the principal of Mckinsey & Company in Hong Kong and Shanghai. Ms. Wei is the general manager, Asia of Christie's Hong Kong Limited and a professor of MBA Centre of Shanghai International Studies University.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standard corporate governance practices as the board of Directors (the "Board") considers that good and effective corporate governance is essential for enhancing accountability and transparency of a company to the investing public and other stakeholders.

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has made various amendments to the Code on Corporate Governance Practices (the "Former CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and renamed it the Corporate Governance Code and Corporate Governance Report (the "Revised CG Code"). The Revised CG Code took effect on 1 April 2012.

The Company has complied with the code provisions of the Former CG Code during the period from 1 January 2012 to 31 March 2012 except for the deviation from Code A.4.1 of the Former CG Code that none of the non-executive Directors was appointed for a specific term. During the period from 1 April 2012 to 31 December 2012, the Company has complied with the code provisions of the Revised CG Code except for the deviation from Code A.5 regarding the establishment of a nomination committee and Code A.6.7 in relation to the Directors attending the general meeting of the Company. Details of the deviations are further described below in the relevant sections.

Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as its own code of conduct regarding the Directors' securities transactions. In response to the specific enquiry made by the Company, all the Directors confirmed that they fully complied with the required standard set out in the Model Code throughout the year ended 31 December 2012.

BOARD OF DIRECTORS

The Board currently comprises one executive Director, three non-executive Directors and five independent non-executive Directors, whose biographies are set out on pages 16 to 19 of this annual report. All the Directors are high caliber executives with diversified industry expertise and bring a wide range of skills and experience to the Group. The composition of the Board and their respective attendance in the general meeting, the Board meetings and other committee meetings during the year ended 31 December 2012 are as follows:

	No. of meetings attended/held during the respective tenure				
	General meeting	**Board meetings**	**Audit Committee meetings**	**Nomination Committee meeting**	**Remuneration Committee meeting**
Chairman and Non-executive Director					
Leung Pak To	1/1	7/7	n/a	1/1	n/a
Executive Directors					
Yung Tse Kwong, Steven (appointed on 1 April 2012)	1/1	6/6	n/a	n/a	0/0
Soh Szu Wei (resigned on 17 May 2012)	n/a	2/3	n/a	n/a	0/1
Non-executive Directors					
Ma Wai Man, Catherine	1/1	7/7	3/3	n/a	1/1
Yang Fei	0/1	0/7	n/a	n/a	n/a
Lian Meng *(as the alternate of Yang Fei)* (appointed on 15 May 2012)	0/1	5/5	n/a	n/a	n/a
Independent Non-executive Directors					
Chan Yuk Sang	1/1	6/7	4/4	n/a	1/1
Cheng Yuk Wo	1/1	7/7	4/4	n/a	1/1
Lam Lee G.	0/1	6/7	1/1	1/1	1/1
Lim Chin Leong	0/1	7/7	n/a	n/a	n/a
Wei Wei	1/1	6/7	n/a	1/1	n/a

Code A.6.7 of the Revised CG Code provides that independent non-executive directors and other non-executive directors should attend the general meetings of the Company. Dr. Lam Lee G. and Mr. Lim Chin Leong, the independent non-executive Directors, and Mr. Yang Fei, the non-executive Director, were unable to attend the annual general meeting of the Company held on 11 June 2012 due to their respective overseas engagements.

Responsibilities

The Board is vested with the key roles of formulating the Group's corporate strategic directions and policies, monitoring the financial performance and internal control system of the Group and overseeing the performance of management, who is delegated with the responsibilities of executing the Board's decision and in-charging day-to-day operation. In discharging its responsibilities, the Board meets regularly and acts in good faith, with due diligence and care.

The Directors acknowledge their responsibility for preparing the financial statements of the Company. The statement made by the auditor of the Company regarding their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 33 to 34 of this annual report.

Directors' Continuous Professional Development

To ensure their contributions to the Board remains informed and relevant, all the Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skill. During the year, all the Directors were provided with regular updates and presentations on changes and developments of the Group's business and the latest developments in laws, rules and regulations relating to director's duties and responsibilities. Furthermore, all of them attended seminars on relevant topics arranged by professional firms.

The Company organised a seminar conducted by an international law firm in July 2012 on the continuing obligations of a Hong Kong listed company and its directors. Mr. Chan Yuk Sang, Mr. Lim Chin Leong, Ms. Wei Wei, Ms. Ma Wai Man, Catherine, Mr. Yang Fei, Mr. Lian Meng and certain senior management of the Company attended the seminar.

Chairman and Chief Executive Officer

The roles of the chairman and chief executive officer are separate and exercised by different individuals. The chairman provides leadership for the Board and ensures that the Board works effectively and discharges its responsibility whilst the chief executive officer has overall chief executive responsibility for the Group's business development and day-to-day management generally.

Mr. Leung Pak To is the Chairman of the Company. Mr. Yung Tse Kwong, Steven was appointed as the chief executive officer of the Company on 1 April 2012 to replace the former chief executive officer, Mr. Soh Szu Wei.

Non-executive Directors

During the period from 1 January 2012 to 31 March 2012, none of the non-executive Directors of the Company was appointed for specific term which deviated from Code A.4.1 of the Former CG Code. However, in accordance with the bye-laws of the Company (the "Bye-laws"), one-third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. Furthermore, on 30 March 2012, each of the non-executive Directors has entered into an appointment letter with the Company for a term of two years commencing from 1 April 2012.

BOARD COMMITTEES

Audit Committee

The main role and functions of the Audit Committee include, among others, reviewing the financial information of the Company, overseeing the Company's financial reporting system and internal control procedure and maintaining relations with the auditor of the Company. During the year, the Audit Committee has also been delegated with the responsibilities to oversee the corporate governance functions, which include developing, reviewing and monitoring the Company's policies and practices on corporate governance, legal and regulatory requirements compliance; and reviewing the Company's compliance with the corporate governance code and disclosure in the corporate governance report.

Currently, the Audit Committee comprises two independent non-executive Directors, Mr. Cheng Yuk Wo (committee chairman), Mr. Chan Yuk Sang and one non-executive Director, Ms. Ma Wai Man, Catherine who was appointed on 1 April 2012 to replace Dr. Lam Lee G.

In the year ended 31 December 2012, the Audit Committee held four meetings, all of which were attended by all of the then members. Matters discussed in the meetings included, among others, the final results of the Company for the nine months ended 31 December 2011, the interim results of the Company for the six months ended 30 June 2012, the internal control system review and the adequacy of resources in relation to the Group's accounting and financial reporting function.

Nomination Committee and Nomination of Director

The Company did not have a nomination committee as set out in Code A.5 of the Revised CG Code during the period from 1 April 2012 to 30 June 2012 as more time was required to finalise the composition. However, the Nomination Committee was established on 1 July 2012 with the primarily responsibilities of reviewing the structure, size and composition of the Board, identifying and recommending individuals nominated for directorships and assessing the independence of independent non-executive directors. Before the establishment of the Nomination Committee, the Board as a whole was responsible for considering and approving the appointment of its members and met to discuss when nomination of new director was received or when circumstances required.

The Nomination Committee comprises one non-executive Director, Mr. Leung Pak To who serves as the chairman of the committee, and two independent non-executive Directors, Dr. Lam Lee G. and Ms. Wei Wei. The Nomination Committee members met once in the year ended 31 December 2012 for reviewing the structure, size and composition of the Board.

Remuneration Committee

The Remuneration Committee of the Company was set up with key responsibilities of, among others, recommending to the Board on the Group's policy and structure for the remuneration of all directors and senior management and on the remuneration packages of individual executive directors and senior management.

On 1 January 2012, the Remuneration Committee comprised of Mr. Soh Szu Wei as the chairman of the committee and Ms. Ma Wai Man, Catherine, Mr. Chan Yuk Sang, Mr. Cheng Yuk Wo and Dr. Lam Lee G. as the members. On 1 April 2012, Mr. Chan Yuk Sang was nominated as the chairman of the committee to replace Mr. Soh Szu Wei who remained as a member. On the same day, Mr. Yung Tse Kwong, Steven was appointed as an executive Director and a member of the committee to replace Ms. Ma Wai Man, Catherine who ceased as a member of the committee. Mr. Soh Szu Wei resigned as an executive Director and thus ceased as a member of the committee on 17 May 2012. On 25 March 2013, Mr. Lim Chin Leong was appointed as a member of the Remuneration Committee. Currently, the Remuneration Committee composed of four independent non-executive Directors, Mr. Chan Yuk Sang (committee chairman), Mr. Cheng Yuk Wo, Dr. Lam Lee G. and Mr. Lim Chin Leong and one executive Director, Mr. Yung Tse Kwong, Steven.

The Remuneration Committee members met once in the year ended 31 December 2012 for discussing the remuneration package of the executive director appointed during the year.

INTERNAL CONTROLS

The Board acknowledges that an effective internal control system which is designed to monitor and response appropriately to significant risk, to safeguard assets, to provide reasonable assurance from fraud and errors and to ensure compliance of applicable law and regulations is essential for effective and efficient operations of a company. Furthermore, the internal control system is designed to manage rather than eliminate the risk of failure and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group has in place an effective internal control system which encompasses sound control environment, appropriate segregation of duties, well-defined policies and procedures, close monitoring and is reviewed and enhanced by the management at regular intervals.

The Board has regularly engaged independent professional firms to conduct evaluation on the effectiveness of the internal control system of the Group on a cyclical basis and, for the year ended 31 December 2012, the operational controls of two key business sections of the Group have been reviewed. Report on the findings with recommendations for further improvement has been submitted to and considered by the Audit Committee and the management of the Company will monitor the improvement actions.

AUDITOR'S REMUNERATION

During the year ended 31 December 2012, remuneration in respect of audit and non-audit services provided by the auditor of the Company to the Group are approximately HK$1.2 million and HK$0.6 million respectively.

SHAREHOLDERS' RIGHTS

Set out below is a summary of certain rights of the shareholders of the Company (the "Shareholders").

Way to convene a special general meeting

Pursuant to Bye-law 58 of the Bye-law, Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall have the right to require a special general meeting to be called by the Board. The requisition shall be in writing stating the purposes of the meeting, signed by the requisitionists, addressed to the Board or the company secretary of the Company and deposited at the principal place of business in Hong Kong of the Company.

In accordance with the law of Bermuda, if the Board do not within twenty-one days from the date of the deposit of the requisition proceed duly to convene a meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

Procedures for putting enquiries to the Board

Shareholders may at any time put their enquires to the Board in writing by sending to the principal place of business in Hong Kong of the Company or to the email address investor@imagi.com.hk for the attention of the Board or the company secretary of the Company.

Procedures for putting forward proposals at shareholders' meeting

In accordance with the law of Bermuda, Shareholders representing (a) not less than one-twentieth of the total voting rights of all the Shareholders having at the date of the requisition a right to vote at the meeting; or (b) not less than one hundred Shareholders shall have the right to put forward resolution to be dealt with at a meeting at their own expense.

The requisition shall be in writing stating (a) the proposed resolution to be dealt with; and (b) a statement of not more than one thousand words with respect to the matter referred to in the proposed resolution (if any), signed by the requisitionists, addressed to the Board or the company secretary of the Company and deposited at the principal place of business in Hong Kong of the Company.

The Board will give the Shareholders notice of the proposed resolution and circulate any statement relating to the proposed resolution.

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 40 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated income statement on page 35.

The Directors do not recommend the payment of a dividend for the year.

FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the last five financial years/period is set out on page 104.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 20 to the financial statements.

SHARE CAPITAL

Details of the share capital of the Company during the year are set out in note 30 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 38 and note 38 to the financial statements respectively. As at 31 December 2012, the Company's reserves available for distribution to the shareholders amounted to HK$1,002.1 million (31 December 2011: HK$1,035.6 million).

DIRECTORS' REPORT

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Chairman and non-executive Director

Mr. Leung Pak To

Executive Directors

Mr. Yung Tse Kwong, Steven *(deputy chairman and chief executive officer)*	(appointed on 1 April 2012)
Mr. Soh Szu Wei *(chief executive officer)*	(resigned on 17 May 2012)

Non-executive Directors

Ms. Ma Wai Man, Catherine	
Mr. Yang Fei	
Mr. Lian Meng *(as the alternate of Mr. Yang Fei)*	(appointed on 15 May 2012)

Independent Non-executive Directors

Mr. Chan Yuk Sang
Mr. Cheng Yuk Wo
Dr. Lam Lee G.
Mr. Lim Chin Leong
Ms. Wei Wei

In accordance with Bye-law 87 of the Bye-laws, Mr. Yang Fei, Mr. Chan Yuk Sang and Dr. Lam Lee G. will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The non-executive Directors are subject to retirement by rotation in accordance with the Bye-laws.

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all of the independent non-executive Directors independent.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2012, the interests and short positions of the Directors and chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations were as follows:

Long positions in the shares of the Company

Name of Director	Capacity	Number of Shares	% of the issued share capital *(note 1)*
Leung Pak To	Beneficial owner	29,152,000	0.29%
	Interest of controlled corporation	2,700,000,000 *(note 2)*	26.95%

Notes:

1. It was based on 10,020,180,720 Shares in issue as at 31December 2012.

2. The Shares were held by Idea Talent Limited, a company owned as to 75% by Grandwin Enterprises Limited which in turn is wholly and beneficially owned by Mr. Leung Pak To.

Long positions in the share options of the Company

Name of Director	Capacity	Number of options held	Number of underlying shares
Yung Tse Kwong, Steven	Beneficial owner	80,000,000	80,000,000
Ma Wai Man, Catherine	Beneficial owner	2,000,000	2,000,000

Save as disclosed above, as at 31 December 2012, none of the Directors or chief executive of the Company or any of their associates 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.

ARRANGEMENTS TO PURCHASE SHARES AND DEBENTURES

Save for the option holding as disclosed above in the section "Directors' Interests in Securities", at no time during the year ended 31 December 2012 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debenture of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2012.

