

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Imagi International Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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This circular appears for information only and does not constitute an invitation or offer to shareholders or any other persons to acquire, purchase, or subscribe for securities of the Company.



IMAGI INTERNATIONAL HOLDINGS LIMITED

意馬國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00585)

- (1) CAPITAL REORGANISATION INVOLVING SHARE CONSOLIDATION, CAPITAL REDUCTION, DIMINUTION AND INCREASE;**
- (2) BRIDGING LOAN PROVIDED BY IDEA TALENT LIMITED;**
- (3) DEBT RESTRUCTURING WITH CORE CREDITORS;**
- (4) RIGHTS ISSUE IN THE PROPORTION OF FOUR RIGHTS SHARES FOR EVERY ONE ADJUSTED SHARE HELD ON THE RECORD DATE AT HK\$0.07 PER RIGHTS SHARE;**
- (5) SUBSCRIPTION OF NEW ADJUSTED SHARES BY IDEA TALENT LIMITED;**
- (6) GRANT OF OPTIONS TO IDEA TALENT LIMITED AND CORE CREDITORS;**
- (7) WHITEWASH WAIVER;**
- (8) SPECIAL DEALS;**
- (9) CONNECTED TRANSACTIONS IN RESPECT OF THE TRANSACTIONS CONTEMPLATED UNDER (3) AND (6) ABOVE; AND**
- (10) CHANGE IN BOARD LOT SIZE**

Financial adviser to Imagi International Holdings Limited



Underwriter of the Rights Issue



Independent financial adviser to the Independent Board Committee and the Independent Shareholders



A letter from the Board is set out on pages 12 to 51 of this circular.

A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 52 to 53 of this circular. A letter from Veda Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, containing its advice in respect of the Whitewash Waiver, the Rights Issue, the Special Deals and the Connected Transactions, is set out on pages 54 to 80 of this circular.

A notice convening the SGM to be held at 22nd Floor, 8 Commercial Tower, 8 Sun Yip Street, Chai Wan, Hong Kong on Friday, 16 April 2010 at 10:00 a.m. is set out on pages SGM-1 to SGM-7 of this circular. A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend the SGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable but in any event not later than 48 hours before the time appointed for holding of the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish and in such case, the form of proxy shall be deemed to be revoked.

The Shares will be dealt in on an ex-rights basis from Friday, 9 April 2010. Dealings in the Rights Shares in their nil-paid form will take place from Wednesday, 21 April 2010 to Friday, 30 April 2010 (both dates inclusive). It is expected that the conditions referred to in the section headed "Conditions of the Rights Issue" in this circular are to be fulfilled on or before 4:00 p.m. on Monday, 10 May 2010. If the conditions referred to in that section are not fulfilled, the Underwriting Agreement shall terminate and the Rights Issue will not proceed. Any person contemplating buying or selling Shares or Adjusted Shares from the date of this circular and up to the date on which all the conditions of the Rights Issue are fulfilled, and any dealings in the Rights Shares in their nil-paid form between Wednesday, 21 April 2010 and Friday, 30 April 2010 (both dates inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional and/or may not proceed. Any person contemplating dealing in the Shares, Adjusted Shares and/or the Rights Shares in their nil-paid form are recommended to consult his/her/its/their own professional adviser.

It should be noted that the Underwriting Agreement contains provisions entitling the Underwriter by notice in writing to the Company at any time prior to the Latest Time for Termination to terminate its obligations under the Underwriting Agreement on the occurrence of certain events including force majeure. These events are summarised in the section headed "Termination of the Underwriting Agreement" on pages 10 to 11 of this circular.

Upon the delivery of the notice of termination, all obligations of the Underwriter under the Underwriting Agreement shall cease and determine and neither party shall have any claim against the other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement provided that the Company shall remain liable to pay to the Underwriter certain expenses in connection with the Rights Issue. If the Underwriter exercises such right, the Rights Issue will not proceed.

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EXPECTED TIMETABLE

Last day of dealings in Shares on a cum-rights basis	Thursday, 8 April 2010
First day of dealings in Shares on an ex-rights basis	Friday, 9 April 2010
Latest time to lodge transfer of Shares in order to qualify for the Rights Issue	4:30 p.m. on Monday, 12 April 2010
Closure of register of members of the Company (both dates inclusive)	Tuesday, 13 April 2010 to Friday, 16 April 2010
Latest time for lodging proxy forms for the SGM	10:00 a.m. on Wednesday, 14 April 2010
Date and time of SGM	10:00 a.m. on Friday, 16 April 2010
Announcement of results of SGM	Friday, 16 April 2010
Record Date	Friday, 16 April 2010
Effective date of Share Consolidation	Monday, 19 April 2010
Commencement of dealings in the Adjusted Shares	9:30 a.m. on Monday, 19 April 2010
Register of members re-opens	Monday, 19 April 2010
Despatch of Prospectus Documents	Monday, 19 April 2010
Original counter for trading in Shares in existing share certificates in board lots of 2,000 Shares temporarily closes	9:30 a.m. on Monday, 19 April 2010
Temporary counter for trading in Adjusted Shares in board lots of 200 Adjusted Shares (in the form of existing share certificates) opens	9:30 a.m. on Monday, 19 April 2010
First day of free exchange of existing certificates for the Shares into new certificates for the Adjusted Shares	Monday, 19 April 2010
First day of dealings in nil-paid Rights Shares	Wednesday, 21 April 2010

EXPECTED TIMETABLE

Latest time for splitting nil-paid Rights Shares	4:30 p.m. on Tuesday, 27 April 2010
Last day of dealings in nil-paid Rights Shares	Friday, 30 April 2010
Designated broker starts to stand in the market to provide matching service for the sale and purchase of odd lots of Adjusted Shares	9:30 a.m. on Monday, 3 May 2010
Original counter for trading in Adjusted Shares in board lots of 8,000 Adjusted Shares (only new certificates for the Adjusted Shares can be traded at this counter) re-opens	9:30 a.m. on Monday, 3 May 2010
Parallel trading in Adjusted Shares (in the form of both existing and new certificates) commences	9:30 a.m. on Monday, 3 May 2010
Latest time for acceptance of, and payment for, the Rights Shares and the applications for excess Rights Shares	4:00 p.m. on Wednesday, 5 May 2010
Latest time to terminate the Underwriting Agreement and for the Rights Issue to become unconditional	4:00 p.m. on Monday, 10 May 2010
Announcement of results of the Rights Issue	Monday, 10 May 2010
Refund cheques to be despatched in relation to wholly or partially unsuccessful applications for excess Rights Shares on or before	Tuesday, 11 May 2010
Certificates for fully paid Rights Shares to be despatched on or before	Tuesday, 11 May 2010
Commencement of dealings in fully-paid Rights Shares	9:30 a.m. on Thursday, 13 May 2010
Temporary counter for trading in Adjusted Shares in board lots of 200 Adjusted Shares (in the form of existing certificates) closes	4:00 p.m. on Monday, 24 May 2010

EXPECTED TIMETABLE

Parallel trading in the Adjusted Shares

(represented by both existing and

new certificates) ends 4:00 p.m. on
Monday, 24 May 2010

Designated broker ceases to stand in the market

to provide matching service 4:00 p.m. on
Monday, 24 May 2010

Last day of free exchange of existing certificates for the

Shares for the new certificates for the Adjusted Shares Friday, 28 May 2010

All references to times and dates in this circular are references to Hong Kong local times and dates.

Dates or deadlines specified herein may be varied or extended and are therefore tentative and indicative only. An announcement will be made by the Company on any changes to the above expected timetable, if and when appropriate.

Note: The latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares will be changed if there is a tropical cyclone warning signal number 8 or above, or a "black" rainstorm warning:

- (1) in force in Hong Kong at any local time before 12:00 noon but no longer in force after 12:00 noon on the Last Acceptance Date. Instead the latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares will be extended to 5:00 p.m. on the same Business Day; or*
- (2) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the Last Acceptance Date. Instead the latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.*

If the latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares is changed, the dates mentioned above may be affected. The Company will notify Shareholders by way of announcement(s) on any change to the expected timetable as soon as practicable.

DEFINITIONS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

“Access Capital”	Access Capital Limited, a corporation licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO;
“Adjusted Shares”	shares of HK\$0.001 each in the capital of the Company upon the Capital Reorganisation becoming effective;
“associates”	the meaning ascribed thereto in the Listing Rules;
“Astro Boy”	the media franchise originated by Osamu Tezuka relating to the title character of the same name;
“Board”	the board of Directors;
“Bridge Loan Agreement”	the loan agreement dated 10 February 2010 in relation to the Investor Loan;
“Business Day”	a day, (other than a Saturday or Sunday or public holiday) on which licensed banks are open for general banking business in Hong Kong;
“Capital Reduction”	the cancellation of HK\$0.999 of the par value of each Consolidated Share;
“Capital Reorganisation”	the Share Consolidation, Capital Reduction, and the Diminution and Increase as referred to in this circular;
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC;
“Companies Act”	the Companies Act 1981 of Bermuda as may from time to time be amended;
“Companies Ordinance”	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong;
“Company”	Imagi International Holdings Limited, a company incorporated in Bermuda with limited liability and the Shares of which are listed on the Stock Exchange;
“connected person(s)”	the meaning ascribed thereto in the Listing Rules;

DEFINITIONS

“connected transactions”	the meaning ascribed thereto in the Listing Rules;
“Connected Transactions”	the connected transactions contemplated under the Intercreditors’ Agreement and the Option Agreements;
“Consolidated Shares”	shares of HK\$1.00 each in the capital of the Company upon completion of the Share Consolidation and prior to the Capital Reduction;
“controlling shareholder”	the meaning ascribed thereto in the Listing Rules;
“Conversion Shares”	the 790,000,000 Adjusted Shares to be issued, allotted and apportioned to the Core Creditors in accordance with the terms of the Intercreditors’ Agreement;
“Core Creditors”	<ul style="list-style-type: none">(i) Goodyear Group Limited of 2nd Floor, Abbott Building, Road Town, Tortola, British Virgin Islands,(ii) Trophy LV Master Fund of P.O. Box 2003 GT, Grand Pavilion Commercial Centre, 802 West Bay Road, Grand Cayman, Cayman Islands,(iii) Trophy Fund of P.O. Box 2003 GT, Grand Pavilion Commercial Centre, 802 West Bay Road, Grand Cayman, Cayman Islands, and(iv) Fortunate City Investment Limited of Trident Chambers, P.O. Box 146, Road Town, Tortola, British Virgin Islands;
“Core Creditors’ Share Conversion”	the issue by the Company of the Conversion Shares to the Core Creditors under the Intercreditors’ Agreement described in this circular;
“Diminution and Increase”	the cancellation of the authorised and unissued share capital of the Company following the Capital Reduction and the increase of the authorised share capital of the Company to HK\$1,000,000,000 by the creation of additional Adjusted Shares;
“Director(s)”	director(s) of the Company;
“EAF(s)”	application form(s) for excess Rights Shares to be issued in relation to the Rights Issue;

DEFINITIONS

“Executive”	the Executive Director of the Corporate Finance Division of the SFC, or any delegate of the Executive Director;
“Exclusivity Agreement”	the exclusivity agreement dated 2 February 2010 entered into between the Company and the Investor, details of which were set out in the Company’s announcement of the same date;
“Group”	the Company and its subsidiaries;
“HKSCC”	Hong Kong Securities Clearing Company Limited;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong;
“Independent Board Committee”	an independent committee of the Board comprising an independent non-executive Director formed for the purpose of advising the Independent Shareholder(s) on the Transactions, the Rights Issue, the Whitewash Waiver, the Special Deals and the Connected Transactions;
“Independent Shareholder(s)”	the Shareholders who are not involved in or interested in the relevant transactions as set out in the section “SGM” in this circular;
“Independent Third Party(ies)”	parties independent of the Company and connected persons (as defined in the Listing Rules) of the Company;
“Intercreditors’ Agreement”	the intercreditors’ agreement dated 10 February 2010 entered into between the Company, the Core Creditors and the Investor in relation to the standstill and compromise of the Relevant Debt and their settlement;
“Investor”	Idea Talent Limited, a limited liability company incorporated in the British Virgin Islands;
“Investor Loan”	the bridge loan facility of up to HK\$20,000,000 provided to the Company by the Investor;
“Investor Option Agreement”	the option agreement entered into on 10 February 2010 between the Investor and the Company as supplemented by the Supplemental Option Agreement;

DEFINITIONS

“Joint Announcement”	the joint announcement dated 17 February 2010 issued by the Company and the Investor;
“Last Acceptance Date”	5 May 2010, or such later date as may be agreed between the Underwriter and the Company as the latest date for acceptance of, and payment for, the Rights Shares and for application and payment for excess Rights Shares;
“Last Trading Day”	10 February 2010, being the last full trading day immediately before the suspension of trading in the Shares pending the release of the Joint Announcement;
“Latest Practicable Date”	22 March 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular;
“Latest Time for Acceptance”	4:00 p.m. on the Last Acceptance Date, or such later time as may be agreed between the Underwriter and the Company as the latest time for acceptance of, and payment for, the Rights Shares and any excess Rights Shares;
“Latest Time for Termination”	4:00 p.m. on 10 May 2010, or such other time as may be agreed between the Underwriter and the Company;
“Listing Committee”	the listing committee of the Stock Exchange;
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange;
“Mr. Hung”	Mr. Hung Kam Biu, Kenneth, a substantial shareholder of the Company for the purposes of the Listing Rules;
“Non-Qualifying Shareholder(s)”	Shareholder(s) whose name(s) appear(s) on the register of members of the Company on the Record Date and whose address(es) as shown on such register (is) are outside Hong Kong where the Directors, based on advice provided by legal advisers, consider it necessary or expedient to exclude any such Shareholders on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place;

DEFINITIONS

“Option”	the option(s) to subscribe for Option Shares granted under the Option Agreements;
“Option Agreement(s)”	the various option agreements entered into on 10 February 2010 each between the Company and each one of the Core Creditors and the Investor Option Agreement pursuant to which the Company granted to each of them separately an option to require the Company to issue further new Adjusted Shares in the Company to each of them;
“Option Shares”	the 1,500,000,000 Adjusted Shares that may be issued to the Investor and the aggregate of 400,000,000 Adjusted Shares that may be issued to the Core Creditors in accordance with the terms of the Option Agreements;
“OTCQX”	the US over the counter market;
“Overseas Shareholder(s)”	Shareholder(s) with registered address(es) (as shown in the register of members of the Company on the Record Date) outside Hong Kong;
“Posting Date”	the date of despatch of the Prospectus Documents to the Qualifying Shareholders and the Prospectus to the Non-Qualifying Shareholders;
“PRC”	the People’s Republic of China;
“Prospectus”	the prospectus to be issued by the Company in relation to the Rights Issue;
“Prospectus Documents”	the Prospectus, the Provisional Allotment Letter(s) and the EAF(s);
“Provisional Allotment Letter(s)”	the provisional allotment letter(s) to be issued in relation to the Rights Issue;
“Qualifying Shareholder(s)”	Shareholder(s) other than Non-Qualifying Shareholder(s), whose name(s) appear on the register of members of the Company on the Record Date;
“Recent Announcements”	the announcements dated 30 December 2009, 20 January 2010, 26 January 2010 and 2 February 2010 issued by the Board;

DEFINITIONS

“Record Date”	16 April 2010, being the date and time by reference to which entitlements of the Qualifying Shareholders to the Rights Issue will be determined;
“Relevant Debt”	in relation to each Core Creditor, the indebtedness owed or otherwise payable by the Company and/or its subsidiaries to such Core Creditor whether or not due for payment but not including the Trophy Advance;
“Rights Issue”	the issue of the Rights Shares by the Company on the basis of four Rights Shares for every one Adjusted Share held on the Record Date (on the assumption that the Capital Reorganisation has taken place on the Record Date) at the subscription price on the terms and subject to the conditions to be set out in the Prospectus Documents;
“Rights Shares”	not less than 1,440,607,352 Adjusted Shares proposed to be provisionally allotted and issued to the Qualifying Shareholders for subscription pursuant to the Rights Issue;
“Settlement Date”	10 May 2010, being the third Business Day following the Last Acceptance Date (or such other date as the Underwriting and the Company may agree in writing);
“SFC”	the Securities and Futures Commission of Hong Kong;
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong;
“SGM”	the special general meeting of the Company, notice of which is set out in this circular, to consider, and if thought fit, to approve, among other matters, the Transactions, the Whitewash Waiver, the Special Deals and the transactions contemplated thereunder;
“Share(s)”	ordinary share(s) of a nominal value of HK\$0.10 each in the share capital of the Company;
“Share Consolidation”	the consolidation of every ten issued and unissued Shares into one Consolidated Share;

DEFINITIONS

“Share Subscription”	the subscription of shares by the Investor under the Share Subscription Agreement;
“Share Subscription Agreement”	the conditional subscription agreement dated 10 February 2010 entered into between the Company and the Investor in respect of the issue of the Subscription Shares and Top-up Shares;
“Share Option Scheme”	the share option scheme adopted by the Company on 16 August 2002;
“Shareholder(s)”	holder(s) of Shares;
“Special Deals”	(i) the settlement of the Relevant Debt in cash and the issue of the Adjusted Shares pursuant to the Intercreditors’ Agreement; (ii) the grant of the Options pursuant to the Option Agreements to each of Trophy LV Master Fund and Trophy Fund; and (iii) the use of the proceeds from the Rights Issue to repay in cash the full amount under the Trophy Advance, which constitute special deals under Rule 25 of the Takeovers Code;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subscription Shares”	1,880,000,000 Adjusted Shares of HK\$0.001 each in the Company;
“Sub-underwriting Letter”	the letter dated 10 February 2010 from the Underwriter to the Investor in respect of the Investor’s participation in the sub-underwriting of the Rights Shares as amended by a letter dated 22 March 2010;
“Supplemental Option Agreement”	the supplemental option agreement dated 22 March 2010 entered into between the Company and the Investor in relation to the Investor Option Agreement;
“Supplemental Underwriting Agreement”	the supplemental underwriting agreement dated 22 March 2010 entered into between the Company and the Underwriter in relation to the Underwriting Agreement;
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers;

DEFINITIONS

“Top-up Shares”	a maximum of 988,000,000 Adjusted Shares that may be issued to the Investor on the exercise of a right granted to the Investor by the Company such that immediately after the issuance of the Top-up Shares, the Investor shall beneficially own approximately 52.5% of the then enlarged issued share capital of the Company;
“Top-up Subscription”	the subscription of Top-up Shares;
“Transactions”	the transactions contemplated under the Transactions Documents;
“Transaction Documents”	the Share Subscription Agreement, the Option Agreements, the Bridge Loan Agreement, the Intercreditors’ Agreement, the Underwriting Agreement, the Sub-underwriting Letter and the Undertaking Letter;
“Trophy Advance”	the unsecured loan of HK\$3,500,000 bearing an interest rate of 20% per annum and which shall be repaid in full upon demand, provided to the Company by Trophy Fund pursuant to a letter agreement dated 2 February 2010 between the Company and Trophy Fund;
“Undertaking Group”	Mr. Hung; Trophy Fund; Trophy Master LV Fund; and Winnington Capital;
“Undertaking Letter”	the letter dated 10 February 2010 from the Undertaking Group in favour of the Investor in relation to, amongst other things, voting in favour of the resolution(s) to approve the matters contemplated under the Transaction Documents;
“Underwriter”	Get Nice Securities Limited, a corporation licensed to conduct Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO;
“Underwriting Agreement”	the underwriting agreement dated 10 February 2010 entered into between the Company and the Underwriter in relation to the Rights Issue as supplemented by the Supplemental Underwriting Agreement;

DEFINITIONS

“Underwritten Rights Shares”	all of the Rights Shares under the Rights Issue being not more than 1,472,438,196 Rights Shares;
“US\$”	United States dollars, the lawful currency of the United States of America;
“Veda Capital”	Veda Capital Limited, a corporation licensed to conduct Type 6 (advising on corporate finance) regulated activity under the SFO, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Transactions, the Rights Issue, the Connected Transactions, the Whitewash Waiver and the Special Deals;
“Whitewash Waiver”	a waiver from the Executive pursuant to Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code in respect of the obligation of the Investor to make a mandatory general offer for all the issued Shares in the capital of the Company not already owned and/or agreed to be acquired on the date of application for the waiver by the Investor which would otherwise arise as a result of the completion of any or all of the Rights Issue, the Share Subscription Agreement and the Option Agreements;
“Winnington Capital”	Winnington Capital Limited, a corporation licensed to conduct Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 9 (asset management) regulated activities under the SFO;
“Winnington Concert Party Group”	Mr. Hung, Ms. Chu Jocelyn, Trophy Fund, Trophy LV Master Fund, Goodyear Group Limited, Winnington Capital and the parties acting in concert with each of them (as defined in the Takeovers Code);
“Winnington Convertible Note”	the convertible notes in an aggregate principal amount of HK\$132 million dated 19 August 2009 issued by the Company to Goodyear Group Limited and Trophy LV Master Fund;
“%”	per cent.