SUBSTANTIAL SHAREHOLDERS' INTEREST

As at 31 December 2012, the interests and short positions of those person (other than the Directors and chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company were as follows:

Long positions in the shares of the Company

Name	**Capacity**	**Number of Shares**	**% of the issued share capital** *(note 1)*
Idea Talent Limited	Beneficial owner	2,700,000,000	26.95%
Grandwin Enterprises Limited	Interest in controlled corporation	2,700,000,000 *(note 2)*	26.95%
Better Lead Limited	Interest in controlled corporation	2,700,000,000 *(note 2)*	26.95%
Chung Cho Yee, Mico	Interest in controlled corporation	2,700,000,000 *(note 2)*	26.95%
FIL Limited	Investment manager	601,224,000	6.00%
Sure Wealth Holdings Limited	Beneficial owner	572,809,670	5.72%
So Wing Lok, Jonathan	Interest in controlled corporation	572,809,670 *(note 3)*	5.72%

Notes:

1. It was based on 10,020,180,720 Shares in issue as at 31 December 2012.

2. The Shares were held by Idea Talent Limited, a company owned as to 75% by Grandwin Enterprises Limited, which in turn is wholly and beneficially owned by Mr. Leung Pak To, and as to 25% by Better Lead Limited, which in turn is wholly and beneficially owned by Mr. Chung Cho Yee, Mico.

3. To the Directors' best knowledge, the Shares were held by Sure Wealth Holdings Limited, a company wholly and beneficially owned by Mr. So Wing Lok, Jonathan.

Save as disclosed above, as at 31 December 2012, so far as was known to the Directors, no other persons (other than the Directors and chief executive of the Company) had any interests or short positions in the shares or underlying shares of the Company representing five percent or more in the issued share capital of the Company and as recorded in the register required to be kept under Section 336 of the SFO.

SHARE OPTIONS

The Company adopted a share option scheme on 16 August 2002 (the "2002 Scheme") which would otherwise expire on 15 August 2012. Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 11 June 2012, the Company terminated the 2002 Scheme and adopted a new share option scheme (the "2012 Scheme"), the purpose of which is to reward eligible participants who have contributed or are expected to contribute to the Group and to encourage the participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. Particulars of the 2002 Scheme and the 2012 Scheme are set out in note 31 to the financial statements. No further option shall be granted under the 2002 Scheme but the options granted under the 2002 Scheme prior to its termination shall remain valid and exercisable in accordance with the terms of the respective grants.

During the year ended 31 December 2012, no share option has been granted under the 2012 Scheme and the movement of the share options under the 2002 Scheme were as follows:

					Number of share options					
	Date of grant	Vesting period	Exercise period	Exercise price per Share HK$	As at 1 January 2012	Granted during the year *(note)*	Exercised during the year	Cancelled during the year	Forfeited during the year	As at 31 December 2012
Directors										
Soh Szu Wei	13 April 2011	3 to 5 years	3 years	0.368	50,000,000	–	–	(50,000,000)	–	–
Ma Wai Man, Catherine	13 April 2011	3 to 5 years	3 years	0.368	2,000,000	–	–	–	–	2,000,000
Yung Tse Kwong, Steven	2 April 2012	1 to 3 years	3 years	0.173	–	80,000,000	–	–	–	80,000,000
					52,000,000	80,000,000	–	(50,000,000)	–	82,000,000
Former employee	21 August 2009	1 to 3 years	5 years	0.755	417,160	–	–	–	–	417,160
Employees	13 April 2011	3 to 5 years	3 years	0.368	10,680,000	–	–	(3,760,000)	–	6,920,000
					11,097,160	–	–	(3,760,000)	–	7,337,160
					63,097,160	80,000,000	–	(53,760,000)	–	89,337,160

Note: The closing price of the Shares immediately before 2 April 2012, the date on which the options were granted, was HK$0.168.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2012, the percentage of revenue of the Group attributable to the largest customer and the five largest customers combined are 15.1% and 36.3% respectively. The percentage of cost of sales of the Group attributable to the five largest suppliers combined is less than 30%.

None of the Directors, their associates or shareholders of the Company (who or which, to the best knowledge of the Directors, owns more than five percent of the issued share capital of Company) had any interest in the five largest customers of the Group.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-laws or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules.

AUDITOR

A resolution will be submitted at the forthcoming annual general meeting of the Company to re-appoint Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board
Yung Tse Kwong, Steven
Executive Director
Hong Kong, 25 March 2013

Deloitte.
德勤

TO THE MEMBERS OF IMAGI INTERNATIONAL HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Imagi International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 35 to 103, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended 31 December 2012, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2012 and of the Group's loss and cash flows for the year ended 31 December 2012 in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
25 March 2013

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Notes	From 1 January 2012 to 31 December 2012 HK$'000	From 1 April 2011 to 31 December 2011 HK$'000 (Restated)
Continuing operations			
Revenue	8	**151,182**	110,843
Cost of sales before amortisation of intangible assets	9	**(54,567)**	(30,048)
Gross profit before amortisation of intangible assets		**96,615**	80,795
Amortisation of intangible assets	21	**(99,910)**	(73,729)
Gross (loss) profit after amortisation of intangible assets		**(3,295)**	7,066
Other income	10	**9,403**	8,559
Other gains and losses	11	**1**	170
Selling expenses		**(19,590)**	(9,403)
Administrative expenses		**(82,220)**	(61,644)
Share of loss of an associate	22	**(5,553)**	(2,516)
Gain on disposal of interests in an associate and cancellation of related options and liabilities	24	**7,687**	–
Finance costs	12	**–**	(79)
Loss before taxation	13A	**(93,567)**	(57,847)
Income tax credit	14	**14,429**	7,642
Loss for the year/period from continuing operations		**(79,138)**	(50,205)
Discontinued operation			
Loss for the year/period from discontinued operation	15	**(12,429)**	(17,150)
Loss for the year/period		**(91,567)**	(67,355)
Loss per share from continuing and discontinued operations			
Basic and diluted	19	**(HK$0.009)**	(HK$0.007)
Loss per share from continuing operations			
Basic and diluted	19	**(HK$0.008)**	(HK$0.005)

CONSOLIDATED
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2012

	From 1 January 2012 to 31 December 2012 HK$'000	From 1 April 2011 to 31 December 2011 HK$'000
Loss for the year/period	**(91,567)**	(67,355)
Exchange differences arising on translation	**11,978**	17,074
Total comprehensive expenses for the year/period	**(79,589)**	(50,281)

CONSOLIDATED
STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	20	**4,779**	7,691
Intangible assets	21	**841,492**	932,133
Interest in an associate	22	**–**	27,086
Derivative financial instrument	23	**–**	6,798
Deferred tax assets	29	**2,208**	2,359
		848,479	976,067
Current assets			
Inventories		**–**	797
Trade and other receivables, deposits and prepayments	25	**90,968**	76,701
Bank balances and cash	26	**253,567**	281,341
		344,535	358,839
Current liabilities			
Trade, other payables and liabilities	27	**18,280**	35,133
Unearned revenue		**3,101**	12,770
Tax payable		**11,086**	9,532
		32,467	57,435
Net current assets		**312,068**	301,404
Total assets less current liabilities		**1,160,547**	1,277,471
Non-current liabilities			
Other liabilities	28	**–**	17,972
Deferred tax liabilities	29	**212,533**	232,678
		212,533	250,650
Net assets		**948,014**	1,026,821
Capital and reserves			
Share capital	30	**10,020**	10,020
Reserves		**937,994**	1,016,801
Total equity attributable to owners of the Company		**948,014**	1,026,821

The consolidated financial statements on pages 35 to 103 were approved and authorised for issue by the board of directors on 25 March 2013 and are signed on its behalf by:

LEUNG PAK TO
DIRECTOR

YUNG TSE KWONG, STEVEN
DIRECTOR

	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000 (note i)	Merger reserve HK$'000 (note ii)	Translation reserve HK$'000	Share option reserve HK$'000	Option shares reserve HK$'000	Deemed contribution reserve HK$'000 (note iii)	PRC statutory reserve HK$'000 (note iv)	Accumulated losses HK$'000	Total HK$'000
At 1 April 2011	5,725	892,924	–	909	3,167	708	63,581	22,650	–	(821,106)	168,558
Exchange differences arising on translation	–	–	–	–	17,074	–	–	–	–	–	17,074
Loss for the period	–	–	–	–	–	–	–	–	–	(67,355)	(67,355)
Total loss and comprehensive expenses for the period	–	–	–	–	17,074	–	–	–	–	(67,355)	(50,281)
Issue of consideration shares (Note 32(i)(b))	1,383	422,071	–	–	–	–	–	–	–	–	423,454
Share subscription (Note 30(i))	1,283	357,906	–	–	–	–	–	–	–	–	359,189
Exercise of option shares (Note 30(ii))	1,629	185,801	–	–	–	–	(63,581)	–	–	–	123,849
Share issue expenses (Note 31(i))	–	(6,060)	–	–	–	–	6,060	–	–	–	–
Share options forfeited for the period	–	–	–	–	–	(459)	–	–	–	459	–
Recognition of equity-settled share-based payments (Note 31(ii))	–	–	–	–	–	2,052	–	–	–	–	2,052
Transfer (note i)	–	(1,852,642)	1,037,593	–	–	–	–	(22,650)	–	837,699	–
Transfer to statutory reserve	–	–	–	–	–	–	–	–	2,429	(2,429)	–
At 31 December 2011	10,020	–	1,037,593	909	20,241	2,301	6,060	–	2,429	(52,732)	1,026,821
Exchange differences arising on translation	–	–	–	–	11,978	–	–	–	–	–	11,978
Loss for the year	–	–	–	–	–	–	–	–	–	(91,567)	(91,567)
Total loss and comprehensive expenses for the year	–	–	–	–	11,978	–	–	–	–	(91,567)	(79,589)
Recognition of equity-settled share-based payments (Note 31(ii))	–	–	–	–	–	782	–	–	–	–	782
At 31 December 2012	**10,020**	**–**	**1,037,593**	**909**	**32,219**	**3,083**	**6,060**	**–**	**2,429**	**(144,299)**	**948,014**

notes:

(i) Pursuant to section 46(2) of the Companies Act 1981 of Bermuda and with effect after the passing of a special resolution at a special general meeting held on 29 August 2011, the Company's entire amount standing to the credit of the share premium account and the deemed contribution reserve account were cancelled (the "Share Premium Cancellation"). Upon the Share Premium Cancellation becoming effective, the directors of the Company authorised to transfer the credit arising therefrom to the contributed surplus account of the Company and to set off the accumulated losses of the Company in a manner permitted by the laws of Bermuda and the bye-laws of the Company.

(ii) The merger reserve represents the difference between the nominal value of shares of subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition at the time of a previous corporate reorganisation.

(iii) The deemed contribution reserve represents the difference between the subscription price of a share subscription by a then new shareholder and the diluted subscription price after taking into account of the transfer of gift shares from a then existing shareholder to the then new shareholder. Pursuant to a special resolution passed on 29 August 2011, the deemed contribution reserve was cancelled as detailed in note (i) above.

(iv) According to the rules and regulations in the People's Republic of China ("PRC"), a portion of the profit after taxation of a Company's PRC subsidiary is required to be transferred to a statutory reserve before distribution of a dividend to its equity owners. The transfer can cease when the balance of the reserve reaches 50% of the registered capital of the subsidiary. The reserve can be applied either to set off accumulated losses or to increase capital.

CONSOLIDATED
STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	From 1 January 2012 to 31 December 2012 HK$'000	From 1 April 2011 to 31 December 2011 HK$'000
OPERATING ACTIVITIES		
Loss for the year/period	**(91,567)**	(67,355)
Income tax credit from continuing operations	**(14,429)**	(7,642)
	(105,996)	(74,997)
Adjustments for:		
Amortisation of intangible assets	**99,910**	73,729
Bank interest income	**(3,224)**	(2,649)
Allowance for doubtful debts	**3,504**	4,856
Share-based payment expenses	**782**	2,052
Share of loss of an associate	**5,553**	2,516
Depreciation of property, plant and equipment	**1,609**	1,316
Loss on disposal of property, plant and equipment	**2,586**	176
Finance costs	**–**	79
Impairment loss recognised in respect of intangible assets	**5,249**	5,250
Impairment loss recognised on inventories	**305**	–
Gain on disposal of interest in an associate and cancellation of related options and liabilities	**(7,687)**	–
Operating cash flows before movements in working capital	**2,591**	12,328
Increase in trade and other receivables, deposits and prepayments	**(4,280)**	(33,458)
Decrease in trade, other payables and liabilities	**(7,794)**	(6,868)
Decrease in inventories	**492**	3,047
Decrease in unearned revenue	**(23,306)**	(6,340)
Cash used in operations	**(32,297)**	(31,291)
Tax paid	**(7,662)**	(8,848)
NET CASH USED IN OPERATING ACTIVITIES	**(39,959)**	(40,139)

CONSOLIDATED
STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Note	**From 1 January 2012 to 31 December 2012 HK$'000**	From 1 April 2011 to 31 December 2011 HK$'000
INVESTING ACTIVITIES			
Withdrawal of pledged deposit		**–**	11,674
Proceeds from disposal (acquisition) of an associate		**9,100**	(9,100)
Interest received		**3,142**	2,021
Proceeds from disposal of property, plant and equipment		**117**	857
Purchase of intangible assets		**(277)**	–
Purchase of property, plant and equipment		**(1,385)**	(4,827)
Acquisition of subsidiaries	32	**–**	(317,774)
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**10,697**	(317,149)
FINANCING ACTIVITIES			
Proceeds from subscription and top-up shares		**–**	359,189
Proceeds from exercise of share options		**–**	123,849
Repayment of bank loans		**–**	(10,529)
Interest paid		**–**	(79)
NET CASH FROM FINANCING ACTIVITIES		**–**	472,430
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(29,262)**	115,142
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD		**281,341**	167,161
Effect of foreign exchange rate changes		**1,488**	(962)
CASH AND CASH EQUIVALENTS AT ENDING OF THE YEAR/PERIOD, representing bank balances and cash		**253,567**	281,341

1. GENERAL

The Company is a public limited company incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda and its shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" to the annual report.