TERMINATION OF THE UNDERWRITING AGREEMENT

The Underwriting Agreement contains provisions whereby the Underwriter may terminate the arrangements set out in the Underwriting Agreement by notice in writing issued to the Company at any time prior to 4:00 p.m. on the Settlement Date, if there occurs:

- (i) an introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof); or
- (ii) any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States of America) or other nature (whether or not such are of the same nature as any of the foregoing) or of the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market; or
- (iii) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out;

and in the reasonable opinion of the Underwriter, such change would have a material and adverse effect on the business, financial or trading position or prospects of the Group as a whole or the success of the Rights Issue or make it inadvisable or inexpedient to proceed with the Rights Issue.

If, at or prior to 4:00 p.m. on the Settlement Date:

- (i) the Company commits any material breach of or omits to observe any of the obligations, undertakings, representations or warranties expressed to be assumed by it under this Agreement which breach or omission will have a material and adverse effect on its business, financial or trading position; or
- (ii) the Underwriter shall receive notification pursuant to the relevant clauses of the Underwriting Agreement of, or shall otherwise become aware of, the fact that any of the representations or warranties contained in the Underwriting Agreement was, when given, untrue or inaccurate or would be untrue or inaccurate if repeated as provided in the relevant clauses of the Underwriting Agreement, and the Underwriter shall, in its reasonable opinion, determine that any such untrue representation or warranty represents or is likely to represent a material adverse change in the business, financial or trading position or prospects of the Group taken as a whole or is otherwise likely to have a materially prejudicial effect on the Rights Issue; or

TERMINATION OF THE UNDERWRITING AGREEMENT

- (iii) the Company shall, after any matter or event referred to in the relevant clauses of the Underwriting Agreement has occurred or come to the Underwriter's attention, fail promptly to send out any announcement or circular (after the despatch of the Prospectus Documents), in such manner (and as appropriate with such contents) as the Underwriter may reasonably request for the purpose of preventing the creation of a false market in the securities of the Company,

the Underwriter shall be entitled (but not bound) by notice in writing issued by the Underwriter to the Company to elect to treat such matter or event as releasing and discharging the Underwriter from its obligations under this Agreement.



IMAGI INTERNATIONAL HOLDINGS LIMITED

意馬國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00585)

Executive Director:

Mr. Phoon Chiong Kit

(Deputy Chairman and Chief Executive Officer)

Independent non-executive Director:

Mr. Ng See Yuen

Registered office:

Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

*Principal place of business
in Hong Kong:*

22nd Floor
8 Commercial Tower
8 Sun Yip Street
Chai Wan
Hong Kong

24 March 2010

To the Shareholders and holders of share options

Dear Sir or Madam,

- (1) CAPITAL REORGANISATION INVOLVING SHARE CONSOLIDATION, CAPITAL REDUCTION, DIMINUTION AND INCREASE;**
- (2) BRIDGING LOAN PROVIDED BY IDEA TALENT LIMITED;**
- (3) DEBT RESTRUCTURING WITH CORE CREDITORS;**
- (4) RIGHTS ISSUE IN THE PROPORTION OF FOUR RIGHTS SHARES FOR EVERY ONE ADJUSTED SHARE HELD ON THE RECORD DATE AT HK\$0.07 PER RIGHTS SHARE;**
- (5) SUBSCRIPTION OF NEW ADJUSTED SHARES BY IDEA TALENT LIMITED;**
- (6) GRANT OF OPTIONS TO IDEA TALENT LIMITED AND CORE CREDITORS;**
- (7) WHITEWASH WAIVER;**
- (8) SPECIAL DEALS;**
- (9) CONNECTED TRANSACTIONS IN RESPECT OF THE TRANSACTIONS CONTEMPLATED UNDER (3) AND (6) ABOVE; AND**
- (10) CHANGE IN BOARD LOT SIZE**

INTRODUCTION

On 17 February 2010, the Board announced that after trading hours on 10 February 2010, the Company, the Core Creditors and the Investor (amongst others) had entered into

* For identification only

LETTER FROM THE BOARD

a number of agreements (as summarised below) which, if all are successfully implemented, will allow the Company to stabilise its financial position and introduce the Investor as the controlling shareholder of the Company. The relevant agreements are as follows:

- the Bridge Loan Agreement to provide up to HK\$20,000,000 for the short-term working capital needs of the Company;
- the Intercreditors' Agreement to restructure and compromise certain existing debts;
- the Underwriting Agreement in respect of the underwriting of the Rights Issue to raise gross proceeds of not less than HK\$100,800,000;
- the Share Subscription Agreement to raise not less than HK\$131,600,000 through the issue of new Adjusted Shares to the Investor by the Company; and
- the Option Agreements to grant the Investor and the Core Creditors options to subscribe for new Adjusted Shares.

Further details of each of these agreements are set out below in this circular.

The completion of the Transactions is subject to the fulfilment of a number of conditions precedent (as described below). There is no certainty that the Transactions, either in whole or in part, can be executed and that the funding can be obtained. Shareholders are therefore urged to exercise extreme caution in dealing in the Shares.

CAPITAL REORGANISATION

Consolidation of Shares, reduction in par value cancellation and increase of share capital

The Company proposes to carry out a capital reorganisation of the Company's share capital in order to facilitate the implementation of the Company's debt restructuring and recapitalisation plan. This involves:

- a consolidation of the Shares in the ratio of 10 Shares into 1 Consolidated Share with a par value of HK\$1.00; and
- the reduction of the issued share capital of the Company by cancelling paid-up capital to the extent of HK\$0.999 on each Consolidated Share in issue on the date the Capital Reduction comes into effect so that each issued share in the capital of the Company shall be treated as one Adjusted Share and any liability of the holders of the Adjusted Shares to make any further contribution to the capital of the Company on each such Adjusted Share shall be treated as satisfied;

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- subject to and forthwith upon the Capital Reduction taking effect, all of the authorised but unissued share capital of the Company (which shall include the authorised but unissued share capital arising from the Capital Reduction) will be cancelled and forthwith upon such cancellation, the authorised share capital of the Company will be increased to HK\$1,000,000,000 by the creation of such number of additional Adjusted Shares as shall be sufficient to increase the authorised share capital to HK\$1,000,000,000 (the “Diminution and Increase”); and
- the credit standing at the share premium account of the Company will be cancelled and, together with the credit arising from the Capital Reduction, will be transferred to the contributed surplus account of the Company which may be applied to offset accumulated losses of the Company in so far as permitted by the Companies Act 1981 of Bermuda and the bye-laws of the Company.

The Capital Reorganisation is subject to:

- (i) the passing of the necessary resolution at the SGM;
- (ii) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Adjusted Shares in issue arising from the Capital Reorganisation; and
- (iii) compliance with Section 46(2) of the Companies Act, which includes the publication of a notice in relation to the Capital Reduction in Bermuda.

No Shareholders are required to abstain from voting on the relevant resolution to approve the Capital Reorganisation at the SGM. The Undertaking Group, holders of in aggregate 752,703,900 Shares representing approximately 20.9% of the issued share capital of the Company, have given an undertaking to vote in favour of the resolution in respect of the Capital Reorganisation.

Effects of the Capital Reorganisation

As at the Latest Practicable Date, the authorised share capital of the Company was HK\$1,000,000,000 divided into 10,000,000,000 Shares of HK\$0.10 each, of which 3,601,518,384 Shares have been issued and are fully paid. Assuming that no further Shares are issued or repurchased between the date of the Joint Announcement and the date of the SGM, immediately upon the Capital Reorganisation becoming effective, the new authorised share capital of the Company will become HK\$1,000,000,000 divided into 1,000,000,000,000 Adjusted Shares of HK\$0.001 each, of which 360,151,838 Adjusted Shares will be in issue.

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Based on 3,601,518,384 Shares in issue as at the Latest Practicable Date, a credit of approximately HK\$356,550,000 will arise as a result of the Capital Reduction and will be transferred to the contributed surplus account of the Company and applied to offset part of the Company's accumulated losses as permitted by the laws of Bermuda and the bye-laws of the Company.

For reference, as set out in the unaudited financial statements of the Company for the period ended 30 September 2009, the amounts of the issued share capital of the Company, share premium account of the Company and accumulated losses of the Company (as adjusted to the accumulated losses of the Group through adjustments to the interests in subsidiaries) were approximately HK\$360,152,000, HK\$993,483,000 and HK\$1,093,449,000 respectively as at 30 September, 2009. The effects of the Capital Reduction on the issued capital, contributed surplus and accumulated losses of the Company are summarised in the following table:

	Issued Share Capital <i>HK\$'000</i>	Share Premium <i>HK\$'000</i>	Contributed Surplus <i>HK\$'000</i>	Accumulated Losses <i>HK\$'000</i>
Before Capital Reduction	360,152	993,483	0	1,093,449
Capital Reduction	(356,550)	(993,483)	1,350,033	-
Offset accumulated losses	-	-	(1,093,449)	(1,093,449)
	3,602	0	256,584	0
After Capital Reduction	3,602	0	256,584	0

Other than the relevant expenses incurred, the implementation of the Capital Reorganisation will have no effect on the consolidated net asset value of the Group, nor will it alter the underlying assets, business, operations, management or financial position of the Company or the interests of the Shareholders (save as disclosed below) as a whole. The Capital Reorganisation will not involve any diminution of any liability in respect of any unpaid capital of the Company or the repayment to the Shareholders of any unpaid capital of the Company nor will it result in any change in the relative rights of the Shareholders. The issued Adjusted Shares will rank *pari passu* in all respects with each other.

Listing and Dealings

Application will be made to the Listing Committee of the Stock Exchange for the granting of the listing of, and permission to deal in, the Adjusted Shares arising from the Share Consolidation and Capital Reduction. Subject to the granting of the listing of, and permission to deal in, the Adjusted Shares on the Stock Exchange, the Adjusted Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Adjusted Shares on the Stock Exchange or such other date as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the general rules of CCASS and CCASS operational procedures in effect from time to time.

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Trading Arrangements for the Adjusted Shares

Subject to the Share Consolidation and Capital Reduction becoming effective, the arrangements proposed for dealings in the Adjusted Shares are as follows:

- (a) from 9:30 a.m. on Monday, 19 April 2010, the original counter for trading in Shares in existing share certificates in board lots of 2,000 Shares will be temporarily closed and a temporary counter for trading in Adjusted Shares in board lots of 200 Adjusted Shares with existing share certificates will be set up;
- (b) with effect from 9:30 a.m. on Monday, 3 May 2010, the original counter for trading in Adjusted Shares will be re-opened for trading Adjusted Shares in board lots of 8,000 Adjusted Shares with new share certificates;
- (c) during the period from 9:30 a.m. on Monday, 3 May 2010 to 4:00 p.m. on Monday, 24 May 2010 (both dates inclusive), there will be parallel trading at the above two counters; and
- (d) the temporary counter for trading in Adjusted Shares in board lots of 200 Adjusted Shares will be removed after the close of trading at 4:00 p.m. on Monday, 24 May 2010. Thereafter, trading will only be in board lots of 8,000 Adjusted Shares with new share certificates and the existing share certificates for Shares will cease to be marketable and will not be acceptable for dealing and settlement purposes. However, such certificates will remain effective as documents of title on the basis of ten Shares for one Adjusted Share.

Free exchange of Share certificates

Subject to the Capital Reorganisation becoming effective, the Shareholders may submit certificates for Shares to the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for exchange from Monday, 19 April 2010 to Friday, 28 May 2010 (both dates inclusive), at the expense of the Company, for certificates for Adjusted Shares. Thereafter, certificates for Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may from time to time be allowed by the Stock Exchange) for each share certificate for Shares cancelled or each new share certificate issued for Adjusted Shares, whichever number of certificates cancelled/issued is higher. The existing certificates will be valid for trading and settlement up to 4:00 p.m. on Monday, 24 May 2010, being the latest time for trading in board lot of 200 Adjusted Shares in the form of existing certificates (or such other date which will be announced by the Company) and will continue to be good evidence of legal title after the Capital Reorganisation has become effective and may be exchanged for certificates for Adjusted Shares at any time in accordance with the foregoing.

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BRIDGE LOAN AGREEMENT

On 10 February 2010, the Company entered into the Bridge Loan Agreement with the Investor whereunder the Investor has conditionally agreed to provide the Company with the Investor Loan of up to HK\$20,000,000 with the initial HK\$3,500,000 of the facility utilised to fully repay the earnest money owed to the Investor under the Exclusivity Agreement, and with the remaining HK\$16,500,000 of the facility to be used to assist the Company in funding its working capital requirements.

All amounts owing shall be repayable by the Company upon demand by the Investor and also on the occurrence of certain events of default (including but not limited to any material adverse change in the Company's liability position after initial draw-down) or, if no demand has been made, on the date falling 120 days from the date of the Bridge Loan Agreement. Any undrawn facility may be cancelled by the Investor upon the occurrence of certain of these events of default.

Interest on the principal at the rate of 20% per annum shall be payable on the date falling 120 days from the date of the Bridge Loan Agreement.

INTERCREDITORS' AGREEMENT

On 10 February 2010, the Company, the Investor and the Core Creditors entered into the Intercreditors' Agreement under which the Core Creditors agreed, among other things (a) except with the prior written consent of the Investor and/or Trophy Fund, not to exercise or enforce any of their rights or remedies or take or commence any legal proceedings or accelerate or demand repayment of any principal or interest owing to each of them under their respective Relevant Debt, or exercise any right of set-off or otherwise reduce the amount of outstanding Relevant Debt before the earlier of (i) the expiry of six months from the date of the Intercreditors' Agreement; (ii) the date the debt owed to the Investor and Trophy Fund under the Bridge Loan Agreement and Trophy Advance respectively has been fully repaid by the Company; (iii) the date a winding up order is made on the Company; or (iv) the date the Company repudiates any Relevant Debt; and (b) that the Relevant Debt shall be subordinated to and junior in right of payment to and will at all times remain subordinate and subject in right of prior payment to the debt owed to the Investor and Trophy Fund under the Bridge Loan Agreement and Trophy Advance, respectively, such that the Investor Loan shall be repaid first, and thereafter the Trophy Advance, followed by the Relevant Debt.

The Core Creditors have further agreed, subject to the completion of the Rights Issue and the Share Subscription Agreement, to accept in full settlement of their respective Relevant Debt (i) an aggregate amount of approximately US\$9,000,000; (ii) the allotment of the Conversion Shares at the issue price of HK\$0.07 per Conversion Share; and (iii) the grant of Options to subscribe for an aggregate of 400,000,000 Option Shares at the option price of HK\$0.08 per Option Share pursuant to the Option Agreements, as further described in this circular.

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The basis for the apportionment of the Conversion Shares, Option Shares and cash receivable by the Core Creditors was determined by arm's length negotiations between the Company, the Investor and the Core Creditors. The following table summarises the amount of cash, Conversion Shares and Option Shares that are receivable by the Core Creditors:

Name of Core Creditor	Relevant Debt including Winnington Convertible Note (as at 10 February 2010) <i>Note (1)</i>	Number of Conversion Shares	Number of Option Shares	Cash Settlement Amount
Goodyear Group Limited	HK\$94,000,000 <i>Note (2)</i>	277,477,800	145,300,000	HK\$24,498,832
Trophy LV Master Fund	HK\$38,000,000 <i>Note (2)</i>	112,171,900	61,200,000	HK\$9,903,783
Trophy Fund	HK\$19,983,160	71,491,100	63,900,000	HK\$6,312,033
Fortunate City Investment Limited	HK\$89,125,000	328,859,200	129,600,000	HK\$29,035,351
TOTAL	<u>HK\$241,108,160</u>	<u>790,000,000</u>	<u>400,000,000</u>	<u>HK\$69,749,999</u>

Notes:

- (1) US dollar amounts have been translated into Hong Kong dollar amounts at the rate of US\$1.00 to HK\$7.75
- (2) The relevant debt to Goodyear Group Limited and Trophy LV Master Fund relates to the Winnington Convertible Note

RIGHTS ISSUE

Issue statistics

Basis of the Rights Issue:	Four Rights Shares for every one Adjusted Share held on the Record Date (on the assumption that the Capital Reorganisation has taken place on the Record Date)
Subscription Price:	HK\$0.07 per Rights Share
Number of Shares in issue as at the Latest Practicable Date:	3,601,518,384 Shares

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Number of Adjusted Shares in issue (after Capital Reorganisation):	360,151,838 Adjusted Shares assuming no Shares are issued pursuant to the exercise of options granted under the Share Option Scheme on or before the Record Date
Minimum number of Rights Shares:	1,440,607,352 Rights Shares
Gross proceeds of the Rights Issue:	Approximately HK\$100,800,000

As at the Latest Practicable Date, save and except for the Winnington Convertible Note and the outstanding share options issued under the Share Option Scheme, the Company had no outstanding convertible securities or warrants in issue which would otherwise confer any right to subscribe for, convert or exchange into Shares.