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in Note 40.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

(i) On 13 April 2011, the Group acquired the entire equity interest in Infoport Management Limited ("Infoport"), a company incorporated in the British Virgin Islands ("BVI") from PGBBW Limited, a company also incorporated in the BVI and unrelated to the Group (the "Acquisition"), further details of which are set out in Note 32. Given the significance of the Acquisition to the Group, the directors of the Company had henceforth reconsidered the Group's financial reporting procedures and have determined that the reporting period of the Group be changed from 31 March to 31 December in order to bring the annual reporting period end date of the Group in line with that of its major operating subsidiaries which operate in the PRC. Accordingly, the consolidated financial statements for the prior period cover a nine-month period from 1 April 2011 to 31 December 2011 of the Group and therefore may not be comparable with amounts shown for the current year which cover a twelve-month period from 1 January 2012 to 31 December 2012.

(ii) During the current year, the directors of the Company have decided to discontinue its operation in Hong Kong which was primarily engaged in the Segment A business (as defined in Note 8) and shifted its operation focus to the PRC in order to achieve a better cost control over its operation. As a result of this change, the directors have:

(a) reassessed the functional currency of the Company and certain subsidiaries during the current year and changed the functional currency of the Company and the relevant subsidiaries from Hong Kong Dollars ("HK$") to Renminbi ("RMB") as RMB better reflects the underlying transactions, events and conditions that are relevant to the Company and the relevant subsidiaries, which is the currency of the primary economic environment in which the Group's major operating subsidiaries and the relevant subsidiaries operate. The change of functional currency is applied prospectively from the date of change in accordance with HKAS 21 *The Effect of Changes in Foreign Exchange Rates*. At the date of the change, all items were translated into the new functional currency using the prevailing exchange rate at that date and the resulting translated amounts for non-monetary items are treated as historical cost. Exchange differences arising from the translation from functional currency to presentation currency of the Group's entities were recognised in comprehensive income. During the year, the Group recognised exchange gain of HK$11,978,000 arising from the translation directly in comprehensive expense.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(ii) *(Continued)*

(b) in the opinion of the directors of the Company, the presentation currency in HK$ remains unchanged as the shares of the Company are listed and traded on the Main Board of the Stock Exchange and the majority of the Company's investors are in Hong Kong.

(c) Segment A business has been discontinued and presented as a discontinued operation in these consolidated financial statements. The results for the nine-month period from 1 April 2011 to 31 December 2011 have been restated and presented separately in the consolidated income statement.

(iii) During the current year, the directors of the Company have also decided to present an income statement and a statement of comprehensive income separately rather than presenting a single statement.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Asset
Amendments to HKFRS 7	Financial Instruments: Disclosures — Transfers of Financial Assets

The application of these new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current year and prior periods and/or on the disclosures set out in these consolidated financial statements.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009–2011 Cycle[1]
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS27	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

1 Effective for annual periods beginning on or after 1 January 2013.
2 Effective for annual periods beginning on or after 1 January 2014.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 July 2012.

HKFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and revised HKFRSs issued but not yet effective *(Continued)*

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of the reporting periods. All other debt investments and all equity investments are measured at fair value at the end of accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The directors anticipate that HKFRS 9 will be adopted by the Group for the financial year ending 31 December 2015 and based on the Group's financial instruments as at 31 December 2012, the application of HKFRS 9 will not have a material impact on the amounts reported in respect of the Group's financial assets and financial liabilities.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these standards related to the Group are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. HK(SIC)-Int 12 *Consolidation — Special Purpose Entities* will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and revised HKFRSs issued but not yet effective *(Continued)*

New and revised standards on consolidation, joint arrangements, associates and disclosures (Continued)

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK(SIC)-Int 13 *Jointly Controlled Entities — Non-monetary Contributions by Venturers* will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

The directors anticipate that these five standards together with the amendments relating to the transitional guidance will be applied by the Group in the annual period beginning on 1 January 2013. In accordance with the transitional provisions, the Group will apply the new definition of control under HKFRS10 in assessing the Group's investees as at the date of initial application, i.e. 1 January 2013. The directors anticipate that the application of these standards are not expected to have material impact on the consolidated financial statements of the Group in the annual period when these standards are applied.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange and Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances as of existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39 *Financial Instruments*, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amount are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment in an associate

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of the associate used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investment in an associate are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses.

Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

The requirements of HKAS 39 *Financial Instruments* are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Jointly controlled operations

When a group entity undertakes its activities under joint venture arrangements directly, constituted as jointly controlled operations, the assets and liabilities arising from those jointly controlled operations are recognised in the statement of financial position of the relevant company on an accrual basis and classified according to the nature of the item. The Group's share of the income from jointly controlled operations, together with the expenses that it incurs are included in the consolidated income statement when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

Government grants

Government grants are not recognised until there is a reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit and loss on a systematic basis over the periods which the Group recognised as expenses the related cost for which the grants are intended to compensate.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue is measured at the fair values of considerations received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from broadcasting of the Group's computer graphic imaging ("CGI") animation pictures is recognised as follows:

(i) When a distribution arrangement has been made with a distributor whereby the distributor is responsible for broadcasting and distribution costs and such broadcasting and distribution costs are to be recovered by the distributor from box office receipts in accordance with the arrangement, revenue is recognised based on net box office receipts reported by the distributor when the Group is not required to reimburse the distributor any shortfall between the box office receipts and the broadcasting and distribution costs.

(ii) When the Group is required to reimburse the distributor any shortfall between the box office receipts and the recoupable broadcasting and distribution costs, revenue is recognised based on box office receipts reported by the distributor with the relevant recoupable broadcasting and distribution costs being recognised as prints and advertising expenses in the consolidated income statement.

Production service income is recognised when the services are provided. Payments received prior to the provision of services are recorded as unearned revenue and are classified as current liabilities in the consolidated statement of financial position.

Royalty income from the licensing of trademarks and copyrights is generally recognised in periods when royalties are reported by licensees about the related product sales.

Income from the licensing of rights to exploit CGI animation pictures is recognised when the Group's entitlement to such payments has been established which is upon the delivery of products manufactured by licensee to ultimate customers.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the relevant asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit and loss in the period in which the item is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the relevant leases.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

Functional currency of a group entity is changed only if there is a change to the underlying transactions, events and conditions that are relevant to the entity, such effect is accounted for prospectively at the date of change, the entity translates all items into the new functional currency using the prevailing exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as their historical cost. Exchange differences arising from the translation of a foreign operation previously recognised in comprehensive income are not reclassified from equity to profit or loss until the disposal of the operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) at the rate of exchange prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit cost

Payments to the state-managed retirement benefit schemes/Mandatory Provident Fund Scheme ("MPF Scheme") are recognised as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable loss differs from 'loss before taxation' as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of any deferred tax assets is reviewed at the end of each of reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Intangible assets

Consumer Products Agreement, TE Trademarks and Copyrights and JBM Agreement

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value on the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses/revalued amounts, being their fair value on the date of the revaluation less subsequent accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at costs less any subsequent accumulated impairment losses.

CGI animation pictures

CGI animation pictures, which represent CGI animation pictures in which the Group retains ownership, consist of film rights of completed CGI animation pictures and CGI animation pictures of which the productions are still in progress.

CGI animation pictures in progress are stated at costs incurred to date, including all the costs directly attributable to the CGI animation pictures in progress and borrowing costs capitalised, less accumulated impairment losses. Upon completion and release of the CGI animation pictures, the costs are amortised based on the proportion of actual income earned during the year to the estimated total income expected to be generated from the relevant CGI animation pictures.

Completed CGI animation pictures are stated at cost incurred to date, representing all the costs directly attributable to the completed CGI animation pictures and borrowing costs capitalised, less accumulated amortisation and accumulated impairment losses.

Intangible assets are derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the relevant intangible assets, which is calculated as the difference between the net disposal proceeds and the carrying value of the net asset is recognised in profit and loss in the period when the asset is derecognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (Continued)

For certain categories of financial asset such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, an impairment loss is recognised in profit and loss when there is objective evidence that the assets is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instrument

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Options that will be settled by issuing fixed number of shares for a fixed amount of cash are regarded as equity instrument. Options granted to creditors to settle the relevant debts or to investor are recorded at fair value of the options on the date of grant in option shares reserve.

Derivative financial instruments

Derivative financial assets and liabilities that are linked to and must be settled by delivery of such unquoted equity instruments (i.e. Sino Light Subscription Option, TE Put Options and Other Shareholders' Call Option) are measured at fair value upon initial recognition and are subsequently measured at cost less any identified impairment losses or at cost respectively at the end of the reporting period because they do not have quoted market price in an active market and whose fair value cannot be reliably measured.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition (Continued)

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

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

When an existing financial liability is renegotiated in such a way that the liability is extinguished fully or partially by issuing equity instruments, it is accounted for as an extinguishment of the original financial liability and a recognition of equity instrument at the fair value upon issue with the difference, being the carrying amount of the financial liability (or part of a financial liability) extinguished and the consideration paid, recognised to profit or loss.

Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period/recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

At the time when the Group modifies the terms and conditions of the share options previously granted, the Group continues to recognise the share-based payment expense for the existing share options and measures the effect of such modifications that increase the total fair value of the share-based payment arrangements at the date of modifying the terms and conditions of the share options and recognises fair value increment in accordance with the revised vesting period, if applicable.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equity-settled share-based payment transactions *(Continued)*

The Group cancels and forfeits the share options as a result of resignation of employees. For cancellation of share options where the vesting period of the share options has not completed, the relevant recognised share-based payment was to reverse to profit or loss if it was previously charged to the profit or loss.

For forfeiture of share options where the vesting period of the share options has completed, the relevant recognised share-based payment was to credit against accumulated losses, but not reversed, with a corresponding adjustment to share option reserve.

Impairment losses on tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives are tested for impairment annually and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the assets is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit ("CGU")) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU) in prior years. A reversal of an impairment loss is recognised as income immediately.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of intangible assets

Determining whether intangible assets are impaired requires an estimation of the recoverable amounts which are the higher of the value in use or the fair value less costs to sell of the CGU to which intangible assets have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows or the fair value less costs to sell of the intangible assets are less than expected, a material impairment loss may arise.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Estimated impairment of intangible assets *(Continued)*

As at 31 December 2012, the management of the Group considered fair value less costs to sell (31 December 2011: value in use) to evaluate the recoverable amount of intangible assets. Since the estimated fair value less costs to sell is higher than the carrying amount of the CGU in which the intangible assets of HK$841,492,000 (31 December 2011: HK$932,133,000) are attached to, no material impairment loss is expected.

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

As at 31 December 2012, the carrying amount of trade receivables of the Group is HK$38,707,000 (31 December 2011: HK$24,374,000) net of allowance for doubtful debts of HK$8,523,000 (31 December 2011: HK$4,917,000).

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital and various reserves.

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associated with share capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

7. FINANCIAL INSTRUMENTS

7a. Categories of financial instruments

	2012 HK$'000	2011 HK$'000
Financial assets		
Derivative financial asset	–	6,798
Loans and receivables (including cash and cash equivalents)	**343,665**	357,265
	343,665	364,063
Financial liabilities		
Amortised cost	**12,374**	21,419

7b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, deposits, bank balances and cash and trade and other payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) *Currency risk*

The Group's sale are denominated in HK$, RMB and United States dollar ("USD") and it pays its costs and expenses substantially in the functional currency of the respective group entities, i.e., RMB (2011: HK$ and RMB).

The carrying amounts of the Group's monetary assets and liabilities mainly in the form of trade and other receivables, deposits, bank balances and trade and other payables for the year/period, denominated in a currency other than the functional currency of the relevant group entities, i.e. USD, HK$ and Euro dollar ("EUR"), at the end of the reporting date are as follows:

	Monetary assets 2012 HK$'000	2011 HK$'000
USD	**1,908**	3,963
HK$	**231,201**	N/A*
EUR	**2,512**	538

7. FINANCIAL INSTRUMENTS *(Continued)*

7b. Financial risk management objectives and policies *(Continued)*

Market risk (Continued)

(i) Currency risk (Continued)

	Monetary liabilities	
	2012	2011
	HK$'000	HK$'000
USD	**1,210**	1,254
HK$	**858**	N/A*
EUR	**241**	514

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2011: 5%) increase and decrease in RMB (2011: HK$ and RMB) against the relevant foreign currencies. 5% (2011: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 5% (2011: 5%) change in foreign currency rates. A positive number below indicates a decrease in post-tax loss if the above foreign currencies strengthen 5% (2011: 5%) against the functional currency of the Group.

	From 1 January 2012 to 31 December 2012	From 1 April 2011 to 31 December 2011
	HK$'000	HK$'000
Decrease in loss after taxation		
USD	**35**	135
HK$	**11,517**	N/A*
EUR	**114**	1

* No currency risk is identified for those monetary assets denominated in HK$ which are in the functional currency of the relevant group entities as at 31 December 2011.

7. FINANCIAL INSTRUMENTS *(Continued)*

7b. Financial risk management objectives and policies *(Continued)*

Market risk (Continued)

(ii) *Interest rate risk*

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances for the year/period.

It is the Group's policy to keep its bank balances at floating rate of interest so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The directors of the Company consider the Group's exposure of the variable-rate bank balances are within short maturity period, and the fluctuation in interest rate risk arising from the bank balances are insignificant.

Credit risk

As at 31 December 2012, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk of receivables, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities which are based on the earliest date on which the Group can be required to pay.

7. FINANCIAL INSTRUMENTS *(Continued)*

7b. Financial risk management objectives and policies *(Continued)*

Liquidity risk (Continued)

The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	Less than 1 month HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31 December 2012 HK$'000
At 31 December 2012				
Non-derivative financial liabilities				
Trade and other payables	**–**	**12,374**	**12,374**	**12,374**

	Weighted average effective interest rate %	Less than 1 month HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31 December 2011 HK$'000
At 31 December 2011				
Non-derivative financial liabilities				
Trade and other payables	–	21,419	21,419	21,419

7c. Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their respective fair values.

8. REVENUE AND SEGMENT INFORMATION

For the purpose of performance assessment and resources allocation, the executive directors of the Company, being the chief operating decision maker ("CODM"), used to regularly review the revenue and results of the following two segments:

Segment A: Production, broadcasting and licensing of the Group's CGI animation pictures not developed by TE Group (defined in Note 32); and

Segment B: Licensing and management of cartoon character trademarks and copyrights and all related activities managed by TE Group.

However, Segment A was discontinued in the current year and details are set out in Note 15.

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable and operating segment.

From 1 January 2012 to 31 December 2012

	Continuing operations Segment B HK$'000	Discontinued operation Segment A HK$'000	Total HK$'000
Revenue			
External sales	**151,182**	**4,031**	**155,213**
Segment results	**(81,049)**	**(12,429)**	**(93,478)**
Reconciling items:			
Unallocated income and administrative expenses, net	**(14,652)**	**–**	**(14,652)**
Share of loss of an associate	**(5,553)**	**–**	**(5,553)**
Gain on disposal of interests in an associate and cancellation of related options and liabilities	**7,687**	**–**	**7,687**
Loss before taxation	**(93,567)**	**(12,429)**	**(105,996)**

8. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenues and results *(Continued)*

From 1 April 2011 to 31 December 2011

	Continuing operations Segment B HK$'000	Discontinued operation Segment A HK$'000	Total HK$'000
Revenue			
External sales	110,843	6,390	117,233
Segment results	(43,942)	(17,150)	(61,092)
Reconciling items:			
Unallocated administrative expenses	(11,310)	–	(11,310)
Share of loss of an associate	(2,516)	–	(2,516)
Finance costs	(79)	–	(79)
Loss before taxation	(57,847)	(17,150)	(74,997)

Other segment information

From 1 January 2012 to 31 December 2012

	Continuing operations Segment B HK$'000	**Discontinued operation Segment A HK$'000**	**Total HK$'000**
Amounts included in the measure of segment profit or loss:			
Additions to non-current assets	**1,662**	**–**	**1,662**
Impairment loss on intangible assets	**–**	**(5,249)**	**(5,249)**
Amortisation of intangible assets	**(99,910)**	**–**	**(99,910)**
Depreciation of property, plant and equipment	**(1,363)**	**(246)**	**(1,609)**
Allowance for doubtful debts	**(3,504)**	**–**	**(3,504)**
Loss on disposal of property, plant and equipment	**(137)**	**(2,449)**	**(2,586)**

8. REVENUE AND SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

From 1 April 2011 to 31 December 2011

	Continuing operations Segment B HK$'000	Discontinued operation Segment A HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss:			
Additions to non-current assets	986,295	268	986,563
Impairment loss on intangible assets	–	(5,250)	(5,250)
Amortisation of intangible assets	(73,729)	–	(73,729)
Depreciation of property, plant and equipment (net of amounts capitalised)	(800)	(516)	(1,316)
Allowance for doubtful debts	(4,856)	–	(4,856)
Loss on disposal of property, plant and equipment	(166)	(10)	(176)

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment results represent loss attributable to each segment without allocation of certain income, administrative expenses, finance costs, share of loss of an associate and gain on disposal of interests in an associate and cancellation of related options and liabilities. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance. This basis of segment revenue and segment results has been consistently applied for the year/period presented.

Segment assets and liabilities

As the assets and liabilities are regularly reviewed by the CODM in total for the Group as a whole, the measure of total assets and liabilities by operating segment is therefore not presented.

8. REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical information

The Group's operations are located in Hong Kong and PRC. Information about the Group's revenue from external customers and non-current assets is presented based on the location of the operations, as follows:

	Revenue from external customers					
	Continuing operations		Discontinued operation		Consolidated	
	From 1 January 2012 to 31 December 2012 HK$'000	From 1 April 2011 to 31 December 2011 HK$'000	**From 1 January 2012 to 31 December 2012 HK$'000**	From 1 April 2011 to 31 December 2011 HK$'000	**From 1 January 2012 to 31 December 2012 HK$'000**	From 1 April 2011 to 31 December 2011 HK$'000
PRC	**145,918**	98,048	**–**	930	**145,918**	98,978
Hong Kong	**1,311**	7,227	**3,866**	270	**5,177**	7,497
Others	**3,953**	5,568	**165**	5,190	**4,118**	10,758
	151,182	110,843	**4,031**	6,390	**155,213**	117,233

	Non-current assets					
	Continuing operations		Discontinued operation		Consolidated	
	At 31 December 2012 HK$'000	At 31 December 2011 HK$'000	**At 31 December 2012 HK$'000**	At 31 December 2011 HK$'000	**At 31 December 2012 HK$'000**	At 31 December 2011 HK$'000
PRC	**842,889**	601,891	**–**	–	**842,889**	601,891
Hong Kong	**3,286**	356,933	**–**	7,961	**3,286**	364,894
Others	**96**	125	**–**	–	**96**	125
	846,271	958,949	**–**	7,961	**846,271**	966,910

note: Non-current assets excluded derivative financial instrument and deferred tax assets.

8. REVENUE AND SEGMENT INFORMATION *(Continued)*

Information about major customers

Revenues from customers of the corresponding period contributing over 10% of the total revenue of the Group are as follows:

	From 1 January 2012 to 31 December 2012 HK$'000	From 1 April 2011 to 31 December 2011 HK$'000
Continuing operations		
Customer A	**23,480**	N/A*
Customer B	**17,101**	15,289

* The amount is less than 10% for the prior period.

9. COST OF SALES BEFORE AMORTISATION OF INTANGIBLE ASSETS

	Continuing operations		**Discontinued operation**		**Consolidated**	
	From 1 January 2012 to 31 December 2012 HK$'000	From 1 April 2011 to 31 December 2011 HK$'000	**From 1 January 2012 to 31 December 2012 HK$'000**	From 1 April 2011 to 31 December 2011 HK$'000	**From 1 January 2012 to 31 December 2012 HK$'000**	From 1 April 2011 to 31 December 2011 HK$'000
Royalty fees	**7,358**	16,371	**–**	–	**7,358**	16,371
Production cost for CGI animation pictures	**–**	–	**5,738**	13,540	**5,738**	13,540
Impairment loss on intangible assets	**–**	–	**5,249**	5,250	**5,249**	5,250
Impairment loss on inventories	**39**	–	**266**	–	**305**	–
Production cost for licensing and management of cartoon character trademarks by TE Group	**47,170**	13,677	**–**	–	**47,170**	13,677
	54,567	30,048	**11,253**	18,790	**65,820**	48,838

10. OTHER INCOME

	Continuing operations		Discontinued operation		Consolidated	
	From 1 January 2012 to 31 December 2012 HK$'000	From 1 April 2011 to 31 December 2011 HK$'000	**From 1 January 2012 to 31 December 2012 HK$'000**	From 1 April 2011 to 31 December 2011 HK$'000	**From 1 January 2012 to 31 December 2012 HK$'000**	From 1 April 2011 to 31 December 2011 HK$'000
Interest income	**3,224**	123	**–**	2,526	**3,224**	2,649
Compensation for infringement	**3,972**	1,252	**–**	–	**3,972**	1,252
Government award/subsidies (note)	**–**	6,280	**–**	–	**–**	6,280
Others	**2,207**	904	**–**	179	**2,207**	1,083
	9,403	8,559	**–**	2,705	**9,403**	11,264

note: These related to several award/subsidies from the PRC local government authority for outstanding performance and contribution to the development of the new media industry. No conditions were attached to the award/subsidies. Such government award/subsidies were recognised as other income upon receipt during the period ended 31 December 2011.

11. OTHER GAINS AND LOSSES

	Continuing operations		Discontinued operation		Consolidated	
	From 1 January 2012 to 31 December 2012 HK$'000	From 1 April 2011 to 31 December 2011 HK$'000	**From 1 January 2012 to 31 December 2012 HK$'000**	From 1 April 2011 to 31 December 2011 HK$'000	**From 1 January 2012 to 31 December 2012 HK$'000**	From 1 April 2011 to 31 December 2011 HK$'000
Loss on disposal of property, plant and equipment	**(137)**	(166)	**(2,449)**	(10)	**(2,586)**	(176)
Net foreign exchange gains (losses)	**138**	336	**–**	(14)	**138**	322
	1	170	**(2,449)**	(24)	**(2,448)**	146

12. FINANCE COSTS

	Continuing operations		Discontinued operation		Consolidated	
	From 1 January 2012 to 31 December 2012	From 1 April 2011 to 31 December 2011	**From 1 January 2012 to 31 December 2012**	From 1 April 2011 to 31 December 2011	**From 1 January 2012 to 31 December 2012**	From 1 April 2011 to 31 December 2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Interest on bank loans wholly repayable within five years	**–**	79	**–**	–	**–**	79

13A. LOSS BEFORE TAXATION

	Continuing operations		Discontinued operation		Consolidated	
	From 1 January 2012 to 31 December 2012 HK$'000	From 1 April 2011 to 31 December 2011 HK$'000	**From 1 January 2012 to 31 December 2012 HK$'000**	From 1 April 2011 to 31 December 2011 HK$'000	**From 1 January 2012 to 31 December 2012 HK$'000**	From 1 April 2011 to 31 December 2011 HK$'000
Loss before taxation has been arrived at after charging and (crediting):						
Directors' emoluments (Note 16)	**10,607**	9,047	**–**	–	**10,607**	9,047
Contribution to retirement benefit scheme	**5,954**	2,346	**154**	393	**6,108**	2,739
Other staff costs (salaries and wages)	**58,351**	31,226	**4,113**	9,640	**62,464**	40,866
Equity-settled share-based payments expenses other than directors	**199**	255	**–**	–	**199**	255
Total staff costs	**75,111**	42,874	**4,267**	10,033	**79,378**	52,907
Less: amounts capitalised	**–**	–	**–**	(320)	**–**	(320)
	75,111	42,874	**4,267**	9,713	**79,378**	52,587
Depreciation of property, plant and equipment (Note 20)	**1,363**	800	**246**	539	**1,609**	1,339
Less: amounts capitalised	**–**	–	**–**	(23)	**–**	(23)
	1,363	800	**246**	516	**1,609**	1,316
Amortisation of intangible assets (Note 21)	**99,910**	73,729	**–**	–	**99,910**	73,729
Total depreciation and amortisation	**101,273**	74,529	**246**	516	**101,519**	75,045
Rentals in respect of premises under operating leases (Note 34)	**5,532**	3,185	**857**	1,485	**6,389**	4,670
Less: amounts capitalised	**–**	–	**–**	(17)	**–**	(17)
	5,532	3,185	**857**	1,468	**6,389**	4,653
Auditor's remuneration	**1,200**	3,051	**–**	–	**1,200**	3,051
Allowance for doubtful debts	**3,504**	4,856	**–**	–	**3,504**	4,856

13B. EARNINGS (LOSS) BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION

The calculation of the earnings (loss) before interest, tax, depreciation and amortisation ("EBITDA" "(LBITDA)") during the year/period is based on the following data:

	Continuing operations		Discontinued operation		Consolidated	
	From 1 January 2012 to 31 December 2012 HK$'000	From 1 April 2011 to 31 December 2011 HK$'000	**From 1 January 2012 to 31 December 2012 HK$'000**	From 1 April 2011 to 31 December 2011 HK$'000	**From 1 January 2012 to 31 December 2012 HK$'000**	From 1 April 2011 to 31 December 2011 HK$'000
EBITDA (LBITDA)						
Loss before taxation	**(93,567)**	(57,847)	**(12,429)**	(17,150)	**(105,996)**	(74,997)
Adjusted for:						
Interest income	**(3,224)**	(123)	**–**	(2,526)	**(3,224)**	(2,649)
Finance costs	**–**	79	**–**	–	**–**	79
Depreciation and amortisation	**101,273**	74,529	**246**	516	**101,519**	75,045
	4,482	16,638	**(12,183)**	(19,160)	**(7,701)**	(2,522)

14. INCOME TAX CREDIT

	Continuing operations		Discontinued operation		Consolidated	
	From 1 January 2012 to 31 December 2012 HK$'000	From 1 April 2011 to 31 December 2011 HK$'000	**From 1 January 2012 to 31 December 2012 HK$'000**	From 1 April 2011 to 31 December 2011 HK$'000	**From 1 January 2012 to 31 December 2012 HK$'000**	From 1 April 2011 to 31 December 2011 HK$'000
Current tax:						
PRC Enterprise Income Tax ("EIT")	**8,859**	10,353	**–**	–	**8,859**	10,353
Withholding tax paid upon dividend received from subsidiaries	**–**	1,405	**–**	–	**–**	1,405
	8,859	11,758	**–**	–	**8,859**	11,758
Under/(over)provision in prior years:						
Current tax	**170**	(36)	**–**	–	**170**	(36)
	9,029	11,722	**–**	–	**9,029**	11,722
Deferred tax (Note 29):						
Current year/period	**(23,458)**	(17,959)	**–**	–	**(23,458)**	(17,959)
Reversal upon tax paid	**–**	(1,405)	**–**	–	**–**	(1,405)
Total	**(14,429)**	(7,642)	**–**	–	**(14,429)**	(7,642)

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

The Group's PRC subsidiary is subject to PRC EIT at statutory rate of 25%.