The Company's obligation under the Winnington Convertible Note will be fully released and discharged as a result of the completion of the Intercreditors' Agreement under which the Core Creditors will receive an aggregate of approximately US\$9,000,000 in cash, 790,000,000 Adjusted Shares and the Options to subscribe for 400,000,000 Option Shares. In addition, the Winnington Convertible Note will not be exercisable or convertible into Shares or eligible for participation in the Rights Issue pursuant to the terms of the Intercreditors' Agreement.

Under the Rights Issue, based on the existing share capital of the Company (as adjusted by the Share Consolidation) and assuming no further Shares will be issued or repurchased by the Company on or before the Record Date, the nil-paid Rights Shares to be provisionally allotted pursuant to the terms of the Rights Issue will represent 400% of the Company's issued share capital after the Capital Reorganisation but prior to completion of the Rights Issue and the Transactions or approximately 80% of the enlarged issued share capital of the Company immediately after the Capital Reorganisation and the completion of the Rights Issue but before any subscription of Adjusted Shares under the Share Subscription Agreement or Option Agreements.

The number of Rights Shares which may be issued pursuant to the Rights Issue will be increased in proportion to any additional new Shares which may be allotted and issued pursuant to the exercise of subscription rights under options granted under the Share Option Scheme on or before the Record Date. As at the Latest Practicable Date, there were 218,803,017 outstanding share options granted of which 61,578,494 outstanding share options have vested pursuant to the Share Option Scheme. If all the subscription rights attaching to the vested share options are duly exercised and Shares are allotted and issued pursuant to such exercise on or before the Record Date, the number of Adjusted Shares which is subject of the Rights Issue could increase to 382,032,139. The number of Rights Shares that may be issued pursuant to the Rights Issue and the enlarged share capital of the Company immediately after the Capital Reorganisation upon completion of the Rights Issue but before any subscription of Adjusted Shares under the Share Subscription Agreement or Option Agreements could correspondingly increase to 1,528,128,556 and 1,910,160,695 respectively.

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Subscription price

The subscription price of HK\$0.07 per Rights Share represents:

- (i) a discount of approximately 95.0% to the adjusted closing price (as adjusted by the Share Consolidation) of HK\$1.39 per Adjusted Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 93.1% to the adjusted closing price (as adjusted by the Share Consolidation) of HK\$1.01 per Adjusted Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 93.8% to the adjusted average closing price (as adjusted by the Share Consolidation) of HK\$1.122 per Adjusted Share for the five consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 94.0% to the adjusted average closing price (as adjusted by the Share Consolidation) of HK\$1.166 per Adjusted Share for the ten consecutive trading days up to and including the Last Trading Day; and
- (v) a discount of approximately 72.9% to the theoretical ex-rights price (as adjusted by the Share Consolidation) of HK\$0.258 per Adjusted Share based on the closing price of HK\$0.101 per Share as quoted on the Stock Exchange on the Last Trading Day.

Basis of provisional allotments

Four Rights Shares (in nil-paid form) will be provisionally allotted for every one Adjusted Share held on the Record Date.

Undertaking by Trophy Fund and Trophy LV Master Fund

Pursuant to the terms of the Intercreditors' Agreement and at the request of the Investor, Trophy Fund and Trophy LV Master Fund have undertaken to the Company and to the Investor that they shall not exercise, dispose or subscribe for any of the nil-paid rights to be provisionally allotted to them under the Rights Issue in respect of a total of 654,953,900 Shares held by them. These nil-paid Rights Shares shall be made available for excess application by the Qualifying Shareholders.

Status of the Rights Shares

When allotted, issued and fully-paid, the Rights Shares will rank *pari passu* with the then existing Adjusted Shares in issue in all respects. Holders of such Rights Shares will receive all dividends and distributions, which may be declared, made or paid after the date of allotment and issue of the Rights Shares.

Fractional entitlements to the Rights Shares

Fractional entitlements to Rights Shares will not be provisionally allotted. All fractions of Rights Shares will be aggregated (rounded down to the nearest whole number). All nil-paid Rights Shares arising from such aggregation will be provisionally

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allotted to a nominee appointed by the Company and, if a premium (net of expenses) can be obtained, will be sold in the market. The net proceeds of such sale will be retained by the Company for its own benefit. Any unsold Rights Shares will be made available for excess application by the Qualifying Shareholders.

Qualifying Shareholders

To qualify for the Rights Issue, a Shareholder must be registered as a member of the Company and not be a Non-Qualifying Shareholder on the Record Date. In order to be registered as members of the Company on the Record Date, all transfers of the Shares must be lodged (together with the relevant share certificate(s)) with the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by 4:30 p.m. (Hong Kong time) on or before Monday, 12 April 2010.

The Company will send the Prospectus Documents to the Qualifying Shareholders and will send the Prospectus (without any Provisional Allotment Letter or EAF), for information only, to the Non-Qualifying Shareholders on the Posting Date. The Non-Qualifying Shareholders will be entitled to attend and vote at the SGM.

Non-Qualifying Shareholders

The Prospectus will not be registered or filed under the applicable securities or equivalent legislation of any jurisdiction other than Hong Kong and Bermuda. If there are any Shareholders whose addresses as shown on the register of members of the Company are outside Hong Kong as at the Record Date, the Company will exclude such Overseas Shareholders from the Rights Issue if based on advice provided by appropriate legal advisers, the Directors consider that such exclusion is necessary or expedient on account either of the legal restrictions under the laws of the relevant place or requirements of the relevant regulatory body or stock exchange in that place pursuant to Rule 13.36(2) of the Listing Rules.

The Company will make arrangements for Rights Shares which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders to be sold in the market in their nil-paid form as soon as practicable after dealing in the nil-paid Rights Shares commences and before dealing in nil-paid Rights Shares ends, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses, will be paid to the Non-Qualifying Shareholders in Hong Kong dollars pro rata to their respective shareholding as soon as possible, provided that individual amounts of HK\$100 or less shall be retained by the Company for its own benefit. Any unsold entitlements of Non-Qualifying Shareholders, together with any Rights Shares provisionally allotted but not accepted, will be made available for excess application on EAFs by Qualifying Shareholders.

Closure of register of members

The register of members of the Company will be closed from 13 April 2010 to 16 April 2010 (both dates inclusive). No transfers of Shares will be registered during this period.

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Application for excess Rights Shares

Qualifying Shareholders shall be entitled to apply for any unsold entitlements of Non-Qualifying Shareholders, any nil-paid Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders, and any unsold Rights Shares created by aggregating fractions of the Rights Shares.

The Directors will allocate the excess Rights Shares at their discretion on a fair and equitable basis on the following principles:

- (a) preference will be given to applications for less than a board lot of Rights Shares where it appears to the Directors that such applications are made to round up odd-lot holdings to whole-lot holdings; and
- (b) subject to availability of excess Rights Shares after allocation under principle (a) above, the excess Rights Shares will be allocated to Qualifying Shareholders who have applied for excess Rights Shares in proportion to the Shares held by them on the Record Date, and with board lot allocations to be made on a best efforts basis.

Shareholders or potential investors should note that the number of excess Rights Shares which may be allocated to them may be different where they make applications for excess Rights Shares by different means, such as making applications on their own names as against through nominees who also hold Shares for other Shareholders/investors. The investors whose Shares are held by a nominee company should note that for the purposes of the principles above, the nominee company is a single Shareholder. Accordingly, the investors whose Shares are registered in the name of the nominee companies should note that the aforesaid arrangement in relation to the allocation of excess Rights Shares will not be extended to beneficial owners individually. Shareholders and investors should consult their professional advisers if they are in any doubt as to whether they should register their shareholding in their own names and apply for the excess Rights Shares themselves.

Investors whose Shares are held by their nominee(s) and who would like to have their names registered on the register of members of the Company by the Record Date must lodge all necessary documents with the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for completion of the relevant registration on or before 4:30 p.m. on Monday, 12 April 2010.

Share Option Scheme

As at the Latest Practicable Date, there were 218,803,017 outstanding share options granted pursuant to the Share Option Scheme. Pursuant to the terms of the Share Option Scheme, adjustments to the outstanding share options may be made upon the Rights Issue becoming unconditional. Further details on such adjustment, if any, will be made as and when necessary.

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Application for listing

Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares, in both nil-paid and fully-paid forms. No part of the equity or debt securities of the Company are listed or dealt in, and no listing or permission to deal in the same is being or is proposed to be sought, on any other stock exchange.

As set out in paragraph headed “Change of Board Lot Size” of this circular, nil-paid Rights Shares are expected to be traded in board lots of 8,000 (the Shares are currently traded on the Stock Exchange in board lots of 2,000). Dealings in the Rights Shares (in both nil-paid and fully-paid forms) will be subject to the payment of stamp duty, Stock Exchange trading fee, transaction levy, investor compensation levy and all other applicable fees and charges in Hong Kong.

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid forms on the Stock Exchange, the Rights Shares in both nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange or such other date as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the general rules of CCASS and CCASS operational procedures in effect from time to time.

Conditions of the Rights Issue

The obligations of the Underwriter under the Underwriting Agreement are conditional on:

- (i) the passing by the Shareholders (or Independent Shareholders, if required under the Listing Rules and/or Takeovers Code) at the SGM of resolution(s) to approve the Transaction Documents and the Transactions contemplated thereunder (including the sub-underwriting arrangements between the Investor and the Underwriter) (to the extent required under the Listing Rules and Takeover Code or the terms thereof), including the Rights Issue, the Capital Reorganisation, the issue of the Subscription Shares, the Top-up Shares, the Option Shares and the Conversion Shares;
- (ii) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Adjusted Shares, Rights Shares (in their nil-paid and fully-paid forms prior to commencement of dealings of the Rights Shares in nil-paid form and such listings and permission to deal not having been withdrawn or revoked on or before 4:00 p.m. on the Settlement Date), Subscription Shares, Top-up Shares, Option Shares and the Conversion Shares;

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- (iii) the consent of the Executive under Rule 25 of the Takeovers Code for the repayment of the amount due to the Core Creditors and issue of Conversion Shares to the Core Creditors under the Intercreditors' Agreement, and the issue of the Option Shares to the Core Creditors under the Option Agreements;
- (iv) the granting of a waiver by the Executive from the obligations to make a general offer by the Investor as a result of the transactions referred to in the Transaction Documents (including the subscription of the Subscription Shares, Top-up Shares, Option Shares, and the Rights Shares under the Rights Issue by way of acting as sub-underwriter) pursuant to Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code;
- (v) the delivery to the Stock Exchange and registration by the Registrar of Companies in Hong Kong on or prior to the Posting Date and registration by the Registrar of Companies in Bermuda prior to or as soon as practicable after the Posting Date of the Prospectus Documents and all other documents required by law to be filed or delivered for registration;
- (vi) the posting on the Posting Date of copies of the Prospectus Documents to the Qualifying Shareholders;
- (vii) compliance by the Company with certain obligations under the Underwriting Agreement;
- (viii) the Shares remaining listed on the Stock Exchange at all times prior to the Settlement Date and the current listing of the Shares not having been withdrawn or the trading of the Shares not having been suspended for a consecutive period of more than three trading days and no indication being received before 4:00 p.m. on the Settlement Date from the Stock Exchange to the effect that such listing may be withdrawn or objected to (or conditions will or may be attached thereto) including but not limited to as a result of the Rights Issue or in connection with the terms of the Underwriting Agreement or for any other reason;
- (ix) none of the Underwriting Agreement and other Transaction Documents (including the Subscription Agreement) having been early terminated in accordance with the terms thereof; and
- (x) the Capital Reorganisation becoming effective.

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In the event that the conditions (other than the conditions in (i) to (iii), (v) and (vi) which cannot be waived) have not been satisfied and/or waived in whole or in part by the Underwriter on or before the Posting Date or in the event that the conditions in (ii) and (ix) have not been satisfied on or before 4.00 p.m. on the Settlement Date (or, in each case, such later date as the Underwriter and the Company may agree), all liabilities of the parties thereto shall cease and determine and none of the parties shall have any claim against the other save that all such reasonable costs, fees and other out-of-pocket expenses as have been properly incurred by the Underwriter in connection with the underwriting of the Underwritten Rights Shares by the Underwriter (excluding the underwriting commission, sub-underwriting fees and related expenses) shall, to the extent agreed by the Company, be borne by the Company.

As at the Latest Practicable Date, the Investor has not decided whether or not to waive any of the conditions precedent to the Share Subscription Agreement, including the condition with respect to the granting of the Whitewash Waiver. In the event the Investor agrees to waive the conditions relating to the Whitewash Waiver, the Investor will comply with all relevant requirements under the Takeovers Code, including but not limited to the making of a general offer and further announcements.

Underwriting Arrangements

Principal terms of the Underwriting Agreement

Date: 10 February 2010

Underwriter: Get Nice Securities Limited

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, the Underwriter, its associates and its ultimate beneficial owners are Independent Third Parties

Minimum number of Underwritten Rights Shares: 1,440,607,352 Rights Shares (being the minimum number of Rights Shares)

Commission the payable to Underwriter: 1.0% of the total subscription price of the Rights Shares

Undertaking: Save for the sub-underwriting arrangements entered into between the Investor and the Underwriter, the Underwriter shall use all reasonable endeavours to procure that the subscribers or purchasers of the Underwritten Rights Shares shall be third parties independent of, not acting in concert with and shall not be connected with the Investor, the Directors, chief executive or substantial shareholders of the Company or their respective associates.

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Sub-underwriting Letter

The Investor has advised the Company that under arrangements between it and the Underwriter, the Investor has undertaken to subscribe for not more than 900,000,000 Rights Shares, if called upon by the Underwriter on the terms and subject to conditions of the Sub-underwriting Letter.

Termination of the Underwriting Agreement

The Underwriting Agreement also contains provisions granting the Underwriter, by notice in writing, the right to terminate the Underwriter's obligations thereunder on the occurrence of certain events. The Underwriter may terminate the Underwriting Agreement at any time prior to 4:00 p.m. on the Settlement Date if there occurs:

- (i) an introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof); or
- (ii) any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States of America) or other nature (whether or not such are of the same nature as any of the foregoing) or of the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market; or
- (iii) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out;

and in the reasonable opinion of the Underwriter, such change would have a material and adverse effect on the business, financial or trading position or prospects of the Group as a whole or the success of the Rights Issue or make it inadvisable or inexpedient to proceed with the Rights Issue.

If, at or prior to 4:00 p.m. on the Settlement Date:

- (iv) the Company commits any material breach of or omits to observe any of the obligations, undertakings, representations or warranties expressed to be assumed by it under this Agreement which breach or omission will have a material and adverse effect on its business, financial or trading position; or
- (v) the Underwriter shall receive notification pursuant to the terms of the Underwriting Agreement in relation to (a) any matter or event coming to the Company's attention prior to the despatch of the Prospectus or prior to the Acceptance Date which shows any representation or warranty to be or to have at any relevant time been untrue or inaccurate in any material respect or which, had the representations and warranties contained in the Underwriting Agreement been repeated on each day prior to the Acceptance Date, would

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have shown any representation or warranty to be or to have at any relevant time been untrue or inaccurate in any material respect; and (b) prior to the Posting Date or on or prior to 4:00 p.m. on the Acceptance Date, any matter or event comes to the attention of any of the parties as a result of which any representation or warranty, if repeated immediately after the occurrence thereof, would be untrue or inaccurate in any material respect or which would or might render untrue or inaccurate in any material respect or misleading any statement, whether of fact or opinion, contained in the Prospectus if the same were issued immediately after such occurrence, or shall otherwise become aware of, the fact that any of the representations or warranties contained in the Underwriting Agreement was, when given, untrue or inaccurate or would be untrue or inaccurate if repeated and the Underwriter shall, in its reasonable opinion, determine that any such untrue representation or warranty represents or is likely to represent a material adverse change in the business, financial or trading position or prospects of the Group taken as a whole or is otherwise likely to have a materially prejudicial effect on the Rights Issue; or

- (vi) the Company shall, after any matter or event referred to in the above has occurred or come to the Underwriter's attention, fail promptly to send out any announcement or circular (after the despatch of the Prospectus), in such manner (and as appropriate with such contents) as the Underwriter may reasonably request for the purpose of preventing the creation of a false market in the securities of the Company,

the Underwriter shall be entitled (but not bound) by notice in writing issued by the Underwriter to the Company to elect to treat such matter or event as releasing and discharging the Underwriter from its obligations under the Underwriting Agreement.

If the Underwriter terminates the Underwriting Agreement, the Rights Issue will not proceed.

SHARE SUBSCRIPTION AGREEMENT

Under the terms of the Share Subscription Agreement, the Investor has agreed, subject to, inter alia, the completion of the Rights Issue and the Intercreditors' Agreement, to subscribe for 1,880,000,000 Adjusted Shares at the subscription price of HK\$0.07 per Adjusted Share for a total amount of HK\$131,600,000.

In addition to the aforementioned subscription and depending on the amount of Adjusted Shares that the Investor may acquire by virtue of its participation in the Rights Issue under the Sub-underwriting Letter, pursuant to the Share Subscription Agreement, the Investor may at its option further subscribe for up to a maximum of 988,000,000 Top-up Shares within a period of 45 days from completion of the Share Subscription Agreement at the subscription price of HK\$0.07 per Adjusted Share pursuant to the Top-up Subscription such that immediately after issuance thereof, the Investor shall beneficially own approximately 52.5% of the then issued share capital of the Company.

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OPTION AGREEMENTS

Under the terms of the Option Agreements and subject to the fulfilment of conditions including the completion of the Rights Issue and the Share Subscription Agreement, the Company has agreed to grant the Investor and the Core Creditors Options to subscribe for an additional 1,500,000,000 new Adjusted Shares and an aggregate of 400,000,000 new Adjusted Shares, respectively, both at the subscription price of HK\$0.08 per Adjusted Share, at any time during the period of 12 months commencing from the date of completion of the Share Subscription Agreement. The Options are neither assignable nor transferrable. Furthermore, the Option Agreements do not contain any rights for the Option holders in case of liquidation of the Company, nor do they contain any rights to participate in distributions or offers of further securities made by the Company. The terms under the Option Agreements were determined principally after arm's length negotiations among the Core Creditors, the Investor and the Company. Details of the number of the Option Shares to be issued to each of the Core Creditors are set out in the paragraph of this circular headed "Intercreditors' Agreement".