14. INCOME TAX CREDIT *(Continued)*

The tax credit for the year/period can be reconciled to the loss before tax per the consolidated income statement as follows:

	Continuing operations		Discontinued operation		Consolidated	
	From 1 January 2012 to 31 December 2012 HK$'000	From 1 April 2011 to 31 December 2011 HK$'000	**From 1 January 2012 to 31 December 2012 HK$'000**	From 1 April 2011 to 31 December 2011 HK$'000	**From 1 January 2012 to 31 December 2012 HK$'000**	From 1 April 2011 to 31 December 2011 HK$'000
Loss before taxation	**(93,567)**	(57,847)	**(12,429)**	(17,150)	**(105,996)**	(74,997)
Tax at the domestic income tax rate of 25% (31 December 2011: 16.5%)	**(23,392)**	(9,545)	**(3,107)**	(2,830)	**(26,499)**	(12,375)
Tax effect of share of loss of an associate	**1,388**	415	**–**	–	**1,388**	415
Tax effect of expenses not deductible for tax purpose	**1,773**	989	**1,178**	1,081	**2,951**	2,070
Tax effect of income not taxable for tax purpose	**(623)**	–	**–**	(1,206)	**(623)**	(1,206)
Tax effect of tax losses not recognised	**2,251**	2,240	**871**	2,955	**3,122**	5,195
Under/(over) of income tax in respect of prior years	**170**	(36)	**–**	–	**170**	(36)
Tax effect on withholding tax arising on earnings from PRC subsidiaries	**1,213**	1,298	**–**	–	**1,213**	1,298
Effect of different tax rates of subsidiaries operating in other jurisdiction	**2,791**	(3,003)	**1,058**	–	**3,849**	(3,003)
Tax credit for the year/period	**(14,429)**	(7,642)	**–**	–	**(14,429)**	(7,642)

As set out in Note 2, the directors of the Company shifted the Group's operation to the PRC during the year and the domestic income tax rate of the Group changed from Hong Kong Profits Tax rate of 16.5% in 2011 to PRC EIT rate of 25% in 2012 which is the income tax rate of the jurisdiction where the operations of the Group entities are substantially based.

Details of deferred tax at the end of the reporting period and during the year/period are set out in Note 29.

15. DISCONTINUED OPERATION

During the year ended 31 December 2012, the directors discontinued its operation in Hong Kong which was previously engaged in the Segment A business and shifted the Group's focus to the PRC in order to achieve better cost control over its operation.

The results for the nine-month period from 1 April 2011 to 31 December 2011 have been restated and presented separately in the consolidated income statement. The results of the Segment A business for both periods from the beginning of the reporting period to the date of cessation of operation, which have been included in the consolidated income statement as discontinued operation, were as follows:

	From 1 January 2012 to 31 December 2012 HK$'000	From 1 April 2011 to 31 December 2011 HK$'000
Revenue	**4,031**	6,390
Cost of sales before amortisation of intangible assets	**(11,253)**	(18,790)
Other income	**–**	2,705
Other losses	**(2,449)**	(24)
Selling expenses	**–**	(11)
Administrative expenses	**(2,758)**	(7,420)
Loss for the year/period	**(12,429)**	(17,150)

During the year/period, the cash flows contribution of the discontinued operation to the Group's net operating activities and investing activities were analysed as follows:

	From 1 January 2012 to 31 December 2012 HK$'000	From 1 April 2011 to 31 December 2011 HK$'000
Net cash (used in)/from operating activities	**(5,185)**	4,733
Net cash from investing activities	**70**	1,628
Net cash (outflow)/inflow	**(5,115)**	6,361

16. DIRECTORS' AND CHIEF EXECUTIVES' EMOLUMENTS

The emoluments paid or payable to each of the 10 (31 December 2011: 10) directors and the chief executives were as follows:

From 1 January 2012 to 31 December 2012

	Mr. Leung Pak To HK$'000	Mr. Yung Tse Kwong, Steven HK$'000 (note (b))	Mr. Soh Szu Wei HK$'000 (note (a))	Ms. Ma Wai Man, Catherine HK$'000	Mr. Chan Yuk Sang HK$'000	Mr. Cheng Yuk Wo HK$'000	Dr. Lam Lee G. HK$'000	Mr. Yang Fei HK$'000	Mr. Lim Chin Leong HK$'000	Ms. Wei Wei HK$'000	Total HK$'000
Fees	200	–	–	200	200	200	200	200	200	200	1,600
Other emoluments:											
Salaries and other benefits	–	4,512	3,901	–	–	–	–	–	–	–	8,413
Equity-settled share-based payment expenses	–	2,215	(1,728)	96	–	–	–	–	–	–	583
Contributions to retirement benefit scheme	–	11	–	–	–	–	–	–	–	–	11
Total emoluments	200	6,738	2,173	296	200	200	200	200	200	200	10,607

notes:

(a) Mr. Soh Szu Wei was appointed as an executive director on 13 April 2011 and he resigned on 17 May 2012.

(b) Mr. Yung Tse Kwong, Steven was appointed as executive director on 1 April 2012.

From 1 April 2011 to 31 December 2011

	Mr. Leung Pak To HK$'000	Mr. Soh Szu Wei HK$'000 (note (a))	Ms. Ma Wai Man, Catherine HK$'000 (note (b))	Mr. Chan Yuk Sang HK$'000	Mr. Cheng Yuk Wo HK$'000	Dr. Lam Lee G. HK$'000	Mr. Yang Fei HK$'000 (note (c))	Mr. Lim Chin Leong HK$'000 (note (d))	Ms. Wei Wei HK$'000 (note (d))	Mr. Chong Meng Tak, Christopher HK$'000 (note (e))	Total HK$'000
Fees	150	–	100	150	150	150	143	17	17	127	1,004
Other emoluments:											
Salaries and other benefits	–	5,771	471	–	–	–	–	–	–	–	6,242
Equity-settled share-based payment expenses	–	1,728	69	–	–	–	–	–	–	–	1,797
Contributions to retirement benefit scheme	–	1	3	–	–	–	–	–	–	–	4
Total emoluments	150	7,500	643	150	150	150	143	17	17	127	9,047

notes:

(a) Mr. Soh Szu Wei was appointed as an executive director on 13 April 2011 and he resigned on 17 May 2012.

(b) Ms. Ma Wai Man, Catherine was designated as a non-executive director on 1 July 2011.

(c) Mr. Yang Fei was appointed as a non-executive director on 13 April 2011.

(d) Mr. Lim Chin Leong and Ms. Wei Wei were appointed as independent non-executive directors on 1 December 2011.

(e) Mr. Chong Meng Tak, Christopher was appointed as a non-executive director on 13 April 2011 and he resigned on 1 December 2011.

16. DIRECTORS' AND CHIEF EXECUTIVES' EMOLUMENTS *(Continued)*

Mr. Yung Tse Kwong, Steven (31 December 2011: Mr. Soh Szu Wei) is also the chief executive of the Company and his emolument disclosed above include the service rendered by him as the chief executive.

Neither the chief executives nor any of the directors waived any emoluments for both reporting periods. No emoluments were paid by the Group to the chief executives or the directors as an inducement to join or upon joining the Group, nor compensate for loss of office during the year/period.

17. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (31 December 2011: one) were directors of the Company whose emoluments are included in the disclosures in Note 16 above. The emoluments of the remaining three (31 December 2011: four) individuals were as follows:

	From 1 January 2012 to 31 December 2012 HK$'000	From 1 April 2011 to 31 December 2011 HK$'000
Salaries and other benefits	**4,232**	4,946
Contributions to retirement benefit scheme	**76**	84
Equity-settled share-based payment expenses	**57**	175
Compensation for loss of office	**1,756**	–
	6,121	5,205

Their emoluments were within the following bands:

	Number of employee	Number of employee
Nil to HK$1,000,000	**–**	1
HK$1,000,001 to HK$1,500,000	**–**	2
HK$1,500,001 to HK$2,000,000	**2**	1
HK$2,500,001 to HK$3,000,000	**1**	–

18. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2012 (From 1 April 2011 to 31 December 2011: Nil), nor has any dividend been proposed since the end of the reporting period.

19. LOSS PER SHARE

From continuing and discontinued operations

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

	From 1 January 2012 to 31 December 2012 HK$'000	From 1 April 2011 to 31 December 2011 HK$'000
Loss		
Loss for the purposes of basic and diluted loss per share	**91,567**	67,355
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**10,020,180,720**	9,820,698,257

The computation of diluted loss per share does not assume the exercise of IDG Option (Note 31(i)) and options granted under the incentive share option scheme (Note 31(ii)) since their exercise would result in a decrease in loss per share for the year/period.

From continuing operations

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

	From 1 January 2012 to 31 December 2012 HK$'000	From 1 April 2011 to 31 December 2011 HK$'000
Loss for the year/period attributable to the owners of the Company	**91,567**	67,355
Less: Loss for the year/period from discontinued operation	**(12,429)**	(17,150)
Loss for the year/period attributable to the owners of the Company from continuing operations	**79,138**	50,205

The denominators used are the same as those detailed above for both the basic and diluted loss per share.

From discontinued operation

Basic and diluted loss per share for the discontinued operation is HK0.12 cents per share (31 December 2011: loss of HK0.17 cents per share), based on the loss for the year from the discontinued operation of HK$12,429,000 (31 December 2011: HK$17,150,000) and the denominators detailed above for the basic and diluted loss per share.

20. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST				
At 1 April 2011	864	3,514	–	4,378
Exchange realignment	16	24	–	40
Additions	2,491	2,336	–	4,827
Acquired on acquisition of subsidiaries (Note 32)	–	1,694	275	1,969
Disposals	–	(1,203)	–	(1,203)
At 31 December 2011	3,371	6,365	275	10,011
Exchange realignment	7	25	–	32
Additions	902	483	–	1,385
Disposals	(1,084)	(3,168)	–	(4,252)
At 31 December 2012	**3,196**	**3,705**	**275**	**7,176**
DEPRECIATION				
At 1 April 2011	146	971	–	1,117
Exchange realignment	16	22	(5)	33
Charge for the period	344	948	47	1,339
Eliminated on disposals	–	(169)	–	(169)
At 31 December 2011	506	1,772	42	2,320
Exchange realignment	7	10	–	17
Charge for the year	682	871	56	1,609
Eliminated on disposals	(402)	(1,147)	–	(1,549)
At 31 December 2012	**793**	**1,506**	**98**	**2,397**
CARRYING VALUE				
At 31 December 2012	**2,403**	**2,199**	**177**	**4,779**
At 31 December 2011	2,865	4,593	233	7,691

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold improvements	Over the shorter of the term of the lease, or 5 years
Furniture, fixtures and equipment	20%
Motor vehicles	20%

21. INTANGIBLE ASSETS

	Consumer Products Agreement HK$'000 (note (i))	TE Trademarks and Copyrights HK$'000 (note (ii))	JBM Agreement HK$'000 (note (ii))	CGI animation pictures HK$'000 (note (iii))	Total HK$'000
COST					
At 1 April 2011	–	–	–	837,946	837,946
Acquired on acquisition of subsidiaries (Note 32(ii))	129,448	227,019	623,300	–	979,767
Exchange realignment	–	–	21,904	–	21,904
Eliminated on dissolution of a subsidiary	–	–	–	(33,992)	(33,992)
At 31 December 2011	129,448	227,019	645,204	803,954	1,805,625
Additions	–	277	–	–	277
Exchange realignment	1,396	2,633	12,558	–	16,587
Eliminated on dissolution of a subsidiary	–	–	–	(15,399)	(15,399)
Derecognised during the year	–	–	–	(457,910)	(457,910)
At 31 December 2012	**130,844**	**229,929**	**657,762**	**330,645**	**1,349,180**
AMORTISATION AND IMPAIRMENT					
At 1 April 2011	–	–	–	827,447	827,447
Charge for the period	9,958	17,292	46,479	–	73,729
Exchange realignment	–	–	1,058	–	1,058
Impairment loss recognised in the period	–	–	–	5,250	5,250
Eliminated on dissolution of a subsidiary	–	–	–	(33,992)	(33,992)
At 31 December 2011	9,958	17,292	47,537	798,705	873,492
Charge for the year	13,272	22,732	63,906	–	99,910
Exchange realignment	255	458	1,633	–	2,346
Impairment loss recognised in the year	–	–	–	5,249	5,249
Eliminated on dissolution of a subsidiary	–	–	–	(15,399)	(15,399)
Derecognised during the year	–	–	–	(457,910)	(457,910)
At 31 December 2012	**23,485**	**40,482**	**113,076**	**330,645**	**507,688**
CARRYING VALUE					
At 31 December 2012	**107,359**	**189,447**	**544,686**	**–**	**841,492**
At 31 December 2011	119,490	209,727	597,667	5,249	932,133

21. INTANGIBLE ASSETS *(Continued)*

notes:

(i) The Consumer Products Agreement (as defined in Note 32) has a term of 10 years and will expire on 31 December 2020 but is renewable subject to negotiation by the parties concerned. Accordingly, it is being amortised over the contractual life of the Consumer Products Agreement.

(ii) The TE Trademarks and Copyrights (as defined in Note 32) generally have finite legal lives of 10 years but are renewable at minimal cost.

The JBM Agreement (as defined in Note 32) can only be terminated by a party when the other party commits a default which is not remedied within a specified period.

Pursuant to the JBM Agreement, TE Group participates in the co-ordination of the commercial exploitation of the animation for television episodes and movies and related characters owned by CPE (as defined in Note 32) and TE Group. The Group's results include the revenue derived from the JBM Agreement and the amortisation thereof and other related expenses.

The JBM Agreement's income stream is derived from the underlying trademarks and copyrights, the use of which is contemplated by the JBM Agreement (the "JBM Trademarks and Copyrights").

While the directors consider amortisation for TE Trademarks and Copyrights and the JBM Trademarks and Copyrights, they have taken into account the finite economic lives of these intangible assets with reference to studies of product life cycle, market and competitiveness trends. Accordingly, the TE Trademarks and Copyrights and the JBM Trademarks and Copyrights are being amortised over a period of 6 to 12 years which reflect the directors' best estimates of these assets' economic lives.

(iii) CGI animation pictures and CGI animation pictures in progress were internally generated and stated at production costs incurred to date, including borrowing costs capitalised, less accumulated impairment losses, if any.

For the purpose of impairment testing, CGI animation pictures and CGI animation pictures in progress were allocated to the Group's CGU relating to Segment A (Note 8).

During the year ended 31 December 2012, the Group discontinued its operation of the Segment A business. In the opinion of the directors, the carrying value of the CGI animation pictures was no longer recoverable, and accordingly, an impairment loss of approximately HK$5,249,000 was recognised (31 December 2011: HK$5,250,000).

(iv) For the purpose of impairment testing, the Consumer Products Agreement, TE Trademarks and Copyrights and JBM Agreement are allocated to two separate CGUs relating to Segment B (Note 8) (collectively the "Segment B Intangible Assets").

The recoverable amounts of Consumer Products Agreement and TE Trademarks and Copyrights (Unit A) and JBM Agreement (Unit B) have been determined on the basis of higher of value in use and fair value less costs to sell in each of the reporting period, as follows:

(a) For the period ended 31 December 2011, value in use of Units A and B were calculated using cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 18% for Unit A and of 16% to 20% for Unit B. The sets of cash flows beyond the five-year period are extrapolated using a growth rate of 3% for both units. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted revenue, such estimation is based on the management's expectations for the market development.

(b) For the year ended 31 December 2012, the recoverable amount of Units A and B which have been determined on the basis of fair value less costs to sell is determined by the directors based on the best information available to them.

Accordingly, in the opinion of the directors, taking into account the estimated future cash flows and the estimated fair value less costs to sell, no impairment loss needs to be recognised in respect of the Segment B Intangible Assets for the year/period.

22. INTEREST IN AN ASSOCIATE

	2012 HK$'000	2011 HK$'000
Cost of investment in an associate — unlisted	**29,602**	29,602
Share of accumulated losses	**(8,069)**	(2,516)
Disposal (Note 24)	**(21,533)**	–
	–	27,086

As at the end of the reporting period, the Group had interest in the following associate:

Name of entity	Form of business structure	Place of establishment/ principal place of operation	Class of shares held	Proportion of nominal value of issued capital and voting power held by the Group 31 December 2012	31 December 2011	Principal activities
Sino Light Enterprise Limited ("Sino Light")	Limited company	Hong Kong	Ordinary	–	20.63%	Retailing and wholesaling of children's apparel

In August 2011, TE Group acquired 20.63% equity interest in Sino Light and an option (the "Sino Light Subscription Option") (the "Sino Light Acquisition"), to be satisfied by TE Group with a cash payment of HK$9.1 million and the provision of certain management services to Sino Light (the "Sino Light Consideration").

Sino Light Subscription Option entitled TE Group to subscribe a further 11.3% equity interest in Sino Light as enlarged by the exercise of Sino Light Subscription Option at a consideration of HK$22.4 million.

The provision of management services, which was detailed in a business support agreement dated 29 August 2011 (the "Business Support Agreement"), had a term of three years commencing from the effective date of the agreement, subject to early termination upon occurrence of certain events.

Upon completion of the subscription, the total consideration of HK$36.4 million is allocated to (i) cost of investment in an associate of HK$29,602,000; and (ii) the Sino Light Subscription Option of HK$6,798,000 (Note 23).

22. INTEREST IN AN ASSOCIATE *(Continued)*

In conjunction with the Sino Light Acquisition and pursuant to the shareholders' agreement entered among TE Group and the other two original shareholders (the "Sino Light Shareholders' Agreement"), the shares held by the shareholders were restricted from transfer, except under certain circumstances including the exercise of the TE Put Options (detailed below) and Other Shareholders' Call Options (detailed below).

Each of the other shareholders of Sino Light (the "Sino Light Original Shareholders") granted an option to TE Group whereby TE Group had the right to require the Sino Light Original Shareholders to purchase its equity interest in Sino Light under certain conditions including the expiry of the a licensing agreement Sino Light entered for business (the "TE Put Options").

TE Group also granted an option to the Sino Light Original Shareholders whereby the Sino Light Original Shareholders had the right to require TE Group to sell its equity interest in Sino Light to them under certain conditions including TE Group ceasing to hold certain of its brands (the "Other Shareholders' Call Options").

Further details of the above three options are set out in Note 23.

During the year ended 31 December 2012, the Group's entire interest in Sino Light was disposed and the related options and liabilities were cancelled. Details of which are set out in Note 24.

23. DERIVATIVE FINANCIAL INSTRUMENT

	note	**2012** **HK$'000**	2011 HK$'000
Sino Light Subscription Option	(i)	**–**	6,798

23. DERIVATIVE FINANCIAL INSTRUMENT *(Continued)*

notes:

(i) Sino Light Subscription Option

Pursuant to the Sino Light Subscription Option, TE Group had the right, but not the obligation, to subscribe a further 11.3% interest in Sino Light for HK$22.4 million during the period from the completion of the Sino Light Acquisition to 31 August 2014, subject to certain early termination clauses.

At initial recognition, the fair value of the Sino Light Subscription Option was determined to be HK$6,798,000 by Greater China (as defined in Note 32) using the Binomial Option Pricing Model. The following assumptions were used to calculate the fair value of the option.

Exercise price	HK$14,000 per share
Expected life	3.01 year
Expected volatility	50.05%
Expected dividend yield	0%
Risk free interest rate	0.64%
Exercise period	From 29 August 2011 to 31 August 2014

Sino Light does not have a quoted market price in an active market. In the opinion of the directors, the fair value of the option could not be reliably measured subsequent to initial recognition and was measured at cost less any identified impairment losses at the end of each reporting period prior to its cancellation.

(ii) TE Put Options and Other Shareholders' Call Options

The exercise prices of both the TE Put Options and Other Shareholders' Call Options were to be determined (a) between the parties concerned; or (b) if the concerned parties were unable to agree on an exercise price, they were to appoint an independent professional business valuer to determine the fair value of the exercise price at date of exercise. In the opinion of the directors, these options had insignificant value.

Sino Light Subscription Option, TE Put Options and Other Shareholders' Call Options were cancelled (as defined in Note 24) in March 2012.

24. DISPOSAL OF INTERESTS IN AN ASSOCIATE AND CANCELLATION OF RELATED OPTIONS AND LIABILITIES

On 2 March 2012, the Group entered into deeds and agreements with various parties which involved (i) the transfer of its entire interest in Sino Light to one of the Sino Light Original Shareholders; (ii) the cancellation of the Sino Light Subscription Option with carrying value of HK$6,798,000, TE Put Options, Other Shareholders' Call Options and (iii) the cancellation of Business Support Agreement (as detailed in Note 22) with carrying value of approximately HK$26.9 million as a result of which all relevant parties were released of their rights and obligations arising therefrom. The Group received a net consideration of HK$9.1 million in relation to the aforesaid arrangement. The disposal was completed on 14 March 2012.

As a result of the above transactions, the Group recognised a gain of HK$7,687,000 in profit or loss, calculated as follows:

	HK$'000
Cash proceeds	9,100
Less: carrying amount of the 20.63% investment on the date of loss of influence over Sino Light (Note 22)	(21,533)
carrying amount of Sino Light Subscription Option (Note 23)	(6,798)
Add: carrying amount of management services obligations under the Business Support Agreement	26,918
Gain recognised in profit or loss	7,687

25. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2012 **HK$'000**	2011 HK$'000
Trade receivables	**47,230**	29,291
Less: allowance for doubtful debts	**(8,523)**	(4,917)
	38,707	24,374
Amount due from CPE (note i)	**48,775**	45,385
Other receivables, deposits and prepayments (note ii)	**3,486**	6,942
	90,968	76,701

25. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

notes:

(i) Amount due from CPE included approximately HK$47,169,000 (31 December 2011: HK$43,983,000) related to the JBM Agreement and approximately HK$1,606,000 (31 December 2011: HK$1,402,000) related to non-trade nature transactions. At the end of the reporting period, both amounts were aged less than one year and were unsecured, non-interest bearing and repayable within one year.

(ii) The amount included approximately HK$112,000, HK$1,670,000 and HK$600,000 (31 December 2011: nil, HK$2,852,000 and nil) that are denominated in EUR, USD and HK$ which are not functional currencies of the relevant group entities.

At the end of the reporting period, except as stated in note (ii) all trade and other receivables are denominated in the functional currency of the relevant group entities.

The Group allows its trade customers a credit period in accordance with the terms specified in the contracts, normally ranging from 0 day to 30 days. The aged analysis of the Group's trade receivables (net of allowance) at the end of each reporting period is as follows:

	2012 **HK$'000**	2011 HK$'000
Current	**37,555**	23,065
31–60 days	**–**	1,309
61–90 days	**251**	–
91 days–1 year	**901**	–
	38,707	24,374

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines its credit limits by customer. Credit sales are made to customers with a satisfactory trustworthy credit history. Credit limits attributed to customers are reviewed regularly. All of the trade receivables are neither past due nor impaired and have a satisfactory credit history.

Movement in the allowance for doubtful debts

	2012 **HK$'000**	2011 HK$'000
Beginning of year/period	**4,917**	–
Provision for the year/period	**3,504**	4,856
Exchange realignment	**102**	61
End of year/period	**8,523**	4,917

25. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK$8,523,000 (31 December 2011: HK$4,917,000). The individually impaired receivables related to customers that were in financial difficulties and the directors of the Group assessed the recoverability of sales to these individual customers and concluded that the chance of receiving proceeds from these individual customers is minimal. Therefore, the amounts are provided as uncollectible in current year/period.

26. BANK BALANCES AND CASH

Bank balances carried interest at market rates which range from 0.001% to 2.1% (31 December 2011: 0.001% to 2.1%) per annum. Bank balances included approximately HK$2,400,000, HK$238,000 and HK$230,601,000 (31 December 2011: HK$538,000, HK$1,111,000 and nil) that are denominated in EUR, USD and HK$, which are not the functional currencies of the relevant group entities.

27. TRADE, OTHER PAYABLES AND LIABILITIES

	2012	2011
	HK$'000	HK$'000
Trade payables (note i)	**5,600**	7,830
Other liabilities (note ii)	**–**	9,100
Other payables and accruals (note iii)	**12,680**	18,203
	18,280	35,133

notes:

(i) Trade payables are aged less than 30 days based on the invoice dates.

(ii) The amount represents the current portion of the other liabilities (Note 28) as at 31 December 2011.

(iii) The amount included approximately HK$241,000, HK$1,210,000 and HK$858,000 (31 December 2011: HK$514,000, HK$1,254,000 and nil) that are denominated in EUR, USD and HK$ which are not functional currencies of the relevant group entities.

At the end of the reporting period, except as stated in note (iii), all trade, other payables and liabilities are demonstrated in the functional currency of the relevant group entities.

28. OTHER LIABILITIES

As set out in Note 22, as part of the consideration for the Sino Light Acquisition, the Group was to provide certain management services to Sino Light for a period of three years. The fair value of such management services, as determined to be approximately HK$27.1 million in August 2011, was recognised as other liabilities. Such management services arrangement was terminated during the year ended 31 December 2012 (see Note 24).

29. DEFERRED TAXATION

The following is an analysis of the deferred tax balances for financial reporting purpose:

	2012 **HK$'000**	2011 HK$'000
Deferred tax assets	**2,208**	2,359
Deferred tax liabilities	**(212,533)**	(232,678)
	(210,325)	(230,319)

The following are the major deferred tax (assets) liabilities recognised and movements thereon during the current year and prior period:

	Fair value adjustments on the Acquisition HK$'000	**PRC dividend withholding tax** HK$'000	**Others** HK$'000 (note)	**Total** HK$'000
At 1 April 2011	–	–	–	–
Acquired on acquisition of subsidiaries (Note 32)	243,911	1,949	(1,337)	244,523
(Credit) charge to profit or loss (Note 14)	(18,288)	1,298	(969)	(17,959)
Exchange realignment	5,213	–	(53)	5,160
Reversal upon tax paid (Note 14)	–	(1,405)	–	(1,405)
At 31 December 2011	230,836	1,842	(2,359)	230,319
(Credit) charge to profit or loss (Note 14)	(24,865)	1,213	194	(23,458)
Exchange realignment	3,507	–	(43)	3,464
At 31 December 2012	**209,478**	**3,055**	**(2,208)**	**210,325**

note: At the end of the reporting period, the Group has recognised deferred tax assets on temporary deductible differences in deferred royalty income of HK$624,000 (31 December 2011: HK$1,668,000) and allowance for doubtful debts of HK$1,584,000 (31 December 2011: HK$691,000). The temporary differences may be carried forward indefinitely.

At the end of the reporting period, the Group had unused tax losses of HK$789,670,000 (31 December 2011: HK$742,925,000) from continuing operations and HK$49,073,000 (31 December 2011: HK$43,795,000) from discontinued operation available for offset against future profits. No deferred tax assets has been recognised due to the unpredictability of future profit streams. The losses from continuing operations may be carried forward indefinitely and tax losses from discontinued operation would be forfeited upon dissolution.

30. SHARE CAPITAL

	Number of shares '000	Share capital HK$'000
Ordinary shares of HK$0.001 each		
Authorised:		
At 1 April 2011, 31 December 2011 and 31 December 2012, at HK$0.001 each	1,000,000,000	1,000,000
Issued and fully paid:		
At 1 April 2011, at HK$0.001 each	5,724,907	5,725
Issue of consideration shares (Note 32(i)(b))	1,382,857	1,383
2011 Share Subscription (note i)	1,282,816	1,283
Exercise of share options (note ii)	1,629,600	1,629
At 31 December 2011 and 31 December 2012, at HK$0.001 each	**10,020,180**	**10,020**

notes:

(i) On 18 February 2011, the Company and various subscribers entered into a subscription agreement pursuant to which the subscribers agreed, subject to fulfillment of certain conditions including approval from the shareholders at a special general meeting, to subscribe for 1,282,816,000 shares at a subscription price of HK$0.28 per share for a total amount of approximately HK$359,189,000 ("2011 Share Subscription").