Investor Option Agreement

Under the terms of the Investor Option Agreement as supplemented by the Supplemental Option Agreement the Investor has agreed not to exercise the Option to the extent that it would cause the Company to have less than 25% of its issued share capital held in public hands as required under Rule 8.08 of the Listing Rules. Under the Investor Option Agreement and the Supplemental Option Agreement, the Company has the right not to issue any Option Shares to the Investor upon exercise of subscription rights under the Option if to do so would cause the public float of the Company to fall below 25%.

Subscription price

The subscription price of HK\$0.08 per Option Share represents:

- (i) a discount of approximately 94.2% of the adjusted closing price (as adjusted by the Share Consolidation) of HK\$1.39 per Adjusted Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 92.1% to the adjusted closing price (as adjusted by the Share Consolidation) of HK\$1.01 per Adjusted Share as quoted on the Stock Exchange on the Last Trading Day; and
- (iii) a discount of approximately 92.9% to the adjusted average closing price (as adjusted by the Share Consolidation) of HK\$1.122 per Adjusted Share for the five consecutive trading days up to and including the Last Trading Day.

An application will be made to the Exchange for the listing of and permission to deal in the securities to be issued under the Transactions.

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Adjustments to the Option Price

The Option Price shall not be subject to any adjustments as a result of the Capital Reorganisation, the Rights Issue and transactions contemplated under any of the Transaction Documents but shall from time to time be adjusted in accordance with the following relevant provisions and so that if the event giving rise to any such adjustment shall be such as would be:

- (a) Consolidation or Subdivision: If and whenever the Shares by reason of any consolidation or sub-division or reclassification become of a different nominal amount, the Option Price in force immediately prior thereto shall be adjusted by multiplying it by the following fraction:

$$\frac{A}{B}$$

where:

A = the revised nominal amount; and

B = the former nominal amount.

Each such adjustment shall be effective from the close of business in Hong Kong on the day immediately preceding the date on which the consolidation or sub-division becomes effective.

- (b) Capitalisation of Profits or Reserves: If and whenever the Company shall issue any Shares credited as fully paid to Shareholders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund) (other than in lieu of a cash dividend ("Relevant Cash Dividend"), being a dividend which the Shareholders concerned would or could otherwise have received in cash ("Scrip Dividend")), the Option Price in force immediately prior to such issue shall be adjusted by multiplying it by the following fraction:

$$\frac{A}{B}$$

in each case, where:

A = the aggregate nominal amount of the issued Shares immediately before such issue; and

B = the aggregate nominal amount of the issued Shares immediately after such issue and

in the case of an issue of Shares by way of a Scrip Dividend, the market value (as defined in the Schedule to the Option Agreement) of which Shares exceeds

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110 per cent. of the amount of the Relevant Cash Dividend or the relevant part thereof and which would not have constituted a Capital Distribution, by multiplying the Option Price in force immediately before the issue of such Shares by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the aggregate nominal amount of the issued Shares immediately before such issue;

B is the aggregate nominal amount of Shares issued by way of such Scrip Dividend multiplied by a fraction of which (i) the numerator is the amount per Share of the whole, or the relevant part, of the Relevant Cash Dividend and (ii) the denominator is the market value (as defined in the Schedule to the Option Agreement) of the number of Shares issued in respect of each existing Share in lieu of the whole, or the relevant part of the Relevant Cash Dividend; and

C is the aggregate nominal amount of Shares issued by way of such Scrip Dividend;

or by making such other adjustment as an approved merchant bank or the auditors of the Company for the time being shall certify to the Company as fair and reasonable.

Each such adjustment shall be effective (if appropriate, retroactively) from the commencement of the day next following the date of issue of such Shares.

- (c) Capital Distribution: If and whenever the Company shall make any Capital Distribution to holders (in their capacity as such) of Shares (whether on a reduction of capital or otherwise) or shall grant to such holders rights to acquire for cash assets of the Company or any of its subsidiaries, the Option Price in force immediately prior to such distribution or grant shall be adjusted by multiplying it by the following fraction:

$$\frac{A - B}{A}$$

where:

A = the market price (as defined in the Schedule to the Option Agreement) on the date on which the Capital Distribution or, as the case may be, the grant is publicly announced or (failing any such announcement) the date immediately preceding the date of the Capital Distribution or, as the case may be, of the grant; and

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B = the fair market value on the day of such announcement or (as the case may require) the immediately preceding day, as determined in good faith by an approved merchant bank (as defined in the Schedule to the Option Agreement) of the portion of the Capital Distribution or of such rights which is attributable to one Share,

Provided that:

- (i) if in the opinion of the relevant approved merchant bank, the use of the fair market value as aforesaid produces a result which is significantly inequitable, it may instead determine, and in such event the above formula shall be construed as if B meant the amount of the said market price which should properly be attributed to the value of the Capital Distribution or rights; and
- (ii) the provisions of this sub-paragraph (c) shall not apply in relation to the issue of Shares paid out of profits or reserves and issued in lieu of a cash dividend.

Each such adjustment shall be effective (if appropriate, retroactively) from the commencement of the day next following the day the Capital Distribution is actually made.

- (d) Rights Issue of Shares or Options over Shares: If and whenever the Company shall offer to holders of Shares new Shares for subscription by way of rights, or shall grant to holders of Shares any options or warrants to subscribe for new Shares, at a price which is less than 95% of the market price (as defined in the Schedule to the Option Agreement) at the date of the announcement of the terms of the offer or grant, the Option Price shall be adjusted by multiplying the Option Price in force immediately before the date of the announcement of such offer or grant by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A = the number of Shares in issue immediately before the date of such announcement;

B = is the number of Shares which the aggregate amount (if any) payable for the rights or for the options or warrants or other Open Offer by way of rights and for the total number of Shares comprised therein would purchase at such market price; and

C = the aggregate number of Shares so offered for subscription.

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Such adjustment shall become effective on the date of the issuance of such Shares or issue or grant of such options, warrants or other rights (as the case may be).

- (e) Rights Issue of Other Securities. If and whenever the Company shall issue any securities (other than Shares or options, warrants or other rights to subscribe for or purchase Shares) to all or substantially all Shareholders as a class by way of rights or grant to all or substantially all Shareholders as a class by rights of any options, warrants or other rights to subscribe for or purchase any securities (other than Shares or options, warrants or other rights to subscribe for or purchase Shares), the Option Price shall be adjusted by multiplying the Option Price in force immediately prior to such issue or grant by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the market price (as defined in the Schedule to the Option Agreement) of one Share on the trading day last preceding the date on which such issue or grant is publicly announced; and

B is the fair market value on the date of such announcement, as determined in good faith by an approved merchant bank or the auditors of the Company for the time being, of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issuance of such securities or grant of such options, warrants or other rights (as the case may be).

- (f) Issues at less than the market price. If and whenever the Company shall issue (otherwise than as mentioned in sub-paragraph (d) above) wholly for cash any Shares (other than Shares issued on the exercise of Conversion Rights or on the exercise of any other rights of conversion into, or exchange or subscription for, Shares) or on the issue or grant of (otherwise than as mentioned in sub-paragraph (d) above) options, warrants or other rights to subscribe for or purchase Shares in each case at a price per Share which is less than 95 per cent. of the market price (as defined in the Schedule to the Option Agreement) on the trading day last preceding the date of announcement of the terms of such issue, the Option Price shall be adjusted by multiplying the Option Price in force immediately prior to such issue or grant by the following fraction:

$$\frac{A + B}{C}$$

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where:

A is the number of Shares in issue immediately before the issue of such additional Shares or the issue or grant of such options, warrants or other rights to subscribe for or purchase any Shares;

B is the number of Shares which the aggregate consideration receivable for the issue of such additional Shares would purchase at such market price per Share; and

C is the number of Shares in issue immediately after the issue of such additional Shares.

References to additional Shares in the above formula shall, in the case of an issue or grant by the Company of options, warrants or other rights to subscribe or purchase Shares, mean such Shares to be issued assuming that such options, warrants or other rights are exercised in full at the initial Option Price on the date of issue of such options, warrants or other rights.

Such adjustment shall become effective on the date of issue of such Shares or, as the case may be, the issue or grant of such options, warrants or other rights.

- (g) Other issues at less than the market price. Save in the case of an issue of securities arising from a conversion or exchange of other securities in accordance with the terms applicable to such securities themselves falling within the provisions of this sub-paragraph (g), if and whenever the Company or any Subsidiary (otherwise than as mentioned in sub-paragraphs (d), (e) or (f) above), or (at the direction or request of or pursuant to any arrangements with the Company or any Subsidiary) any other person shall issue wholly for cash any securities (other than the Notes) which by their terms of issue carry rights of conversion into, or exchange or subscription for, Shares (or grant any such rights in respect of any existing securities so issued) to be issued by the Company upon conversion, exchange or subscription at a consideration per Share which is less than 95 per cent. of the market price (as defined in the Schedule to the Option Agreement) on the last trading day preceding the date of announcement of the terms of issue of such securities, the Option Price shall be adjusted, by multiplying the Option Price in force immediately prior to such issue (or grant) by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of Shares in issue immediately before such issue (or grant);

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B is the number of Shares which the aggregate consideration receivable by the Company for the Shares to be issued upon conversion or subscription for or exchange of or upon exercise of the right of subscription attached to such securities would purchase at such market price; and

C is the maximum number of Shares to be issued upon conversion into or subscription for exchange of such securities or upon the exercise of such rights of subscription attached thereto at the initial conversion, exchange or subscription price or rate.

Such adjustment shall become effective on the date of Issue (or grant) of such securities.

- (h) Modification of Rights of Conversion etc. If and whenever there shall be any modification of the rights of conversion, exchange or subscription attaching to any such securities as are mentioned in sub-paragraph (g) above (other than in accordance with the terms applicable to such securities) so that the consideration per Share (for the number of Shares available on conversion, exchange or subscription following the modification) is less than 95 per cent. of the market price (as defined in the Schedule to the Option Agreement) on the last trading day preceding the date of announcement of the proposals for such modification, the Option Price shall be adjusted by multiplying the Option Price in force immediately prior to such modification by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of Shares in issue immediately before such modification;

B is the number of Shares which the aggregate consideration receivable by the Company for the Shares to be issued upon conversion or exchange or upon exercise of the right of subscription attached to the securities so modified would purchase at such market price or, if lower, the existing conversion, exchange or subscription price; and

C is the maximum number of Shares to be issued upon conversion or exchange of such securities or upon the exercise of such rights of subscription attached thereto at the modified conversion, exchange or subscription price or rate.

Such adjustment shall become effective on the date of modification of the rights of conversion, exchange or subscription attaching to such securities.

- (i) Other offers to Shareholders. If and whenever the Company or any Subsidiary or (at the direction or request of or pursuant to any arrangements with the Company or any Subsidiary) any other person issues, sells or distributes any

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securities in connection with an offer by or on behalf of the Company or any Subsidiary or such other person pursuant to which offer the Shareholders generally (meaning for these purposes the holders of at least 75 per cent. of the Shares outstanding at the time such offer is made) are entitled to participate in arrangements whereby such securities may be acquired by them (except where the Option Price falls to be adjusted under sub-paragraphs (d) to (g) above), the Option Price shall be adjusted by, multiplying the Option Price in force immediately prior to such issue by the following fraction:

$$\frac{A-B}{A}$$

where:

A is the market price (as defined in the Schedule to the Option Agreement) of one Share on the last trading day preceding the date on which such issue is publicly announced; and

B is the fair market value on the date of such announcement, as determined in good faith by an approved merchant bank or the auditors of the Company for the time being, of the portion of the relevant offer attributable to one Share.

Such adjustment shall become effective on the date of issue of the securities.

CONDITIONS PRECEDENT

Completion of the Share Subscription Agreement, the Option Agreements, and the Intercreditors' Agreement are subject to the fulfilment (or waiver, where applicable) of a certain number of the following conditions:

- (i) completion of the Capital Reorganisation and the Rights Issue;
- (ii) the passing by the Shareholders (or the Independent Shareholders, if required under the Listing Rules or the Takeovers Code) at the SGM of resolution(s) to approve the Transaction Documents and the transactions contemplated thereunder (including the sub-underwriting arrangements between the Investor and the Underwriter) (to the extent required under the Listing Rules and Takeovers Code or the terms thereof) including the Capital Reorganisation, the Rights Issue, the issue of the Subscription Shares, the Top-up Shares, the Option Shares and the Conversion Shares;
- (iii) all other consents or approvals from any relevant governmental authorities, regulatory bodies or other relevant third parties in Hong Kong or elsewhere which are required for the entry into and the implementation of the Transaction Documents having been obtained, all filings with any relevant governmental authorities or other relevant third parties in Hong Kong or elsewhere which are required for the entering into and the implementation of the Transaction Documents having been made;

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- (iv) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Adjusted Shares, Rights Shares (in nil paid and fully paid forms), Subscription Shares, Top-up Shares, Option Shares and Conversion Shares;
- (v) there having been no default or breach by the Company of any of the Transaction Documents or early termination thereof or any default or breach by the Undertaking Group of the Undertaking Letter;
- (vi) the consent of the Executive under Rule 25 of the Takeovers Code for the repayment of the amount due to the Core Creditors and issue of the Conversion Shares to the Core Creditors under the Intercreditors' Agreement, the issue of the Option Shares to the Core Creditors under the Option Agreements; and
- (vii) the granting of a waiver by the Executive from the obligations to make a general offer by the Investor as a result of the Transactions referred to in the Transaction Documents (including the subscription of the Subscription Shares, Top-up Shares, Option Shares, the Rights Shares under the Rights Issue by way of acting as sub-underwriter) pursuant to Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code.

Under the Undertaking Letter entered into on 10 February 2010 by the Undertaking Group in favour of the Investor, the Undertaking Group (holders of (i) in aggregate 752,703,900 Shares, representing approximately 20.9% of the issued share capital of the Company; and (ii) the Winnington Convertible Note (HK\$38,000,000 of which is held by Trophy LV Master Fund)) shall, or shall procure that members of the Undertaking Group who are Shareholders shall (to the extent not required by the Listing Rules or the Takeovers Code to abstain from voting) vote in favour of any resolutions proposed by the Company to approve the Transactions (or such of them requiring shareholders' approval of the Company) at the SGM. Save for the aforementioned, the Undertaking Group does not hold any Shares, convertible securities, warrants, options or derivatives in the Company.

INFORMATION ON CORE CREDITORS AND WINNINGTON CAPITAL

There are a total of four Core Creditors, namely, Trophy Fund, Trophy LV Master Fund, Goodyear Group Limited and Fortunate City Investment Limited. Winnington Capital is 50% owned by each of Mr. Hung and his wife, Ms. Chu Jocelyn. Both Trophy Fund and Trophy LV Master Fund are managed by Trophy Asset Management Limited, which in turn is wholly owned by Mr. Hung. Trophy Fund and Trophy LV Master Fund are also advised by Winnington Capital. Goodyear Group Limited is a wholly owned subsidiary of Trophy Fund. Fortunate City Investment Limited was previously wholly owned by Mr. Hung but has become an independent third party not connected with any members of the Winnington Concert Party Group subsequent to the disposal of the shareholding interest in Fortunate City Investment Limited by Mr. Hung in November 2009.

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The ultimate beneficial owners of Fortunate City Investment Limited are independent third parties of the Group and its connected persons.

In view of the aforesaid relationship among certain of the Core Creditors and Winnington Capital and for the purpose of the Takeovers Code, Trophy Fund, Trophy LV Master Fund and Goodyear Group Limited are deemed to be parties acting in concert.

IMPLICATIONS UNDER THE TAKEOVERS CODE AND LISTING RULES, INCLUDING THE WHITEWASH WAIVER, SPECIAL DEALS AND CONNECTED TRANSACTIONS

Whitewash Waiver

Upon completion of the Rights Issue pursuant to the sub-underwriting arrangements between the Investor and the Underwriter the Investor may be required (if called upon by the Underwriter) to subscribe for not more than 900,000,000 Rights Shares that are not subscribed for under the Rights Issue, which will result in the Investor and its concert parties holding not more than 900,000,000 Adjusted Shares, representing approximately 50.0% of the enlarged issued share capital of the Company upon completion of the Rights Issue. Following the Rights Issue, the Investor shall further subscribe for 1,880,000,000 Adjusted Shares under the Share Subscription Agreement and shall be entitled to subscribe for up to a further 988,000,000 Top-up Shares (such that immediately after the issuance of the Top-up Shares, the Investor shall beneficially own approximately 52.5% of the then enlarged share capital of the Company) and be entitled to exercise the right to subscribe for a further 1,500,000,000 Adjusted Shares in accordance with the Option Agreement.

Under the Transactions (and as indicated in Table C below), the Investor may potentially own up to a maximum of 3,030,000,000 Adjusted Shares, representing approximately 59.2% of the share capital of the Company as enlarged by the Adjusted Shares to be issued under the Rights Issue (assuming that the Investor is called upon to take up 900,000,000 Rights Share under the sub-underwriting arrangements), the Share Subscription Agreement (excluding the Top-up Subscription), the Option Agreements and the Intercreditors' Agreement, thereby triggering an obligation for the Investor and parties acting in concert with it to make a mandatory general offer under Rule 26 of the Takeovers Code for all the Adjusted Shares not already owned and/or agreed to be acquired by it and parties acting in concert with it. **Upon completion of the Rights Issue, the Share Subscription Agreement (excluding the Top-up Subscription) the Option Agreements and the Intercreditors' Agreement, the Investor and parties acting in concert with it may hold more than 50% of the then issued share capital of the Company in which case, the Investor and parties acting in concert with it may acquire further voting rights in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.**

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As at the Latest Practicable Date, the Investor and parties acting in concert with it did not hold any Shares, convertible securities, warrants or options of the Company, or any outstanding derivative in respect of securities in the Company. Save for entering into the Transaction Documents, the Investor and parties acting in concert with it have not acquired any voting rights of the Company or dealt in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company in the six months prior to the date of the Joint Announcement and have not dealt in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company from the date of the Joint Announcement up to the Latest Practicable Date. An application has been made by the Investor to the Executive for the Whitewash Waiver pursuant to Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that the Whitewash Waiver will be granted and will be conditional upon, among other things, the approval of the Independent Shareholders at the SGM by way of poll, in which Shareholders who are involved in, or interested in, the Whitewash Waiver (including Winnington Concert Party Group and parties acting in concert with any of them) will abstain from voting on the resolution for the Whitewash Waiver. It is a condition precedent to the completion of the Rights Issue that prior to the completion of the Underwriting Agreement there shall be no early termination of the Share Subscription Agreement, which in turn contains a condition that the Whitewash Waiver be granted by the Executive (unless waived by the Investor) and approved by the Independent Shareholders by way of poll at the SGM. Thus, (unless waived by the Investor) if the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Rights Issue and the transactions contemplated under the Share Subscription Agreement, Option Agreements and the Intercreditors' Agreement may not proceed.

Special Deals

As at 10 February 2010, being the date of the Intercreditors' Agreement, the Option Agreements and the Share Subscription Agreement, Trophy Fund, Trophy LV Master Fund, Winnington Capital, Mr. Hung and Ms. Chu Jocelyn (being the wife of Mr. Hung) held 597,219,634 Shares, 57,734,266 Shares, 250,000 Shares, 97,500,000 Shares and 2,500,000 Shares, respectively. Under the Takeovers Code, each of (i) the settlement of the Relevant Debt in cash and the issue of the Adjusted Shares pursuant to the Intercreditors' Agreement; (ii) the grant of the Options pursuant to the Option Agreements to each of Trophy LV Master Fund and Trophy Fund; and (iii) the use of the proceeds from the Rights Issue to repay in cash the full amount under the Trophy Advance would constitute a favourable condition not extended to all Shareholders and therefore a special deal under Rule 25 of the Takeovers Code and requires the consent of the Executive. An application for consent to the Special Deals pursuant to Note 5 to Rule 25 of the Takeovers Code has been made to the Executive. The Executive has indicated that the consent will be granted and will be subject to the approval by the Independent Shareholders by way of a poll at the SGM.

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Connected Transactions

Under the Listing Rules, Trophy Fund, being a substantial Shareholder of the Company, is a connected person of the Company. Since each of Trophy LV Master Fund, Winnington Capital, Goodyear Group Limited, Mr. Hung and Ms. Chu, Jocelyn are an associate of Trophy Fund, all of them are also connected persons of the Company. Accordingly, the transactions between the Company and each of Trophy Fund, Trophy LV Master Fund and Goodyear Group Limited pursuant to the Intercreditors' Agreement and the Option Agreements constitute connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to the approval of the Independent Shareholders at the SGM by way of poll.

CHANGE OF BOARD LOT SIZE

Currently, the Shares are traded on the Stock Exchange in board lots of 2,000 Shares. The Board proposes that subject to and upon the Capital Reorganisation becoming effective, the board lot size be changed from 2,000 Shares to 8,000 Adjusted Shares. Based on the closing price of the Shares of HK\$0.101 as at the Last Trading Day, the theoretical ex-rights price would be HK\$0.258 and the value of a board lot of 8,000 Adjusted Shares would be HK\$2,064.0. The Board considers that the change in the board lot would result in the Adjusted Shares being traded in a more reasonable board lot size and value and is in the interests of the Company and its Shareholders as a whole.

BACKGROUND OF THE INVESTOR

The Investor, Idea Talent Limited, is a company incorporated in the British Virgin Islands with limited liability whose directors are Grandwin Enterprises Limited and Better Lead Limited. Grandwin Enterprises Limited (a company wholly and beneficially owned by Mr. Leung Pak To, Francis ("Mr. Leung")) owns 60% of the total issued share capital of the Investor, and Better Lead Limited (a company wholly and beneficially owned by Mr. Chung Cho Yee, Mico ("Mr. Chung")) owns the remaining 40%.

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. He is currently the Vice-Chairman and Managing Director of Yung's Enterprise Holdings Limited, the Chairman (Greater China) of CVC Asia Pacific and the Chairman of Luminary Capital Limited, an investment and corporate finance advisory company owned by him. Mr. Leung holds an MBA and an undergraduate degree from the University of Toronto in Canada.

Mr. Chung is the chairman and non-executive director of CSI Properties Limited, which is listed on the Hong Kong Stock Exchange (stock code: 497) and is also a director of PCCW Limited (stock code: 8) and an independent non-executive director of Hong Kong Construction (Holdings) Limited (stock code: 190). Mr. Chung graduated from University College, University of London in the United Kingdom, with a law degree in 1983 and qualified as a solicitor in Hong Kong in 1986.

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As at the Latest Practicable Date, neither the Company nor any of the Directors, held any shares or other securities of the Investor nor have they dealt for value in the shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Investor in the six month period immediately prior to the date of the Joint Announcement and up to the Latest Practicable Date. Furthermore, the Investor is an Independent Third Party of the Company and, other than the Transaction Documents, no agreement, arrangement or understanding (including any compensation arrangements) exists between the Investor or any person acting in concert with it and any of the Directors, recent directors, Shareholders or recent shareholders of the Company.

INTENTION OF THE INVESTOR

The Company understands from the Investor that the Investor intends to maintain the listing of the Adjusted Shares on the Stock Exchange after completion of the Transactions. It is the intention of the Investor to rationalise the business operation of the Group and to build on its established reputation and expertise in the animated film business for potential business opportunities in local, mainland China and overseas markets. The Group will continue to seek new business opportunities to improve the Group's profitability and prospects and may consider diversifying the business of the Group with an objective to broaden its income source should suitable opportunities arise. However, no such investment or business opportunities have been identified at this stage.

The Company understands from the Investor that it has no intention to introduce any changes to the businesses of the Group including redeployment of the fixed assets of the Group as they are confident in the prospect of the core businesses of the Group. Furthermore, the Group intends to utilise the proceeds from the Transactions for the existing businesses which is in line with the long-term core businesses of the Group.

The Directors further understand from the Investor that it has no intention of redeploying the employees other than in the ordinary course of business of the Company and that at completion of the Transactions, the Investor may seek to appoint such number of persons as it may require as directors of the Company, including independent non-executive directors in accordance with Rule 3.10 of the Listing Rules, in accordance with the bye-laws of the Company.

As at the Latest Practicable Date, the Investor has no agreement, arrangement, understanding, intention or negotiation in respect of any disposal and/or termination and/or scaling-down of the Group's existing business.

REASONS FOR THE TRANSACTIONS AND USE OF PROCEEDS

The Company is principally engaged in the production of computer graphic imaging animated motion pictures. The Group's activities include the production, distribution, marketing and related activities of its feature film project, *Astro Boy*, which was released in October 2009.

As mentioned in the Company's 2008/09 Interim Report and the Recent Announcements, the Company's financial and liquidity position has been adversely impacted by the disappointing performance of its latest feature film, *Astro Boy*.

LETTER FROM THE BOARD

Since then, the Board has been actively implementing cost-cutting and business rationalisation measures to preserve cash and Shareholder value in the Company. These measures, as described in the Recent Announcements, include (i) the withdrawal of financial support of the Group's United States subsidiaries and Imagi Production Limited (the Group's in-house arm engaged in the digital production of animated films); (ii) the focusing of the Company's resources to strengthen the Group's various higher value activities including animation movie contents and character creation, marketing and commercial exploitation of the Group's completed film projects; and (iii) the continued production and development of the Group's two animation film projects which are in progress. These measures should result in a more cost effective and streamlined business structure that is better suited to the Group's business direction going forward. The successful implementation of the Transactions would allow the Group to restructure its balance sheet and recapitalise the Group, and is an essential part of the Company's strategy to restore the long-term viability of the Group, failing which and in the absence of any other viable financing alternative, the Company may be unable to meet its financial obligations and its ability to operate as a going concern in such circumstances would be in doubt.

Based on the latest management accounts of the Company dated 31 December 2009 and assuming the Transactions were completed immediately thereafter, the Group's debt position would be approximately HK\$103.076 million, of which HK\$103.019 million came from a loan borrowed by one of the Company's subsidiaries in the United States. As announced on 26 January 2010, the Company had withdrawn financial support from the US subsidiaries which entered into an arrangement known as the Assignment for the Benefit of General Creditors ("ABC") in the United States of America on 25 January 2010. Under this process, an independent assignee, Mr. Leon J. Owens was appointed to realise the assets for the benefit of the creditors. As of 25 January 2010, the Group ceased to have control over the US subsidiaries which are now in the hands of the assignee. The assignee is now in the process of gathering claims information from the creditors and preparing the sale/realisation of assets of the former US subsidiaries. Because the Group no longer has control over the subsidiaries, the assets and liabilities of the US subsidiaries will not be consolidated into the Group as from 25 January 2010.

For information purposes only, the US subsidiaries did not own any material assets other than time costs capitalised in the development of the various projects. The intellectual property rights of the Group are not owned by the US subsidiaries. As the US subsidiaries, taken as a group, have negative net external liabilities, it is expected that their deconsolidation from the Group will have a positive net assets effect on the Group. As most of the losses expected to arise from *Astro Boy* have already been provided for in the interim financial statements of the Group, no further material impairment is expected to arise in relation to *Astro Boy*.

The loan borrowed by one of the US subsidiaries is repaid through an escrow arrangement funded from most of the world-wide net proceeds of the film *Astro Boy*. If there is any shortfall on the loan repayment, the lender will be a claimant against the assignee, which falls outside the Group. Accordingly, the loan will not be consolidated in the Group accounts.

LETTER FROM THE BOARD

The estimated expenses in relation to the Transactions, including financial, legal and other professional advisory fees, underwriting commission, printing and translation expenses, is estimated to be approximately HK\$5.9 million which will be borne by the Company. It is intended that the estimated net cash proceeds from the Rights Issue and the amount raised by the Share Subscription of approximately HK\$226,499,000 will be used to finance (a) the full repayment of the then outstanding amount of the Investor Loan (up to the maximum amount of HK\$20,000,000 under the facility) including interest, if any; (b) the full repayment of the principal of HK\$3,500,000 under the Trophy Advance including interest; (c) the payment of approximately HK\$70,000,000 (equivalent of approximately US\$9,000,000) to the Core Creditors pursuant to the Intercreditors' Agreement; (d) the balance, which is estimated to be approximately HK\$132,000,000, shall be applied as working capital of the Company.

The estimated proceeds raised by the full issue of the Top-up Shares and by the full issue of the Option Shares under the Option Agreements is expected to be approximately HK\$79.0 million and HK\$152.0 million respectively. Whether the Company may obtain any additional proceeds raised by the issue of the Top-up Shares and/or the Option Shares will depend on the future decisions of the Investor and/or the Core Creditors as to whether and the extent to which each of the relevant parties may exercise their respective rights under the Share Subscription Agreement and/or the Option Agreements. Accordingly, the Company could not and had not made any plan for the utilisation of any such additional proceeds as at the Latest Practicable Date.

PREVIOUS FUND RAISING EXERCISES IN THE PRIOR 12 MONTHS PERIOD

Save as disclosed below, the Company has not conducted any fund raising activities in the twelve months immediately prior to the Latest Practicable Date.

Date of initial announcement	Description	Net proceeds (approximately)	Intended use of proceeds and actual use of proceeds
27 May 2009	Rights issue	HK\$100.4 million	Production and marketing of the <i>Astro Boy</i> feature film
18 June 2009	Placing of new Shares	HK\$97.9 million	General working capital and to fund film projects

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE OF THE COMPANY

The following table summarises the shareholding positions of the Company as at the Latest Practicable Date, assuming the implementation of the Capital Reorganisation, the Rights Issue, and the Share Subscription Agreement, the Intercreditors' Agreement and the Option Agreements:

Table A After the Capital Reorganisation and completion of the Rights Issue but before the completion of the Share Subscription Agreement, the Intercreditors' Agreement and the Option Agreements

	As at Latest Practicable Date		After Capital Reorganisation		1. Completion of 4 for 1 Rights Issue		1. Completion of 4 for 1 Rights Issue	
					2. No take up of Rights Shares by Shareholders		2. Full take up of Rights Shares by Shareholders	
					3. BEFORE completion of Share Subscription Agreement/Core Creditors' Share Conversion/ issue of Top-up Shares & issue of Option Shares		3. BEFORE completion of Share Subscription Agreement/Core Creditors' Share Conversion/ issue of Top-up Shares & issue of Option Shares	
Investor	-	-	-	-	900,000,000	50.0%	-	-
Winnington Concert Party Group								
Trophy Fund	597,219,634	16.6%	59,721,963	16.6%	59,721,963	3.3%	59,721,963	3.3%
Trophy LV Master Fund	57,734,266	1.6%	5,773,426	1.6%	5,773,426	0.3%	5,773,426	0.3%
Goodyear	-	-	-	-	-	-	-	-
Winnington Capital	250,000	0.0%	25,000	0.0%	25,000	0.0%	125,000	0.0%
Mr. Hung	97,500,000	2.7%	9,750,000	2.7%	9,750,000	0.5%	48,750,000	2.7%
Ms. Jocelyn Chu	2,500,000	0.1%	250,000	0.1%	250,000	0.0%	1,250,000	0.1%
	755,203,900	21.0%	75,520,389	21.0%	75,520,389	4.2%	115,620,389	6.4%
Directors	13,170,085	0.4%	1,317,008	0.4%	1,317,008	0.1%	6,585,040	0.4%
Other Core Creditor – Fortunate City Investment Limited	-	-	-	-	-	-	-	-
Sunni Concert Group (Note 1)	619,496,275	17.2%	61,949,627	17.2%	61,949,627	3.4%	309,748,135	17.2%
Existing Public Shareholders	2,213,648,124	61.4%	221,364,814	61.4%	221,364,814	12.3%	1,368,805,626	76.0%
Underwriter (Note 2)	-	-	-	-	540,607,352	30.0%	-	-
Total	3,601,518,384	100.0%	360,151,838	100.0%	1,800,759,190	100.0%	1,800,759,190	100.0%

Notes:

- Sunni Concert Group is comprised of Sunni International Limited and parties acting in concert with it, namely Happy Nation Limited and Mr. Kao Cheung Chong, Michael.
- Save for the sub-underwriting arrangements entered into between the Investor and the Underwriter, the Underwriter shall use all reasonable endeavours to procure that the subscribers or purchasers of the Underwritten Rights Shares shall be third parties independent of, not acting in concert with and shall not be connected with the Investor, the Directors, chief executive or substantial shareholders of the Company or their respective associates.
- All shareholding numbers were calculated on the assumption that no outstanding share options under the Share Option Scheme which have been granted by the Company have been exercised.

LETTER FROM THE BOARD

Table B After the Capital Reorganisation and the completion of (i) the Rights Issue; (ii) the Share Subscription Agreement; (iii) the Intercreditors' Agreement; and (iv) the effects of the issue of the Top-up Shares and the Option Shares

	After Capital Reorganisation		1. Completion of 4 for 1 Rights Issue		1. Completion of 4 for 1 Rights Issue		1. Completion of 4 for 1 Rights Issue	
			2. Full take up of Rights Shares by Shareholders		2. Full take up of Rights Shares by Shareholders		2. Full take up of Rights Shares by Shareholders	
			3. Completion of Share Subscription Agreement		3. Completion of Share Subscription Agreement		3. Completion of Share Subscription Agreement	
			4. Completion of Core Creditors' Share Conversion		4. Completion of Core Creditors' Share Conversion		4. Completion of Core Creditors' Share Conversion	
			5. Before issue of Top-up Shares		5. After issue of Top-up Shares		5. After issue of Top-up Shares	
			6. Before issue of Option Shares		6. Before issue of Option Shares		6. After issue of Option Shares	
Investor								
<i>Underwritten Rights Shares</i>	-	-	-	-	-	-	-	-
<i>Share Subscription</i>	-	-	1,880,000,000	42.1%	1,880,000,000	34.4%	1,880,000,000	25.6%
<i>Top-up Subscription</i>	-	-	-	-	988,000,000	18.1%	988,000,000	13.4%
<i>Option Shares</i>	-	-	-	-	-	-	1,500,000,000	20.4%
			1,880,000,000	42.1%	2,868,000,000	52.5%	4,368,000,000	59.4%
Winnington Concert Party Group								
Trophy Fund								
<i>Existing Shares</i>	59,721,963	16.6%	59,721,963	1.3%	59,721,963	1.1%	59,721,963	0.8%
<i>Conversion Shares</i>	-	-	71,491,100	1.6%	71,491,100	1.3%	71,491,100	1.0%
<i>Option Shares</i>	-	-	-	-	-	-	63,900,000	0.9%
Trophy LV Master Fund								
<i>Existing Shares</i>	5,773,426	1.6%	5,773,426	0.1%	5,773,426	0.1%	5,773,426	0.1%
<i>Conversion Shares</i>	-	-	112,171,900	2.5%	112,171,900	2.1%	112,171,900	1.5%
<i>Option Shares</i>	-	-	-	-	-	-	61,200,000	0.8%
Goodyear Group Limited								
<i>Conversion Shares</i>	-	-	277,477,800	6.2%	277,477,800	5.1%	277,477,800	3.8%
<i>Option Shares</i>	-	-	-	-	-	-	145,300,000	2.0%
Winnington Capital	25,000	0.0%	125,000	0.0%	125,000	0.0%	125,000	0.0%
Mr. Hung	9,750,000	2.7%	48,750,000	1.1%	48,750,000	0.9%	48,750,000	0.7%
Ms. Jocelyn Chu	250,000	0.1%	1,250,000	0.0%	1,250,000	0.0%	1,250,000	0.0%
	75,520,389	21.0%	576,761,189	12.9%	576,761,189	10.6%	847,161,189	11.5%
Directors	1,317,008	0.4%	6,585,040	0.1%	6,585,040	0.1%	6,585,040	0.1%
Sunni Concert Group (Note 1)	61,949,627	17.2%	-	-	-	-	-	-
Public Shareholding								
Existing Public Shareholders	221,364,814	61.4%	1,368,805,626	30.6%	1,368,805,626	25.1%	1,368,805,626	18.6%
Sunni Concert Group (Note 2)	-	-	309,748,135	6.9%	309,748,135	5.7%	309,748,135	4.2%
Fortunate City Investment Limited	-	-	328,859,200	7.4%	328,859,200	6.0%	328,859,200	4.4%
<i>Conversion Shares</i>	-	-	-	-	-	-	129,600,000	1.8%
<i>Option Shares</i>	-	-	-	-	-	-	-	-
Underwriter	-	-	-	-	-	-	-	-
	221,364,814	61.4%	2,007,412,961	44.9%	2,007,412,961	36.8%	2,137,012,961	29.0%
Total	360,151,838	100.0%	4,470,759,190	100.0%	5,458,759,190	100.0%	7,358,759,190	100.0%

LETTER FROM THE BOARD

Notes:

1. Sunni Concert Group is comprised of Sunni International Limited and parties acting in concert with it namely, Happy Nation Limited and Mr. Kao Cheung Chong, Michael.
2. Following the Rights Issue, Share Subscription and Share Conversion the Sunni Concert Group ceases to be a substantial shareholder and therefore becomes a public shareholder.
3. All shareholding numbers were calculated on the assumption that no outstanding share options under the Share Option Scheme have been exercised.