The share subscription was completed in April 2011 and the proceed thereof was used to finance the cash portion of the consideration payable for the Acquisition.

(ii) During the period from 1 April 2011 to 31 December 2011, (a) Idea Talent Limited, a beneficial owner to the Group, exercised its option to subscribe for 1,500,000,000 shares in the Company at an adjusted exercise price of HK$0.076 per share; and (b) a core creditor of the Group, Fortunate City Investment Limited, exercised its options to subscribe for 129,600,000 shares in the Company at an adjusted exercise price of HK$0.076 per share.

All the shares issued during the year ranked pari passu with the then existing shares in all respects.

31. SHARE-BASED PAYMENT TRANSACTIONS/OTHER OPTIONS

During the current year and last period end, the Company has outstanding several share option arrangements as follows:

(i) IDG Option

As part of the 2011 Share Subscription, the Company granted an institutional investor an option to subscribe for 50,000,000 shares (the "IDG Option") as remuneration for introducing potential subscribers to the Company. The IDG Option may be exercised by the holder thereof in whole or in part from the date on which they were granted until 31 December 2013 on which date any unexercised IDG Options will automatically lapse.

The fair value of the IDG Option on the date of grant (i.e. 15 April 2011), determined by Greater China using the Binomial Option Pricing Model, was approximately HK$6,060,000 which, representing incremental costs directly attributable to the 2011 Share Subscription, was charged to the share premium account as a share issue expense on the date of grant.

The IDG Option had no vesting period and the following assumptions were used to calculate the fair value of the option.

Share price at grant date	HK$0.365 per share
Exercise price	HK$0.35 per share
Expected life	2.715 years
Expected volatility	47.669%
Expected dividend yield	0%
Risk free interest rate	1.242%
Exercise period	From 15 April 2011 to 31 December 2013

At 31 December 2012, the IDG Option remained unexercised and outstanding.

(ii) Incentive Share Option Scheme

(a) *General terms and conditions of the share option scheme*

On 16 August 2002, the Company adopted 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 or any supplier or provider of goods and services of the Company or any of its subsidiaries (the "Participants") for their contribution to the Group (the "2002 Scheme").

The 2002 Scheme was terminated on 11 June 2012 and a new share option scheme (the "2012 Scheme") was adopted by the shareholder of the Company on the same date. All share option granted under 2002 Scheme remain effective until the end of the exercise period. The general terms and conditions of the two share option scheme are the same and listed as follow:

31. SHARE-BASED PAYMENT TRANSACTIONS/OTHER OPTIONS *(Continued)*

(ii) Incentive Share Option Scheme *(Continued)*

(a) *General terms and conditions of the share option scheme (Continued)*

The directors may grant options to the Participants to subscribe for shares in the Company for a consideration of HK$10 for each lot of share options granted. Options granted must be taken up within 28 days of date of grant. The exercise price is determined by the directors and shall not be less than the highest of:

(i) the official closing price of the shares as stated in the daily quotation sheet of the Stock Exchange on the date of the grant which must be a business day;

(ii) the average of the official closing prices of the shares as stated in the daily quotation sheet of the Stock Exchange for the 5 business days immediately preceding the offer date; and

(iii) the nominal value of a share.

The maximum number of shares in the Company in respect of which options may be granted under the 2002 Scheme and 2012 Scheme when aggregated with any other share option scheme of the Company is not permitted to exceed 10% of the issued share capital of the Company as at 16 August 2002 and 11 June 2012 respectively. Subject to the approval of the shareholders of the Company in general meeting and such other requirements prescribed under the Listing Rules from time to time, the directors may refresh the limit at any time to 10% of the total number of shares in issue as at the date of approval by the shareholders of the Company in general meetings. Notwithstanding the foregoing, the shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Scheme and 2012 Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the shares in issue from time to time.

No option may be granted to any person if the total number of shares of the Company already issued and issuable to him under all the options granted to him in any 12-month period up to and including the date of grant exceeding 1% of total number of shares in issue at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to the approval of the shareholders in general meetings, such Participant and his associates (as defined in the Listing Rules) abstaining from voting and/or other requirements prescribed under the Listing Rules from time to time. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

There is no specific requirement that an option must be held for any minimum period before it can be exercised but the directors are empowered to impose at their discretion any such minimum period at the time of grant of any particular options. The period during which an option may be exercised will be determined by the directors at their absolute discretion, save that no option may be exercised more than 10 years from the date of grant.

31. SHARE-BASED PAYMENT TRANSACTIONS/OTHER OPTIONS *(Continued)*

(ii) Incentive Share Option Scheme *(Continued)*

(b) Movement of share options

The following table discloses movements of the share options held by directors and employees during the current year and prior period:

For the year from 1 January 2012 to 31 December 2012

2002 Scheme

	Grant date	Vesting period	Fair value of share option at grant date HK$	Outstanding at 1 January 2012	Granted during the year (note i)	Cancelled during the year (note iii)	Outstanding at 31 December 2012
Directors	13 April 2011	13/4/2011 to 12/4/2014	0.164	26,000,000	–	(25,000,000)	**1,000,000**
		13/4/2011 to 12/4/2015	0.178	13,000,000	–	(12,500,000)	**500,000**
		13/4/2011 to 12/4/2016	0.191	13,000,000	–	(12,500,000)	**500,000**
	2 April 2012	2/4/2012 to 31/3/2013	0.0536	–	30,000,000	–	**30,000,000**
		2/4/2012 to 31/3/2014	0.0596	–	30,000,000	–	**30,000,000**
		2/4/2012 to 31/3/2015	0.0673	–	20,000,000	–	**20,000,000**
Employees	21 August 2009	21/8/2009 to 30/9/2010	0.144	417,160	–	–	**417,160**
	13 April 2011	13/4/2011 to 12/4/2014	0.160	5,340,000	–	(1,880,000)	**3,460,000**
		13/4/2011 to 12/4/2015	0.175	2,670,000	–	(940,000)	**1,730,000**
		13/4/2011 to 12/4/2016	0.187	2,670,000	–	(940,000)	**1,730,000**
				63,097,160	80,000,000	(53,760,000)	**89,337,160**

No share options are granted under the 2012 Scheme during the year ended 31 December 2012.

31. SHARE-BASED PAYMENT TRANSACTIONS/OTHER OPTIONS *(Continued)*

(ii) Incentive Share Option Scheme *(Continued)*

(b) *Movement of share options (Continued)*

For the period from 1 April 2011 to 31 December 2011

2002 Scheme *(Continued)*

	Grant date	Vesting period	Fair value of share option at grant date HK$	Outstanding at 1 April 2011	Granted during the period (note ii)	Cancelled during the period (note iii)	Forfeited during the period (note iv)	Outstanding at 31 December 2011
Directors	13 April 2011	13/4/2011 to 12/4/2014	0.164	–	26,000,000	–	–	26,000,000
		13/4/2011 to 12/4/2015	0.178	–	13,000,000	–	–	13,000,000
		13/4/2011 to 12/4/2016	0.191	–	13,000,000	–	–	13,000,000
Employees	17 November 2009	15/5/2007 to 14/1/2008	2.066	22,071	–	–	(22,071)	–
	(note)	15/5/2007 to 14/1/2009	2.520	22,071	–	–	(22,071)	–
		15/5/2007 to 14/1/2010	2.845	29,426	–	–	(29,426)	–
	21 August 2009	21/8/2009 to 30/9/2010	0.144	584,858	–	–	(167,698)	417,160
		21/8/2009 to 30/9/2011	0.178	167,696	–	–	(167,696)	–
		21/8/2009 to 30/9/2012	0.184	223,598	–	(223,598)	–	–
	13 April 2011	13/4/2011 to 12/4/2014	0.160	–	6,060,000	(720,000)	–	5,340,000
		13/4/2011 to 12/4/2015	0.175	–	3,030,000	(360,000)	–	2,670,000
		13/4/2011 to 12/4/2016	0.187	–	3,030,000	(360,000)	–	2,670,000
				1,049,720	64,120,000	(1,663,598)	(408,962)	63,097,160

note: The options were originally granted on 15 May 2007. On 17 November 2009, the unexercised share options were re-granted to the affected grantees with a modified exercise price of HK$0.315 per share, which was subsequently adjusted to HK$0.755 per share as a result of a share consolidation and rights issue taken place for the year ended 31 March 2011. Apart from the modified exercise price, there is no modification to the terms of the affected share options. The replacements were accounted for as a modification of the original grant.

Exercise price for the share options are as follows:

Grant date	**Exercise price** HK$
17 November 2009	0.755 per share
21 August 2009	0.755 per share
13 April 2011	0.368 per share
02 April 2012	0.173 per share

31. SHARE-BASED PAYMENT TRANSACTIONS/OTHER OPTIONS *(Continued)*

(ii) Incentive Share Option Scheme *(Continued)*

(b) Movement of share options (Continued)

(i) On 2 April 2012, the Company granted an aggregate of 80,000,000 share options to a director of the Company in accordance with the Company's share option scheme.

The exercise price of the above share options is HK$0.173 per share. The market price of the Company's shares on the date of the grant is HK$0.166.

The above share options, which were accepted on 2 April 2012, are to be vested in the following manner:

- 30,000,000 share options will be vested on 1 April 2013 and will be exercisable until the expiration of a three year period from the vesting date of such share option ("4 year Options");
- 30,000,000 share options will be vested on 1 April 2014 and will be exercisable until the expiration of a three year period from the vesting date of such share option ("5 year Options"); and
- 20,000,000 share options will be vested on 1 April 2015 and will be exercisable until the expiration of a three year period from the vesting date of such share option ("6 year Options").

The aggregate fair value of the above share options on the date of grant, determined by Greater China using the Binomial Model, is approximately HK$4,742,000 which will be charged to profit and loss over the vesting period.

The following assumptions were used to calculate the fair value of the options:

	4 year Options	**5 year Options**	**6 year Options**
Exercise price	HK$0.173	HK$0.173	HK$0.173
Life to expiration	within 4 years	within 5 years	within 6 years
Expected volatility	42.86%	42.44%	43.83%
Expected dividend rate	0%	0%	0%
Risk free interest rate	0.474%	0.649%	0.819%

31. SHARE-BASED PAYMENT TRANSACTIONS/OTHER OPTIONS *(Continued)*

(ii) Incentive Share Option Scheme *(Continued)*

(b) Movement of share options (Continued)

(ii) On 13 April 2011, the Company granted an aggregate of 65,000,000 share options to certain grantees in accordance with the Company's share option scheme, of which 52,000,000 options were granted to two directors of the Company.

The exercise price of the above share option is HK$0.368 per share, being the highest of (i) the closing price of HK$0.365 per share on the date of grant; (ii) the average closing price of HK$0.368 per share for the 5 trading days immediately preceding the date of grant; and (iii) the nominal value of the share.

64,120,000 of the above share options, which were accepted on 11 May 2011, are to be vested in the following manner:

- 50% of the share option will be vested immediately after a three year period from the date of grant and will be exercisable until the expiration of a three year period from the vesting date of such share option ("6 year Options");
- 25% of the share option will be vested immediately after a four year period from the date of grant and will be exercisable until the expiration of a three year period from the vesting date of such share option ("7 year Options"); and
- 25% of the share option will be vested immediately after a five year period from the date of grant and will be exercisable until the expiration of a three year period from the vesting date of such share option ("8 year Options").

The aggregate fair value of the above share options on the date of grant, determined by Greater China using the Binomial Option Pricing Model, is approximately HK$11,126,000 which was to be charged to profit and loss over the vesting period.

The following assumptions were used to calculate the fair value of the options:

	6 year Options	**7 year Options**	**8 year Options**
Exercise price	HK$0.368	HK$0.368	HK$0.368
Life to expiration	within 6 years	within 7 years	within 8 years
Expected volatility	45.020%	45.112%	45.112%
Expected dividend rate	0%	0%	0%
Risk free interest rate	2.651%	2.897%	3.087%

31. SHARE-BASED PAYMENT TRANSACTIONS/OTHER OPTIONS *(Continued)*

(ii) Incentive Share Option Scheme *(Continued)*

(b) Movement of share options (Continued)

(iii) During the current reporting period, 50,000,000 and 3,760,000 share options were cancelled prior to the vesting of relevant share options as a result of the resignation of a director and employees respectively (31 December 2011: 1,663,598 share options were cancelled). The impact of the revision of the estimates during the vesting period was recognised in the profit and loss, with a corresponding adjustment to the share option reserve.

(iv) During the current reporting period, no share option was forfeited after the vesting period due to the resignation of employees (31 December 2011: 408,962 share options were forfeited). When the share option are forfeited after the vesting date, the amount previously charged to profit or loss is credited to accumulated losses, with a corresponding adjustment to share option reserve. During the current reporting period, no forfeiture of share options was noted (From 1 April 2011 to 31 December 2011: forfeited share options HK$459,000).

(v) Recognition of share-based payment expenses

During the year, the Group recognised equity-settled share-based payment expenses of HK$782,000 (From 1 April 2011 to 31 December 2011: HK$2,052,000), analysed as follows:

	From 1 January 2012 to 31 December 2012 HK$'000	From 1 April 2011 to 31 December 2011 HK$'000
Directors' emoluments	**583**	1,797
Other staff cost	**199**	255
Amount charged to profit or loss	**782**	2,052

32. ACQUISITION OF SUBSIDIARIES

As set out in Note 2, on 13 April 2011, the Group acquired the entire equity interest in Infoport.