LETTER FROM THE BOARD

Table C After the Investor takes up all the Rights Shares under the Rights Issue and completion of (i) the Share Subscription Agreement (without any Top-up Shares); (ii) the issue of the Conversion Shares; and (iii) and the effects of the issue of the Option Shares

	After Share Consolidation		1. Completion of 4 for 1 Rights Issue		1. Completion of 4 for 1 Rights Issue	
			2. No take up of Rights Shares by Shareholders		2. No take up of Rights Shares by Shareholders	
			3. Completion of Share Subscription Agreement		3. Completion of Share Subscription Agreement	
			4. Completion of Core Creditors' Share Conversion		4. Completion of Core Creditors' Share Conversion	
			5. No issue of Top-up Shares		5. No issue of Top-up Shares	
			6. Before issue of Option Shares		6. After issue of Option Shares	
Investor						
<i>Underwritten Rights Shares</i>	–	–	900,000,000	20.1%	900,000,000	17.6%
<i>Share Subscription</i>	–	–	1,880,000,000	42.1%	1,880,000,000	36.7%
<i>Top-up Subscription</i>	–	–	(Note 3)	–	(Note 4)	–
<i>Option Shares</i>	–	–	–	–	250,000,000	4.9%
					(Note 5)	
			2,780,000,000	62.2%	3,030,000,000	59.2%
Winnington Concert Party Group						
<i>Trophy Fund</i>						
<i>Existing Shares</i>	59,721,963	16.6%	59,721,963	1.3%	59,721,963	1.2%
<i>Conversion Shares</i>	–	–	71,491,100	1.6%	71,491,100	1.4%
<i>Option Shares</i>	–	–	–	–	63,900,000	1.3%
<i>Trophy LV Master Fund</i>						
<i>Existing Shares</i>	5,773,426	1.6%	5,773,426	0.1%	5,773,426	0.1%
<i>Conversion Shares</i>	–	–	112,171,900	2.5%	112,171,900	2.2%
<i>Option Shares</i>	–	–	–	–	61,200,000	1.2%
<i>Goodyear Group Limited</i>						
<i>Conversion Shares</i>	–	–	277,477,800	6.2%	277,477,800	5.5%
<i>Option Shares</i>	–	–	–	–	145,300,000	2.8%
<i>Winnington Capital</i>	25,000	0.0%	25,000	0.0%	25,000	0.0%
<i>Mr. Hung</i>	9,750,000	2.7%	9,750,000	0.2%	9,750,000	0.2%
<i>Ms. Jocelyn Chu</i>	250,000	0.1%	250,000	0.0%	250,000	0.0%
	75,520,389	21.0%	536,661,189	12.0%	807,061,189	15.8%
Directors	1,317,008	0.4%	1,317,008	0.0%	1,317,008	0.0%
Sunni Concert Group (Note 1)	61,949,627	17.2%	–	–	–	–
Public Shareholding						
<i>Existing Public Shareholders</i>	221,364,814	61.5%	221,364,814	5.0%	221,364,814	4.3%
<i>Sunni Concert Group (Note 2)</i>	–	–	61,949,627	1.4%	61,949,627	1.2%
<i>Fortunate City Investment Limited</i>						
<i>Conversion Shares</i>	–	–	328,859,200	7.4%	328,859,200	6.4%
<i>Option Shares</i>	–	–	–	–	129,600,000	2.5%
<i>Underwriter (Note 3)</i>	–	–	540,607,352	12.1%	540,607,352	10.6%
	221,364,814	61.5%	1,152,780,993	25.8%	1,282,380,993	25.0%
Total	360,151,838	100.0%	4,470,759,190	100.0%	5,120,759,190	100.0%

LETTER FROM THE BOARD

Notes:

1. Sunni Concert Group is comprised of Sunni International Limited and parties acting in concert with it namely, Happy Nation Limited and Mr. Kao Cheung Chong, Michael.
2. Following the Rights Issue, Share Subscription and Share Conversion the Sunni Concert Group ceases to be a substantial shareholder and therefore becomes a public shareholder.
3. Save for the sub-underwriting arrangements entered into between the Investor and the Underwriter, the Underwriter shall use all reasonable endeavours to procure that the subscribers or purchasers of the Underwritten Rights Shares shall be third parties independent of, not acting in concert with and shall not be connected with the Investor, the Directors, chief executive or substantial shareholders of the Company or their respective associates.
4. In the event that the Investor is required as sub-underwriter to take up 900,000,000 Rights Shares, the Investor shall not subscribe for Top-up Shares.
5. In the event that (i) no Shareholders take up their Rights Shares; and (ii) the Investor shall as sub-underwriter take up 900,000,000 Rights Shares, the maximum number of Option Shares that may be issued to the Investor (or its nominees) in accordance with the terms of the Investor Option Agreement and the Supplemental Option Agreement and in order not to cause a breach of the public float requirement under the Listing Rules, will be 250,000,000 Option Shares (assuming an exercise price of HK\$0.08 per Option Share).
6. All shareholding numbers were calculated on the assumption that no outstanding share options under the Share Option Scheme have been exercised.

As at the Latest Practicable Date, (i) other than the 3,601,518,384 Shares in issue and the 218,803,017 outstanding share options under the Share Option Scheme and the Winnington Convertible Note, the Company does not have any Shares or other classes of securities, outstanding options, derivatives, warrants or other securities which are convertible or exchangeable into Shares, and (ii) the Investor and parties acting in concert with it do not own any securities in the Company other than those disclosed above.

DEALINGS OF THE SHARES BY THE INVESTOR AND PARTIES ACTING IN CONCERT WITH IT

Save for entering into the Transaction Documents, there have been no shareholdings and dealings for value in the Shares and other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company by the Investor and parties acting in concert with it for the six month period immediately prior to the date of the Joint Announcement and up to the Latest Practicable Date.

As at the Latest Practicable Date:

- (a) the Investor and parties acting in concert with it did not hold any other shares, convertible securities, warrants or options of the Company, or any outstanding derivative in respect of relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;
- (b) none of directors of the Investor were interested in any Shares, convertible securities, warrants, options and derivatives in respect of relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;

LETTER FROM THE BOARD

- (c) save for the Underwriting Agreement, the Sub-underwriting Letter, the Share Subscription Agreement and the Option Agreements, the Investor and parties acting in concert with it did not have any arrangement of any kind referred to in Note 8 to Rule 22 of the Takeovers Code;
- (d) save for the Underwriting Agreement, the Sub-underwriting Letter, the Share Subscription Agreement and the Option Agreements there were no agreements or arrangements to which the Investor is a party which related to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Underwriting Agreement, the Whitewash Waiver and the Rights Issue, other than those set out in the section headed "Condition of the Rights Issue" in this circular;
- (e) save for the undertakings pursuant to the Undertaking Letter given by the Undertaking Group (holders of (i) in aggregate 752,703,900 Shares, representing approximately 20.9% of the issued share capital of the Company; and (ii) the Winnington Convertible Note (HK\$38,000,000 of which is held by Trophy LV Master Fund)), the Investor and parties acting in concert with it have not received any irrevocable commitment or arrangements to vote in favour of or against the resolutions in respect of the Transactions, the Rights Issue, the Whitewash Waiver or the Special Deals;
- (f) the Investor and parties acting in concert with it have not borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company; and
- (g) none of the parties acting in concert with the Investor were interested in or controlled any Shares, convertible securities, warrants, options and derivatives in respect of relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company.

WARNING OF THE RISKS OF DEALINGS IN THE SHARES, THE ADJUSTED SHARES AND RIGHTS SHARES IN NIL-PAID FORM

The Rights Issue is conditional upon the fulfilment of the conditions set out in the section headed "Conditions of the Rights Issue" in this circular.

If the conditions of the Rights Issue are not fulfilled or if the Underwriter exercises its right to terminate the Underwriting Agreement pursuant to the terms therein, the Rights Issue will not proceed.

Any persons contemplating buying or selling Shares or Adjusted Shares from the date of this circular up to the date on which all the conditions of the Rights Issue are fulfilled, and any dealings in the Rights Shares in their nil-paid form between Wednesday, 21 April 2010 to Friday, 30 April 2010 (both dates inclusive), bear the risk that the Rights Issue may not become unconditional or may not proceed.

Any Shareholders or other persons contemplating dealing in the Shares or Adjusted Shares or nil-paid Rights Shares are recommended to consult their own professional advisers.

LETTER FROM THE BOARD

SGM

Share Subscription Agreement

Any connected person and any Shareholder and their associates with a material interest in the Share Subscription Agreement are required to abstain from voting on the resolution to approve the Share Subscription Agreement. Accordingly, the Winnington Concert Party Group will abstain from voting of the resolution relating to the Share Subscription Agreement.

Whitewash Waiver and Special Deals

Pursuant to the Takeovers Code, the Whitewash Waiver and the Special Deals are subject to, among other things, the approval by the Independent Shareholders at the SGM in which Shareholders who are involved in, or interested in the Whitewash Waiver and the Special Deals including the Directors (but excluding the independent non-executive Directors) and the Winnington Concert Party Group and parties acting in concert with it will abstain from voting on the resolutions to approve the Whitewash Waiver and the Special Deals.

Rights Issue

Pursuant to Rule 7.19(6) of the Listing Rules, as the Rights Issue will increase the issued share capital of the Company by more than 50%, the Rights Issue is also required to be made conditional on the approval of the Shareholders at the SGM at which any controlling Shareholder and their associates, or where there are no controlling Shareholders, the Directors (excluding the independent non-executive Directors), the chief executive of the Company, and their respective associates will abstain from voting in favour on the resolution to approve the Rights Issue.

As at the Latest Practicable Date, there are no controlling Shareholders in the Company. Therefore, the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates are required to abstain from voting in favour on the resolution to approve the Rights Issue.

Connected Transactions

Pursuant to Rule 14A.54 of the Listing Rules, any connected person and any Shareholder and their associates with a material interest in the Connected Transactions are required to abstain from voting on the resolution to approve the Connected Transactions. Accordingly, the Winnington Concert Party Group will abstain from voting of the resolution relating to the Connected Transactions.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Directors (excluding the independent non-executive Directors) were interested in 13,170,085 Shares and the Winnington Concert Party Group were interested in an aggregate of 755,203,900 Shares and who together held approximately 21.4% of the existing issued share capital of the Company.

Capital Reorganisation

As at the Latest Practicable Date, no Shareholders were interested in the Capital Reorganisation. Therefore no Shareholders will be required to abstain from voting on the resolution to approve the Capital Reorganisation.

As at the Latest Practicable Date, Fortunate City Investment Limited had no interests in the Company. In any event, Fortunate City Investment Limited is required to abstain from voting of resolutions to approve the Whitewash Waiver, the Special Deals, the Rights Issue and the Connected Transactions.

The voting of the Shareholders and the Independent Shareholders at the SGM must be taken by way of a poll.

Upon passing of the necessary resolution(s) by the Shareholders (where applicable, the Independent Shareholders) at the SGM to approve the Capital Reorganisation, the Transactions, the Whitewash Waiver, the Rights Issue, the Special Deals and the Connected Transactions, the Prospectus Documents setting out details of the Rights Issue will be despatched to the Qualifying Shareholders as soon as practicable and the Prospectus will be despatched to the Non Qualifying Shareholders for information only.

NOTICE OF THE SGM

Set out on pages SGM-1 to SGM-7 of this circular is a notice of the SGM to be held at 22nd Floor, 8 Commercial Tower, 8 Sun Yip Street, Chai Wan, Hong Kong on Friday, 16 April 2010 at 10:00 a.m. at which resolutions will be proposed to approve, among other things, the proposed Capital Reorganisation, the Transactions, the Whitewash Waiver, the Rights Issue, the Special Deals and the Connected Transactions. Whether or not you are able to attend the SGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable and in any event not later than 48 hours before the time appointed for the holding of the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish and in such case, the form of proxy shall be deemed to be revoked.

RECOMMENDATION

The Independent Board Committee has been established to advise the Independent Shareholders in respect of the Transactions, the Rights Issue, the Connected Transactions, the Special Deals and the Whitewash Waiver. Veda Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in these regards.

LETTER FROM THE BOARD

Your attention is drawn to the letter from the Independent Board Committee set out on pages 52 to 53 of this circular which contains its recommendation to the Independent Shareholders in relation to the Transactions, the Rights Issue, the Whitewash Waiver, the Connected Transactions and the Special Deals, and the letter from Veda Capital set out on pages 54 to 80 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders. The Independent Board Committee, having taken into account the advice of the independent financial adviser, considers that the terms of the Transactions, the Rights Issue, the Connected Transactions, the Special Deals and the Whitewash Waiver are fair and reasonable and that the Transactions, the Rights Issue, the Connected Transactions, the Special Deals and Whitewash Waiver are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to approve to the Transactions, the Whitewash Waiver, the Rights Issue, the Special Deals and the Connected Transactions at the SGM.

The Director (excluding members of the Independent Board Committee whose views are set out in the letter from the Independent Board Committee set out on pages 52 to 53 of this circular) believes that the terms of the Transactions, the Rights Issue, the Connected Transactions, the Whitewash Waiver and the Special Deals are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Director recommends the Shareholders to vote in favour of the Transactions, the Rights Issue, the Connected Transactions, the Whitewash Waiver and the Special Deals to be proposed at the SGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

By order of the Board
Imagi International Holdings Limited
Mr. Phoon Chiong Kit
Deputy Chairman and Chief Executive Officer

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

(Incorporated in Bermuda with limited liability)
(Stock Code: 00585)

24 March 2010

To the Independent Shareholders

Dear Sir or Madam,

- (1) CAPITAL REORGANISATION INVOLVING SHARE CONSOLIDATION, CAPITAL REDUCTION, DIMINUTION AND INCREASE;
- (2) BRIDGING LOAN PROVIDED BY IDEA TALENT LIMITED;
- (3) DEBT RESTRUCTURING WITH CORE CREDITORS;
- (4) RIGHTS ISSUE IN THE PROPORTION OF FOUR RIGHTS SHARES FOR EVERY ONE ADJUSTED SHARE HELD ON THE RECORD DATE AT HK\$0.07 PER RIGHTS SHARE;
- (5) SUBSCRIPTION OF NEW ADJUSTED SHARES BY IDEA TALENT LIMITED;
- (6) GRANT OF OPTIONS TO IDEA TALENT LIMITED AND CORE CREDITORS;
- (7) WHITEWASH WAIVER;
- (8) SPECIAL DEALS;
- (9) CONNECTED TRANSACTIONS IN RESPECT OF THE TRANSACTIONS CONTEMPLATED UNDER (3) AND (6) ABOVE; AND
- (10) CHANGE IN BOARD LOT SIZE

We refer to the circular dated 24 March 2010 (the "Circular") of the Company of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context requires otherwise.

We have been appointed as the Independent Board Committee to consider the Transactions, the Rights Issue, the Connected Transactions, the Whitewash Waiver and the Special Deals and to advise the Independent Shareholders as to the fairness and reasonableness of the Transactions, the Rights Issue, the Connected Transactions, the Whitewash Waiver and the Special Deals and to recommend whether or not the Independent Shareholders should vote for the resolution(s) to be proposed at the SGM to approve the Transactions, the Rights Issue, the Connected Transactions, the Whitewash Waiver and the Special Deals. Veda Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders in such regards.

* For identification only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We wish to draw your attention to the letter from the Board and the letter from Veda Capital as set out in the Circular which contains, inter alia, its advice and recommendation to us and the Independent Shareholders regarding the terms and conditions of the Transactions, the Rights Issue, the Connected Transactions, the Whitewash Waiver and the Special Deals with the principal factors and reasons for its advice and recommendation.

Having taken into account the advice and recommendation of Veda Capital, we consider that the terms of the Transactions, the Rights Issue, the Connected Transactions, the Whitewash Waiver and the Special Deals are fair and reasonable so far as the Independent Shareholders are concerned and the Transactions, the Rights Issue, the Connected Transactions, the Whitewash Waiver and the Special Deals are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Transactions, the Rights Issue, the Connected Transactions, the Whitewash Waiver and the Special Deals.

Yours faithfully,
For and on behalf of
Independent Board Committee
Mr. Ng See Yuen
Independent non-executive Director

LETTER FROM VEDA CAPITAL

The following is the text of a letter from Veda Capital containing its advice to the Independent Board Committee and the Independent Shareholders in relation to the Transactions, the Whitewash Waiver and the Special Deals which has been prepared for the purpose of inclusion in the Circular.

VEDA | CAPITAL
智 略 資 本

Veda Capital Limited
Suite 3214, 32/F., COSCO Tower
183 Queen's Road Central
Hong Kong

24 March 2010

*To the Independent Board Committee and the Independent Shareholders of
Imagi International Holdings Limited*

Dear Sirs,

- (1) BRIDGING LOAN PROVIDED BY IDEA TALENT LIMITED;**
- (2) DEBT RESTRUCTURING WITH CORE CREDITORS;**
- (3) RIGHTS ISSUE IN THE PROPORTION OF FOUR RIGHTS SHARES FOR EVERY ADJUSTED SHARE HELD ON THE RECORD DATE AT HK\$0.07 PER RIGHTS SHARE;**
- (4) SUBSCRIPTION OF NEW ADJUSTED SHARES BY IDEA TALENT LIMITED;**
- (5) GRANT OF OPTIONS TO IDEA TALENT LIMITED AND CORE CREDITORS;**
- (6) WHITEWASH WAIVER;**
- (7) SPECIAL DEALS; AND**
- (8) CONNECTED TRANSACTIONS IN RESPECT OF THE TRANSACTIONS CONTEMPLATED UNDER (2) AND (5) ABOVE**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to (i) whether the terms of the Transactions, the Whitewash Waiver and the Special Deals are fair and reasonable; (ii) whether the Transactions, the Whitewash Waiver and the Special Deals are in the interests of the Company and the Independent Shareholders as a whole; (iii) whether the Connected Transactions are on normal commercial terms; and (iv) how the Independent Shareholders should vote in respect of the relevant resolutions to approve the Transactions, the Whitewash Waiver and the Special Deals at the SGM. Details of the Transactions, the Whitewash Waiver and the Special Deals are set out in the letter from the Board (the "**Board Letter**") contained in the circular (the "**Circular**") of the Company dated 24 March 2010 of which this letter forms part. Terms defined in this letter have the same meanings as in the Circular unless the context otherwise requires.

LETTER FROM VEDA CAPITAL

On 17 February 2010, the Board announced that after trading hours on 10 February 2010, the Company, the Core Creditors and the Investor (amongst others) had entered into a number of agreements which, if all are successfully implemented, will allow the Company to stabilise its financial position and introduce the Investor as the controlling shareholder of the Company. The relevant agreements include (i) the Bridge Loan Agreement to provide up to HK\$20,000,000 of the Investor Loan for the short-term working capital needs of the Company; (ii) the Intercreditors' Agreement to restructure and compromise certain existing debts; (iii) the Underwriting Agreement in respect of the underwriting of the Rights Issue to raise gross proceeds of not less than HK\$100,800,000; (iv) the Share Subscription Agreement to raise not less than HK\$131,600,000 through the issue of new Adjusted Shares to the Investor by the Company; and (v) the Option Agreements to grant the Investor and the Core Creditors options to subscribe for new Adjusted Shares.

Pursuant to Rule 7.19(6) of the Listing Rules, as the Rights Issue will increase the issued share capital of the Company by more than 50%, the Rights Issue is also required to be made conditional on the approval of the Shareholders at the SGM at which any controlling Shareholders and their associates, or where there are no controlling Shareholders, the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates will abstain from voting in favour of the resolution to approve the Rights Issue. As at the Latest Practicable Date, there are no controlling Shareholders. Therefore, the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates are required to abstain from voting in favour of the resolution to approve the Rights Issue.

Under the Listing Rules, Trophy Fund, being a substantial Shareholder, is a connected person of the Company. Since each of Trophy LV Master Fund, Winnington Capital, Goodyear Group Limited, Mr. Hung and Ms. Chu, Jocelyn is an associate of Trophy Fund, all of them are also connected persons of the Company. Accordingly, the transactions between the Company and each of Trophy Fund, Trophy LV Master Fund and Goodyear Group Limited pursuant to the Intercreditors' Agreement and the Option Agreements constitute connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to the approval of the Independent Shareholders at the SGM by way of poll.

Upon completion of the Rights Issue, pursuant to the sub-underwriting arrangements between the Investor and the Underwriter, the Investor may be required (if called upon by the Underwriter) to subscribe for not more than 900,000,000 Rights Shares that are not subscribed for under the Rights Issue, which will result in the Investor and its concert parties holding not more than 900,000,000 Adjusted Shares, representing approximately 50.0% of the enlarged issued share capital of the Company upon completion of the Rights Issue. Following the Rights Issue, the Investor shall further subscribe for 1,880,000,000 Adjusted Shares under the Share Subscription Agreement and shall be entitled to subscribe for up to a further 988,000,000 Top-up Shares (such that immediately after the issuance of the Top-up Shares, the Investor shall beneficially own approximately 52.5% of the then enlarged share capital of the Company) and be entitled to exercise the right to subscribe for a further 1,500,000,000 Adjusted Shares in accordance with the Option Agreement.

LETTER FROM VEDA CAPITAL

Under the Transactions, (and as indicated in Table C in the section headed "SHAREHOLDING STRUCTURE OF THE COMPANY" in the Board Letter), the Investor may potentially own up to a maximum of 3,030,000,000 Adjusted Shares, representing approximately 59.2% of the share capital of the Company as enlarged by the Adjusted Shares to be issued under the Rights Issue (assuming that the Investor is called upon to take up 900,000,000 Rights Shares under the sub-underwriting arrangements), the Share Subscription Agreement (excluding the Top-up Subscription), the Option Agreements and the Intercreditors' Agreement, thereby triggering an obligation for the Investor and parties acting in concert with it to make a mandatory general offer under Rule 26 of the Takeovers Code for all the Adjusted Shares not already owned and/or agreed to be acquired by it and parties acting in concert with it. An application has been made by the Investor to the Executive for the Whitewash Waiver pursuant to Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that the Whitewash Waiver will be granted and will be conditional upon, among other things, the approval of the Independent Shareholders at the SGM by way of poll. It is a condition precedent to the completion of the Rights Issue that prior to the completion of the Underwriting Agreement there shall be no early termination of the Share Subscription Agreement, which in turn contains a condition that the Whitewash Waiver be granted by the Executive (unless waived by the Investor) and approved by the Independent Shareholders by way of poll at the SGM. Thus, if the Whitewash Waiver is not granted by the Executive (unless waived by the Investor) or not approved by the Independent Shareholders, the Rights Issue, the Connected Transactions and the Share Subscription Agreement may not proceed.

In addition, as at 10 February 2010, being the date of the Intercreditors' Agreement, the Option Agreements and the Share Subscription Agreement, Trophy Fund, Trophy LV Master Fund, Winnington Capital, Mr. Hung and Ms. Chu Jocelyn (being the wife of Mr. Hung) held 597,219,634 Shares, 57,734,266 Shares, 250,000 Shares, 97,500,000 Shares and 2,500,000 Shares, respectively. Under the Takeovers Code, each of (i) the settlement of the Relevant Debt in cash and the issue of the Adjusted Shares pursuant to the Intercreditors' Agreement; (ii) the grant of the Options pursuant to the Option Agreements to each of Trophy LV Master Fund and Trophy Fund; and (iii) the use of the proceeds from the Rights Issue to repay in cash the full amount under the Trophy Advance would constitute a favourable condition not extended to all Shareholders and therefore a special deal under Rule 25 of the Takeovers Code and requires the consent of the Executive. An application for consent to the Special Deals pursuant to Note 5 to Rule 25 of the Takeovers Code has been made to the Executive. The Executive has indicated that the consent will be granted and will be subject to our opinions which have publicly stated the terms of the Transactions are fair and reasonable and the approval by the Independent Shareholders by way of a poll at the SGM.

The Independent Board Committee established to advise the Independent Shareholders in respect of the Transactions, the Whitewash Waiver and the Special Deals comprises the independent non-executive Director, namely Mr. Ng See Yuen. The appointment of Veda Capital has been approved by the Independent Board Committee.

LETTER FROM VEDA CAPITAL

BASIS OF OUR ADVICE

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company, Directors and management of the Company. We have no reason to believe that any information or representation relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, the Directors and management of the Company and for which they are solely and wholly responsible, were true and accurate at the time they were made and should there be any material changes thereto, Shareholders would be notified as soon as possible.

The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company or its subsidiaries or associated companies.

We have not considered the tax consequences on the Qualifying Shareholders arising from the subscription for, holding of or dealing in the Rights Shares or otherwise, since these are particular to their own circumstances. We will not accept responsibility for any tax effect on, or liabilities of, any person resulting from the subscription for, holding of or dealing in the Rights Shares or the exercise of any rights attaching thereto or otherwise. In particular, Qualifying Shareholders subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions with regard to the Rights Issue and, if in any doubt, should consult their own professional advisers.

PRINCIPAL FACTORS TAKEN INTO ACCOUNT

In assessing the Transactions, the Whitewash Waiver and the Special Deals, and in giving our recommendations to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

A. FINANCIAL HIGHLIGHTS OF THE GROUP

The Company is principally engaged in the production of computer graphic imaging animated motion pictures. The Group's activities include the production, distribution, marketing and related activities of its feature film project, *Astro Boy*, which was released in October 2009.

LETTER FROM VEDA CAPITAL

We noted from the annual reports of the Company that the Group has been loss-making since the financial year ended 31 March 2004 and set out below are the latest financial highlights of the Group for the year ended 31 March 2009 and for the six months ended 30 September 2009.

(i) *Financial year ended 31 March 2009 versus financial year ended 31 March 2008*

As disclosed in the 2009 annual report of the Company (the “AR 2009”), for the year ended 31 March 2009, the Group recorded a turnover of approximately HK\$3.61 million, representing a decrease of approximately 79.00% from the turnover of approximately HK\$17.19 million for the year ended 31 March 2008. As set out in AR 2009, the decrease in turnover was due to the fact that new computer graphic films were under production for the financial year 2009 and no new computer graphic film was released to generate revenue during the financial year 2009. Loss attributable to the Shareholders for the year ended 31 March 2009 was approximately HK\$177.43 million, representing an increase in loss of approximately 206.81% from the previous year of approximately HK\$57.83 million. The increase in loss was mainly due to the impairment loss recognized in respect of computer graphic animation pictures and the loss on re-measurement of liability component of convertible notes during the financial year ended 31 March 2009.

(ii) *Six months ended 30 September 2009 versus six months ended 30 September 2008*

As disclosed in the 2009 interim report of the Company (the “IR 2009”), for the six months ended 30 September 2009, the Group recorded a turnover of approximately HK\$0.40 million, representing a decrease of approximately 74.12% from the turnover of approximately HK\$1.56 million for the corresponding period in the previous year. As set out in IR 2009, the decrease in turnover was due to the fact that new computer graphic films were under production for the six months ended 30 September 2009 and no new computer graphic film was released to generate revenue during such period. Loss for the six months ended 30 September 2009 was approximately HK\$725.65 million, representing an increase in loss of approximately 3,225.45% from the corresponding period in the previous year of approximately HK\$21.82 million. The significant increase in loss was mainly due to (i) the impairment loss recognized in respect of computer graphic animation pictures; (ii) the prints and advertising expenses incurred for the distribution and promotion of the film, *Astro Boy*; and (iii) the loss on redemption of convertible note and the loss on redemption of bridging loans during the six months period ended 30 September 2009.

(iii) *Material uncertainty in IR 2009*

As set out in the report on review of interim financial information dated 17 December 2009 by the auditors of the Company in IR 2009, as at 30 September 2009, the Group had net current liabilities of approximately HK\$20 million and it incurred net losses for the six months to that date of approximately HK\$726 million. Based on the financial projections prepared by the Company’s management, taking into account the estimated net cash proceeds from the Group’s worldwide launch of a

LETTER FROM VEDA CAPITAL

computer graphic animation picture, the Group was required to raise an additional minimum sum of approximately HK\$447 million (the “**Required Funding**”) (of which HK\$252 million was expected to be utilised within the next 12 months) for it to complete a major computer graphic animation picture in progress to its revenue-generating stage. In order to minimise funding risks, the Group would be seeking project or equity financing to finance the ongoing and new projects. The Directors were also actively pursuing various funding options to meet the Group’s cash flow requirements including issuance of new equity and loan capital, inviting financing partners and borrowings.

As set out in IR 2009, the Group had performed an impairment review of the major computer graphic animation picture in progress based on the film’s projected future box office and other cash flows and on the assumptions that the Group would be able to raise the necessary funding to finance the production to completion.

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

We noted from the section headed “7. MATERIAL CHANGE” in Appendix I to the Circular, the management is also in the process of reviewing the realisable value of the Group’s computer graphics animation pictures which were carried at approximately \$497 million at 30 September 2009. This review, when completed, may result in an impairment loss to be recognised and this loss could be material. Further details of the material changes in the financial or trading position or outlook of the Group since 31 March 2009, being the date to which the latest audited consolidated financial statements of the Group were made up, up to the Latest Practicable Date have been set out in the section headed “7. MATERIAL CHANGE” in Appendix I to the Circular.

B. THE TRANSACTIONS

Reason for the Transactions and use of proceeds

As mentioned in the Board Letter, the Company’s financial and liquidity position has been adversely impacted by the disappointing performance of its latest feature film, *Astro Boy*. Since then, the Board has been actively implementing cost-cutting and business rationalisation measures to preserve cash and Shareholder value in the Company. These measures, as described in the Recent Announcements, include (i) the withdrawal of financial support of the Group’s United States subsidiaries and Imagi Production Limited (the Group’s in-house arm engaged in the digital production of animated films); (ii) the focusing of the

LETTER FROM VEDA CAPITAL

Company's resources to strengthen the Group's various higher value activities including animation movie contents and character creation, marketing and commercial exploitation of the Group's completed film projects; and (iii) the continued production and development of the Group's two animation film projects which are in progress. These measures should result in a more cost effective and streamlined business structure that is better suited to the Group's business direction going forward. The successful implementation of the Transactions would allow the Group to restructure its balance sheet and recapitalize the Group, and is an essential part of the Company's strategy to restore the long-term viability of the Group, failing which and in the absence of any other viable financing alternative, the Company may be unable to meet its financial obligations and its ability to operate as a going concern in such circumstances would be in doubt.

Based on the latest management accounts of the Company dated 31 December 2009 and assuming the Transactions were completed immediately thereafter, the Group's debt position would be approximately HK\$103.076 million, of which HK\$103.019 million came from a loan borrowed by Imagi Global Distribution Inc., one of the Company's subsidiaries in the United States. As announced on 26 January 2010, the Group has withdrawn financial support to the US subsidiaries which entered into an arrangement known as the Assignment for the Benefit of General Creditors in the United States of America on 25 January 2010. Under this process, an independent assignee was appointed to realize the assets for the benefit of the creditors. As of 25 January 2010, the Group ceased to have control over the US subsidiaries which are now in the hands of the assignee. The assignee is now in the process of gathering claims information from the creditors and preparing the sale/realisation of assets of the former US subsidiaries. Because the Group no longer has control over the subsidiaries, the assets and liabilities of the US subsidiaries will not be consolidated into the Group as from 25 January 2010. As advised by the Company, due to the serious financial difficulties and the urgency of the needs for new funding in order to meet its immediate working capital requirements, as well as its repayment obligations in respect of the Relevant Debt, the Company decided to withdraw financial support to the US subsidiaries in order to safeguard its working capital.

The loan borrowed by one of the US subsidiaries is repaid through an escrow arrangement funded from most of the world-wide net proceeds of the film *Astro Boy*. If there is any shortfall on the loan repayment, the lender will be a claimant against the assignee, which falls outside the Group. Accordingly, the loan will no longer be consolidated into the Group's accounts and the debt position of the Group would be enhanced.

It is intended that the estimated net cash proceeds from the Rights Issue and the amount to be raised by the Share Subscription of approximately HK\$226,499,000 will be used to finance (a) the full repayment of the then outstanding amount of the Investor Loan (up to the maximum amount of HK\$20,000,000 under the facility) including interest, if any; (b) the full repayment of the principal of HK\$3,500,000 under the Trophy Advance including interest; (c) the payment of approximately HK\$70,000,000 (equivalent of approximately US\$9,000,000) to the Core Creditors

LETTER FROM VEDA CAPITAL

pursuant to the Intercreditors' Agreement; and (d) the balance, which is estimated to be approximately HK\$132,000,000, shall be applied as working capital of the Company.

The estimated proceeds to be raised by the full issue of the Top-up Shares and by the full issue of the Option Shares under the Option Agreements is expected to be approximately HK\$79.0 million and HK\$152.0 million respectively. Whether the Company may obtain any additional proceeds raised by the issue of the Top-up Shares and/or the Option Shares will depend on the future decisions of the Investor and/or the Core Creditors as to whether and the extent to which each of the relevant parties may exercise their respective rights under the Share Subscription Agreement and/or the Option Agreements. Accordingly, the Company could not and had not made any plan for the utilization of any such additional proceeds as at the Latest Practicable Date.

We noted from IR 2009 that, following the completion of the Company's last feature film, the Company has taken steps to reposition its cost base by trimming costs in its Hong Kong and Los Angeles studios. This would enable the Company to improve its operational efficiencies and increase its flexibility in the range of projects it will take on. As stated in IR 2009 that, the Company is excited about its future prospects, and in particular, about its growth potential in China. We also noted from IR 2009 that the Group had recorded bank balances and cash of approximately HK\$28.63 million and net current liabilities position of approximately HK\$19.57 million as at 30 September 2009 and the major assets of the Group which represented approximately 66.31% of the total assets of the Group as at 30 September 2009 are the computer graphic animation pictures (mainly consisting of *Astro Boy* and a major computer graphic animation picture in progress). As set out in the section headed "5. INDEBTEDNESS OF THE GROUP" in Appendix I to the Circular, as at 31 January 2010, the Group had outstanding borrowings of approximately HK\$230.7 million (which does not include a debt of approximately HK\$65 million as at 31 January 2010 due by Imagi Global Distribution Inc.). As set out in the Company's announcement dated 2 February 2010, following the disappointing performance of its feature film *Astro Boy* and as mentioned in the Recent Announcements, the Board has concluded that the long term viability of the Company would depend on its ability to restructure its balance sheet, to further streamline and rationalize the Group's business operations.

Given the tight financial and liquidity situation of the Group and that the realizable value of the major assets of the Company (i.e. computer graphic animation pictures) may be adversely affected as more new films are released from time to time, we are of the view that, the prospects of the Company will be uncertain without further financing arrangements notwithstanding the Company's ability to continue to produce computer-generated imagery animation films.

LETTER FROM VEDA CAPITAL

Having considered (i) the persistent loss making track record of the Company since its financial year 2004 and the dire financial position of the Company; (ii) failing the successful implementation of the Transactions and in the absence of any other viable financing alternative, the Company may be unable to meet its financial obligations and a further restructuring of its obligations will be necessary; (iii) the Investor Loan which is repayable upon demand or, if no demand has been made, on the date falling 120 days from the date of the Bridge Loan Agreement which was 10 February 2010; and (iv) the Required Funding and the potential funding required for the existing operations and the current projects which are in the development stages, we consider the Transactions which will (a) enable the Company to recapitalize and strengthen its financial position and provide the Group with new funds for its developing projects and its existing business operations; and (b) discharge the Company from the Relevant Debt, Investor Loan and the Trophy Advance are in the interests of the Company and the Independent Shareholders as a whole.

1. *The Rights Issue*

(a) Basis

The Rights Issue is on the basis of four Rights Shares for every Adjusted Share held on the Record Date at the subscription price of HK\$0.07 per Rights Share (the “**RI Subscription Price**”). When allotted, issued and fully-paid, the Rights Shares will rank *pari passu* with the then existing Adjusted Shares in issue in all respects. Holders of such Rights Shares will receive all dividends and distributions, which may be declared, made or paid after the date of allotment and issue of the Rights Shares.