The principal activities of Infoport and its subsidiaries including Toon Express International Limited (the "TE Group") are licensing of trademarks and copyrights of cartoon characters, sales of merchandise and management of the commercial exploitation of animation pictures. The Acquisition entitles the Group to well-known brand and cartoon characters across multiple distribution channels in and outside of the PRC. Details of the consideration transferred, the assets acquired and the liabilities assumed, on the date of completion of the Acquisition, are set out below.

	notes	HK$'000
Consideration, satisfied by:	(i)	
Cash payment		330,000
Consideration shares		423,454
		753,454
Net identifiable assets acquired and liabilities assumed, at fair value:		
Property, plant and equipment		1,969
Deferred tax assets		1,337
Intangible assets	(ii)	979,767
Inventories		378
Trade and other receivables	(iii)	44,424
Pledged deposits	(iv)	11,674
Bank balances and cash		12,226
Trade and other payables and accruals		(18,073)
Unearned revenue		(17,410)
Taxation payable		(6,449)
Bank and other loans	(iv)	(10,529)
Deferred tax liabilities		(245,860)
		753,454
Net cash outflow arising on acquisition:		
Cash and bank balances acquired		12,226
Cash consideration		(330,000)
		(317,774)

32. ACQUISITION OF SUBSIDIARIES *(Continued)*

notes:

(i) Pursuant to the Acquisition, the Company paid an initial consideration of HK$753.5 million, comprising the following:

(a) cash payment of HK$330 million; and

(b) consideration shares representing 1,382,857,143 shares of the Company issued and allotted to the vendor.

The consideration shares are subject to a lock-up undertaking and as such, the fair value of the consideration shares was determined by the directors with reference to an external valuation report prepared by an independent valuation firm, Greater China Appraisal Limited ("Greater China").

The fair value of the consideration shares, taking into consideration the lock-up period, was therefore determined to be HK$423,454,000 at an adjusted price of HK$0.306 per share.

In addition to the above, the Company is also required to pay a contingent earn-out payment in the form of promissory notes ("Earn-out Payment") subject to certain conditions as detailed below.

The Earn-out Payment, being 9.3 times of the excess, if any, of the aggregate consolidated net profit of TE Group for the two financial years ended 31 December 2011 and 2012 over HK$242 million, is subject to a cap of HK$232.5 million.

The promissory notes, if issued, will carry interest at a fixed rate of 1% per annum and mature in 2.5 years from the completion date of the Acquisition. They are payable in one lump sum on maturity together with all accrued interest.

Based on the facts and circumstances at the acquisition date and the review of the financial projection of TE Group, in the opinion of the directors, the Earn-out Payment will not become payable and accordingly, its fair value as at the date of acquisition and as at the years ended 31 December 2012 and 2011 are determined at nil value.

(ii) Certain intangible assets were identified as part of the Acquisition. The fair values of these intangible assets were determined by the directors with reference to an external valuation report prepared by Greater China comprise:

(a) intellectual properties in the form of trademarks and copyrights of various animation brands and related characters under the ownership of TE Group of HK$227,019,000 ("TE Trademarks and Copyrights");

(b) future economic benefits of HK$129,448,000 arising from a consumer products and related use agreement with Disney Enterprises, Inc. ("Disney") to promote and market TE Group's intellectual properties ("Consumer Products Agreement"); and

(c) intellectual properties in the form of trademarks and copyrights of HK$623,300,000 arising from a joint brand management agreement with Creative Power Entertaining Limited Liability Company ("CPE"), a PRC company, through which TE Group participates in the coordination of the commercial exploitation of the animations for television episodes and movies and related characters owned by CPE and TE Group ("JBM Agreement").

The fair values of the intangible assets were arrived at either using the Multi-period excess earnings method or discounted cash flow approach.

(iii) The trade and other receivables acquired with a fair value of HK$44,424,000 have gross contractual amounts of HK$44,424,000. There was no contractual cash flow not expected to be collectible at the acquisition date.

(iv) The deposits were pledged to banks for the bank loans extended to TE Group. Subsequent to the Acquisition, the bank loans were repaid and the pledged deposits were released during the period ended 31 December 2011.

(v) The Acquisition gave rise to acquisition-related costs of HK$11,496,000, which were recognised as an expense in the consolidated income statement for the nine-month ended 31 December 2011.

32. ACQUISITION OF SUBSIDIARIES *(Continued)*

notes: *(Continued)*

(vi) Included in the revenue and loss for the nine-month ended 31 December 2011 of the Group is approximately HK$110,843,000 and a profit of HK$15,972,000 (before amortisation of respective intangible assets) respectively attributable to the acquired business generated by TE Group. The TE Group contributed a loss of approximately HK$43,942,000 to the Group for the year ended 31 December 2011 after amortisation of respective intangible assets. Had the Acquisition been completed on 1 April 2011, total group revenue and loss for the year would approximate the revenue and loss for that year as presented in the consolidated income statement.

This pro forma information is for illustration purposes only and is not necessarily an indication of the revenue and results of operations of the Group that the Group actually would have achieved had the Acquisition been completed on 1 April 2011, nor is it intended to be a projection of future results.

(vii) The fair values to be assigned attributable to the identified assets, liabilities and contingent liabilities and the cost of the business combination, was determined by the directors with reference to an external valuation report prepared by Greater China for the purpose of the accounting for the acquisition of TE Group in the preparation of consolidated financial statements for the year ended 31 December 2011.

33. DISSOLUTION OF SUBSIDIARIES

During the current year, the Group dissolved seven (31 December 2011: three) subsidiaries, all of which had nil net asset value at the date of dissolution.

34. OPERATING LEASE COMMITMENTS

The Group as lessee

Minimum lease payments paid under operating leases in respect of rented premises were HK$6,389,000 (31 December 2011: HK$4,670,000).

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2012 **HK$'000**	2011 HK$'000
Within one year	**615**	3,033
In the second to fifth years inclusive	**–**	615
	615	3,648

Operating lease payments represent rentals payable by the Group for office premises and warehouses. Leases are negotiated for an average term of two years (31 December 2011: two years) and rentals are fixed for an average term of two years (31 December 2011: two years).

35. RETIREMENT BENEFITS SCHEMES

The Group operates a MPF Scheme for all its qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The employees employed in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The PRC subsidiary is required to contribute a certain percentage of their basic payroll to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

36. MAJOR NON-CASH TRANSACTIONS

For the period from 1 January 2012 to 31 December 2012

The Company recognised an equity-settled share-based payment of approximately HK$782,000.

For the period from 1 April 2011 to 31 December 2011

(i) Consideration shares were issued for the Acquisition as detailed in Note 32(i)(b).

(ii) The Company recognised an equity-settled share-based payments of approximately HK$2,052,000.

(iii) The grant of IDG Option as detailed in Note 31(i).

(vi) The Group invested in Sino Light by way of service provision of HK$27.3 million as detailed in Note 22.

37. RELATED PARTY TRANSACTIONS

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

	From 1 January 2012 to 31 December 2012 HK$'000	From 1 April 2011 to 31 December 2011 HK$'000
Short-term benefits	**15,523**	14,267
Contributions to pension schemes	**97**	115
Equity-settled share-based payments	**581**	2,010
Compensation for loss of office	**2,708**	–
	18,909	16,392

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The statement of financial position of the Company as at the end of the reporting period is as follows:

	note	2012 HK$'000	2011 HK$'000
Investment in subsidiaries		**753,454**	753,454
Amount due from subsidiaries		**40,941**	56,257
Other assets		**228,224**	247,149
Total assets		**1,022,619**	1,056,860
Total liabilities		**(1,394)**	(2,916)
		1,021,225	1,053,944
Capital and reserves			
Share capital		**10,020**	10,020
Reserves	(i)	**1,011,205**	1,043,924
		1,021,225	1,053,944

(i) Reserves of the Company

	Share premium HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Option shares reserve HK$'000	Deemed contribution reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2011	892,924	–	708	63,581	22,650	(831,582)	148,281
Loss for the period	–	–	–	–	–	(8,606)	(8,606)
Issue of consideration shares	422,071	–	–	–	–	–	422,071
Share subscription	357,906	–	–	–	–	–	357,906
Exercise of option shares	185,801	–	–	(63,581)	–	–	122,220
Share issue expenses	(6,060)	–	–	6,060	–	–	–
Share options forfeited for the period	–	–	(459)	–	–	459	–
Recognition of equity-settled share-based payments	–	–	2,052	–	–	–	2,052
Transfer	(1,852,642)	1,037,593	–	–	(22,650)	837,699	–
At 31 December 2011	–	1,037,593	2,301	6,060	–	(2,030)	1,043,924
Loss for the year	–	–	–	–	–	(33,501)	(33,501)
Recognition of equity-settled share-based payments	–	–	782	–	–	–	782
At 31 December 2012	**–**	**1,037,593**	**3,083**	**6,060**	**–**	**(35,531)**	**1,011,205**

Deemed contribution reserve represents the difference between the subscription price of a share subscription by a then new shareholder and the diluted subscription price after taking into account of the transfer of gift shares from a then existing shareholder to the then new shareholder.

39. LITIGATION

As announced by the Company on 21 September 2011, the Group received a summons served by a former business partner alleging the Group for a breach of contract and certain unfair and false representation. Pursuant to an announcement by the Company dated 18 October 2012, a mutual settlement and general release agreement were agreed by the parties and the Group paid a settlement sum of US$40,000 (equivalent to approximately HK$312,000) to the former business partner during the year ended 31 December 2012.

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

The particulars of principal subsidiaries of the Company for the year ended 31 December 2012 and nine month period ended 31 December 2011 are listed as follow:

Name of subsidiary	Place of incorporation or registration/ operations	Paid up issued share capital	Proportion of ownership interest and voting power held by the Company		Proportion of ownership interest voting power held by the Company		Principal activities
			Directly	Indirectly	Directly	Indirectly	
			31 December 2012		31 December 2011		
			%	%	%	%	
Diamond Century International Limited (note i)	BVI/Hong Kong	US$4	–	**100**	–	100	Investment holding
Great Trend International Limited (note i)	BVI/Hong Kong	US$4	**100**	–	100	–	Investment holding
iDream Production Limited (note i)	Hong Kong	HK$2	–	**100**	–	100	Provision of CGI and special effects production services in respect of CGI animation pictures
Imagi Animation Studios Limited (note i)	Hong Kong	HK$2	–	**100**	–	100	Holding and licensing of intellectual property rights in respect of CGI animation pictures
Imagi Character Licensing B.V. (note i)	Netherlands	EUR18,100	–	**100**	–	100	Sub-licensing of intellectual property rights in respect of CGI animation pictures

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

Name of subsidiary	Place of incorporation or registration/ operations	Paid up issued share capital	Proportion of ownership interest and voting power held by the Company		Proportion of ownership interest voting power held by the Company		Principal activities
			Directly	Indirectly	Directly	Indirectly	
			31 December 2012		31 December 2011		
			%	%	%	%	
Imagi Crystal Limited (note i)	Hong Kong	HK$1	**–**	**100**	–	100	Holding and licensing of intellectual property rights in respect of CGI animation pictures
Imagi Diamond Limited (note i)	Hong Kong	HK$1	**–**	**100**	–	100	Holding and licensing of intellectual property rights in respect of CGI animation pictures
Imagi Platinum Limited (note i)	Hong Kong	HK$1	**–**	**100**	–	100	Holding and licensing of intellectual property rights in respect of CGI animation pictures
Imagi Services Limited	Hong Kong	HK$2	**–**	**100**	–	100	Provision of CGI and special effect production services and administrative services
Sky Field Holdings Limited	BVI/Hong Kong	US$1	**100**	**–**	100	–	Investment holding
Infoport Management Limited (note ii)	BVI/Hong Kong	US$499,990	**100**	**–**	100	–	Investment holding and holding of intellectual property rights
Toon Express International Limited (note ii) (note iii)	BVI/Hong Kong	US$10,000	**–**	**100**	–	100	Investment holding

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

Name of subsidiary	Place of incorporation or registration/ operations	Paid up issued share capital	Proportion of ownership interest and voting power held by the Company		Proportion of ownership interest voting power held by the Company		Principal activities
			Directly	Indirectly	Directly	Indirectly	
			31 December 2012		31 December 2011		
			%	%	%	%	
Toon Express Hong Kong Limited (note ii)	Hong Kong	HK$10,000	**–**	**100**	–	100	Licencing and management of cartoon character trademarks and copyrights and all related activities
廣州新原動力動漫形象管理有限公司 (note ii)	PRC	HK$1,500,000	**–**	**100**	–	100	Licencing and management of cartoon character trademarks and copyrights and all related activities

notes:

(i) During the current year, the directors discontinued operations of these companies, which was primarily engaged in the segment A business (as defined in note 8).

(ii) These companies were acquired in the Acquisition as set out in Note 32.

(iii) The company has been dissolved on 22 January 2013.

None of the subsidiaries had issued any debt securities at the end of the year.

FINANCIAL SUMMARY

Results

				Period from 1 April 2011 to 31 December	**From 1 January 2012 to 31 December**
	Year ended 31 March				
	2009	2010	2011	2011	**2012**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Revenue	3,613	107,123	8,616	117,233	**155,213**
Loss before tax	(184,493)	(1,367,911)	(625,881)	(74,997)	**(105,996)**
Income tax credit	7,066	825	2,257	7,642	**14,429**
Loss for the year/period	(177,427)	(1,367,086)	(623,624)	(67,355)	**(91,567)**
Attributable to owners of the Company	(177,427)	(1,367,086)	(623,624)	(67,355)	**(91,567)**

Assets and Liabilities

				At 31 December	**At 31 December**
	At 31 March				
	2009	2010	2011	2011	**2012**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	841,547	87,650	184,873	1,334,906	**1,193,014**
Total liabilities	(274,744)	(252,493)	(16,315)	(308,085)	**(245,000)**
	566,803	(164,843)	168,558	1,026,821	**948,014**
Equity attributable to owners of the Company	566,803	(164,843)	168,558	1,026,821	**948,014**

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