(b) The subscription price

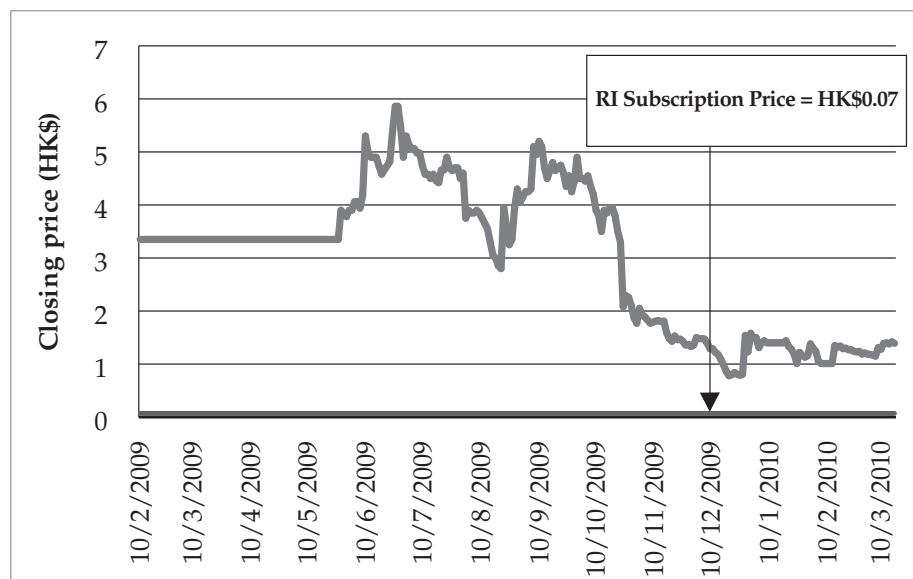
The RI Subscription Price of HK\$0.07 per Rights Share represents:

- (i) a discount of approximately 95.0% to the adjusted closing price (as adjusted by the Share Consolidation) of HK\$1.39 per Adjusted Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 93.1% to the adjusted closing price (as adjusted by the Share Consolidation) of HK\$1.01 per Adjusted Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 93.8% to the adjusted average closing price (as adjusted by the Share Consolidation) of HK\$1.122 per Adjusted Share for the five consecutive trading days up to and including the Last Trading Day;

LETTER FROM VEDA CAPITAL

- (iv) a discount of approximately 94.0% to the adjusted average closing price (as adjusted by the Share Consolidation) of HK\$1.166 per Adjusted Share for the ten consecutive trading days up to and including the Last Trading Day; and
- (v) a discount of approximately 72.9% to the theoretical ex-rights price (as adjusted by the Share Consolidation) of HK\$0.258 per Adjusted Share based on the adjusted closing price of HK\$1.01 per Adjusted Share as quoted on the Stock Exchange on the Last Trading Day.

We have reviewed the trading price of the Shares for the period from 10 February 2009, being the 12-month period prior to the date of the Underwriting Agreement, up to and including the Latest Practicable Date (the “**Review Period**”). The chart below illustrates the daily closing price of the Shares (as adjusted by the Share Consolidation) versus the RI Subscription Price during the Review Period:



Source: website of the Stock Exchange (www.hkex.com.hk)

Note: Trading of Shares was suspended from 29 January 2009 to 27 May 2009, from 2:37 p.m. on 15 June 2009 to 17 June 2009, from 13 January 2010 to 20 January 2010 and from 11 February 2010 to 17 February 2010 during the Review Period.

During the Review Period, the highest adjusted closing price and the lowest adjusted closing price of the Shares were HK\$5.86 on 26 and 29 June 2009 and HK\$0.78 on 21 December 2009 respectively. The RI Subscription Price is lower than the lowest adjusted closing price of the Shares during the Review Period and is a discount of approximately 91.03% to such lowest adjusted closing price of the Shares during the Review Period.

LETTER FROM VEDA CAPITAL

The adjusted closing price of the Shares illustrated a decreasing trend since mid-September 2009 and experienced a drop from the adjusted closing price of HK\$3.30 on 23 October 2009 to the adjusted closing price of HK\$2.08 on 27 October 2009. We noted from the Company's announcement dated 27 October 2009, save for the dissemination to the public through the Internet (by way of a wide range of film industry specific websites dealing with the box office performance of films) of information concerning the estimated box office performance of the Company's released feature film "Astro Boy", the Board was not aware of any reason for such movement of the Shares and confirmed that there were no negotiations or agreements relating to intended acquisitions or realizations which were discloseable under Rule 13.23 of the Listing Rules, nor save for the foregoing, any matter discloseable under the general obligation imposed by Rule 13.09 of the Listing Rules, which was or might be of a price sensitive nature. We also noted that the adjusted closing price of the Shares rose by approximately 90.12% to HK\$1.54 on 30 December 2009 from HK\$0.81 on 29 December 2009. As set out in the Company's announcement dated 30 December 2009, save for the fact that the Company was in preliminary discussions with various parties regarding a potential investment in the Company (and no letter of intent or definitive agreement had been entered into by the Company), the Board was not aware of any reason for the unusual increase in the price and trading volume of the Shares and confirmed that there were no negotiations or agreements relating to intended acquisitions or realisations which were discloseable under Rule 13.23 of the Listing Rules, neither was the Board aware of any matter discloseable under the general obligation imposed by Rule 13.09 of the Listing Rules, which was or might be of a price-sensitive nature. Upon publication of the Joint Announcement, the adjusted closing price of the Share rose to HK\$1.35 from the adjusted closing price of the Share of HK\$1.01 on the Last Trading Day.

We also considered a broader comparison of rights issues conducted by other companies listed on the Stock Exchange to provide a more general reference for the RI Subscription Price. We have identified all rights issues (the "RI Comparables") announced by companies that are listed on the Main Board and GEM Board of the Stock Exchange from 10 August 2009 up to and including 10 February 2010, being the date of the Underwriting Agreement, for reference. As the terms of the RI Comparables are determined under similar market conditions and sentiments as the Rights Issue, we believe that

LETTER FROM VEDA CAPITAL

the RI Comparables may reflect the recent trend of the rights issue transactions in the market and consider the RI Comparables are fair and representative samples. Details of the RI Comparables are summarized in the following table:

RI Comparable (stock code)	Date of announcement	Basis of entitlement	Premium/ (discount) of subscription price over/(to) the closing price on the last trading day (%)	Premium/ (discount) of subscription price over/(to) the theoretical ex-entitlement price (%)	Maximum dilution (Note 1) (%)	Underwriting commission (%)
Polyard Petroleum International Group Limited (8011)	3-Feb-10	1 for 2	(50.00)	(40.30)	33.33	0.00
Gold Peak Industries (Holdings) Limited (40)	28-Jan-10	3 for 7	(50.00)	(41.40)	30.00	2.75
Wang On Group Limited (1222) (Note 2)	14-Jan-10	3 for 1 (2 bonus shares for every 3 rights shares)	(88.73)	(56.81)	83.33	2.50
See Corporation Limited (491)	11-Jan-10	8 for 1	(81.31)	(32.66)	88.89	2.50
Quam Limited (952)	23-Dec-09	1 for 5	(38.70)	(34.50)	16.67	2.00
Wing On Travel (Holdings) Limited (1189)	8-Dec-09	5 for 1	(82.14)	(43.40)	83.33	2.00
Winfoong International Limited (063)	16-Nov-09	1 for 10	(66.70)	(64.50)	9.09	2.50
USI Holdings Limited (369)	9-Nov-09	1 for 3	(37.00)	(30.60)	25.00	3.00
TCL Communication Technology Holdings Limited (2618)	3-Nov-09	1 for 2	(17.36)	(12.28)	33.33	0.00
First Pacific Company Limited (142)	15-Oct-09	1 for 5	(35.80)	(31.70)	16.67	0.00
21 Holdings Limited (1003)	12-Oct-09	4 for 1	(71.01)	(32.89)	80.00	2.00
New World China Land Limited (917)	9-Oct-09	1 for 2	(38.11)	(29.17)	33.33	2.25
Goldin Financial Holdings Limited (530)	23-Sep-09	5 for 2	(14.04)	(4.55)	71.43	2.50
Sanmenxia Tianyuan Aluminum Company Limited (8253)	27-Aug-09	12 for 5	(60.00)	(30.64)	70.59	4.00
Easyknit Enterprises Holdings Limited (616)	25-Aug-09	4 for 1	(69.60)	(30.90)	80.00	1.00
Forefront Group Limited (885)	12-Aug-09	5 for 2	(68.89)	(38.73)	71.43	2.50
Maximum			(88.73)	(64.50)	88.89	4.00
Minimum			(14.04)	(4.55)	9.09	0.00
Mean			(54.34)	(34.69)	51.65	1.97
Company		4 for 1	(93.10)	(72.90)	80.0	1.00

Source: website of the Stock Exchange (www.hkex.com.hk)

Notes:

1. Maximum dilution effect of each rights issue is calculated as: $((\text{number of rights shares and (if any) bonus shares to be issued under the basis of entitlement}) / (\text{number of existing shares held for the entitlement for the rights shares under the basis of entitlement} + \text{number of rights shares and (if any) bonus shares to be issued under the basis of entitlement})) \times 100\%$, e.g. for a rights issue with basis of 3 rights shares for every 1 existing share held and with two bonus shares for every 3 fully paid rights shares taken up under the rights issue, the maximum dilution effect is calculated as $((3+2)/(1+3+2)) \times 100\% = 83.33\%$.

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- In this rights issue transaction, rights shares were issued with bonus shares. The calculations on the discounts of subscription prices to (i) the closing price of the shares on last trading day; and (ii) the theoretical entitlement price of the shares are based on the effective price for each rights share which has taken into account the nil paid bonus shares being issued with one fully paid rights share.*

As shown in the above table, the discounts represented by the subscription prices to the closing prices of shares of the RI Comparables on the last trading days prior to the release of the respective announcements ranged from approximately 14.04% to approximately 88.73% (the “**LTD Market Range**”). The discount of approximately 93.10% as represented by the RI Subscription Price to the adjusted closing price of the Shares on the Last Trading Day falls above the LTD Market Range.

The discounts represented by the subscription prices to the theoretical ex-entitlement prices of the shares of the RI Comparables ranged from approximately 4.55% to approximately 64.50% (the “**TEP Market Range**”). The discount of approximately 72.90% as represented by the RI Subscription Price to the theoretical ex-entitlement price (as adjusted by the Share Consolidation) falls above the TEP Market Range.

The Directors advised that, given the financial requirements of the Company for its financial obligations and the Required Funding, in order to increase the attractiveness of the Rights Issue to the Qualifying Shareholders, the proposed discount of the RI Subscription Price as stated above is appropriate.

We consider that, in general, it is common for the listed issuers in Hong Kong to issue rights shares at a discount to the market price in order to enhance the attractiveness of a rights issue transaction. Having considered that (i) the RI Subscription Price was determined after arm’s length negotiations between the Company and the Underwriter; (ii) the persistent loss making track record of the Company since year 2004 and the deterioration of the financial performance of the Group which recorded net loss of approximately HK\$725.65 million for the six months ended 30 September 2009, representing increase in loss of approximately 3,225.45% and approximately 308.98% respectively from the net loss for the corresponding period in the previous year and for the financial year ended 31 March 2009; (iii) the need of the Group for additional funding for its existing projects and fulfilling its financial obligations; (iv) given the continued loss incurred from the operation of the Group, the current net liabilities position of the Group as at 30 September 2009 and the outstanding borrowings as at 31 January 2010, it is difficult for the Group to obtain external financing through banks and financial institutions; and (v) failing the successful implementation of the Transactions and in the absence of any other viable financing alternative, the Company may be unable to meet its financial obligations and a further restructuring of its obligations may be necessary, we consider it is inevitable for the Company to set the RI Subscription Price at a deeper discount in order

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to enhance the attractiveness of the Rights Issue. Having taken into account the abovementioned and all Qualifying Shareholders are offered an equal opportunity to enjoy the benefit of subscribing the Rights Shares at the RI Subscription Price, we consider the RI Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

(c) Underwriting commission

The Company will pay the Underwriter an underwriting commission of 1.0% of the total RI Subscription Price of the Rights Shares. In view of the fact that the underwriting commission of 1.0% falls below the mean and within the range of the commissions of the RI Comparables, we consider the underwriting commission of 1.0% is fair and reasonable as far as the Company and the Independent Shareholders are concerned.

(d) Sub-underwriting Letter

The Investor has advised the Company that under arrangements between it and the Underwriter, the Investor has undertaken to subscribe for not more than 900,000,000 Right Shares, if called upon by the Underwriter on the terms and subject to conditions of the Sub-underwriting Letter.

We were given to understand that it is a commercial consideration for the Investor to enter into the Sub-underwriting Letter with the Underwriter in order to enhance the incentive of the Underwriter to enter into the Underwriting Agreement and the Investor will not receive any commission for the sub-underwriting arrangement. In the view that it may be difficult for the Company to identify other potential underwriters under the time constraints on the urgency of the new funding required for the working capital given the existing financial position of the Company, we consider the sub-underwriting arrangement which (i) would not incur additional cost to the Company; and (ii) would enhance the incentive of the Underwriter to enter into the Underwriting Agreement which is fully underwritten and hence to implement the Rights Issue and provide new funding to the Company, is in the interests of the Company and the Independent Shareholders as a whole.

(e) Application for excess Rights Shares

Qualifying Shareholders shall be entitled to apply for any unsold entitlements of Non-Qualifying Shareholders, any nil-paid Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders, and any unsold Rights Shares created by aggregating fractions of the Rights Shares. Pursuant to the terms of the Intercreditors' Agreement and at the request of the Investor, Trophy Fund and Trophy LV Master Fund have undertaken to the Company and to the Investor that they shall not exercise, dispose or subscribe for any of the nil-paid rights to be provisionally allotted to them under the Rights Issue in respect of a total of 654,953,900 Shares held by them. These nil-paid Rights Shares shall be made available for excess application by the Qualifying Shareholders.

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The Directors will allocate the excess Rights Shares at their discretion on a fair and equitable basis on the principles as stated in the section headed “Application for excess Rights Shares” in the Board Letter.

We are of the view that (i) since the trading cost of odd-lot is relatively higher than the whole-lot and the aforesaid principles is for rounding up odd-lot holdings to whole-lot holdings; and (ii) the allocation arrangement for the excess application is in proportion to the Shares held by the Qualifying Shareholders which is in line with the spirit of the Rights Issue and is not uncommon, we consider the allocation arrangement is fair and equitable.

2. *Intercreditors' Agreement*

On 10 February 2010, the Company, the Investor and the Core Creditors entered into the Intercreditors' Agreement under which the Core Creditors agreed, among other things, (a) except with the prior written consent of the Investor and/or Trophy Fund, not to exercise or enforce any of their rights or remedies or take or commence any legal proceedings or accelerate or demand repayment of any principal or interest owing to each of them under their respective Relevant Debt, or exercise any right of set-off or otherwise reduce the amount of outstanding Relevant Debt before the earlier of (i) the expiry of six months from the date of the Intercreditors' Agreement; (ii) the date the debt owed to the Investor and Trophy Fund under the Bridge Loan Agreement and Trophy Advance respectively has been fully repaid by the Company; (iii) the date a winding up order is made on the Company; or (iv) the date the Company repudiates any Relevant Debt (collectively, the “**Standstill Expiry Date**”); and (b) that the Relevant Debt shall be subordinated to and junior in right of payment to and will at all times remain subordinate and subject in right of prior payment to the debt owed to the Investor and Trophy Fund under the Bridge Loan Agreement and Trophy Advance, respectively, such that the Investor Loan shall be repaid first, and thereafter the Trophy Advance, followed by the Relevant Debt.

The Core Creditors have further agreed, subject to the completion of the Rights Issue and the Share Subscription Agreement, to accept in full settlement of their respective Relevant Debt (i) an aggregate amount of approximately US\$9,000,000; (ii) the allotment of the 790,000,000 Conversion Shares at the issue price of HK\$0.07 per Conversion Share (the “**Share Subscription Price**”); and (iii) the grant of Options to subscribe for an aggregate of 400,000,000 Option Shares at the option price of HK\$0.08 per Option Share (the “**Option Subscription Price**”) pursuant to the Option Agreements. The basis for the apportionment of the Conversion Shares, Option Shares and cash receivable by the Core Creditors was determined by arm's length negotiations between the Company, the Investor and the Core Creditors.

As set out in the Board Letter, the Relevant Debt amounted to approximately HK\$241.11 million (US dollar amounts have been translated into Hong Kong dollar amounts at the rate of US\$1.00 to HK\$7.75) as at 10 February 2010 and based on the cash settlement amount and the issue prices of the Conversion Shares and assuming

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none of the Options have been exercised, the total minimum consideration for settling the Relevant Debt would be amounted to approximately HK\$125.05 million, representing a discount of approximately 48.14% to the Relevant Debt. The amounts of cash, Conversion Shares and Option Shares that are receivable by each of the Core Creditors have been set out under the section headed "INTERCREDITORS' AGREEMENT" in the Board Letter. As advised by the Company, it requires injection of significant funding and a significant reduction in its indebtedness to continue its operation which is currently supported by the funding from Trophy Advance and the Investor Loan. The Company has tried but failed to obtain bank financing and outside investment on terms different from those on offer from the Investor and the Core Creditors and if the Transactions are not successfully implemented, the Company may not be able to fulfill the repayment obligations under the Relevant Debt, the Trophy Advance and the Investor Loan and the Company will have to agree a further restructuring of the obligations with the relevant parties. In view of the uncertain financial prospect of the Company and there is no certainty that the Transactions will be completed during the negotiation on the terms of the Transactions, we consider the market prices of the Shares may not be able to reflect the actual situation of the Company and it is inappropriate to make reference with the market prices of the Shares to determine the value of the Options.

Having considered the abovementioned and (i) the apportionment of the Conversion Shares, Option Shares and cash receivable by the Core Creditors under the Intercreditors' Agreement was determined by arm's length negotiations between the Company, the Investor and the Core Creditors; (ii) the Intercreditors' Agreement will enable the Group to settle part of the Relevant Debt by the issue of the Conversion Shares and the Options, the cash outflows from the Group would be reduced given the limited cash position of the Group and the Required Funding for the existing projects of the Group; (iii) under the Intercreditors' Agreement, the Core Creditors have agreed not to exercise or enforce any of their rights or remedies or take or commence any legal proceedings or accelerate or demand repayment of any principal or interest owing to each of them under their respective Relevant Debt at this point of time and until the Standstill Expiry Date; and (iv) we are of the opinion that the Share Subscription Price of HK\$0.07 per Conversion Share and the Option Subscription Price of HK\$0.08 per Option Share are fair and reasonable as set out in below sections headed "3. Option Agreements" and "4. Share Subscription Agreement", we consider the Intercreditors' Agreement is in the interests of the Company and the Independent Shareholders as a whole.

3. *Option Agreements*

Under the terms of the Option Agreements and subject to the fulfillment of conditions including the completion of the Rights Issue and the Share Subscription Agreement, the Company has agreed to grant the Investor and the Core Creditors Options to subscribe for an additional 1,500,000,000 new Adjusted Shares and an aggregate of 400,000,000 new Adjusted Shares, respectively, both at the Option Subscription Price of HK\$0.08 per Option Share, at any time during the period of 12 months commencing from the date of completion of the Share Subscription

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Agreement. The Options are neither assignable nor transferrable. Furthermore, the Option Agreements do not contain any rights for the Option holders in case of liquidation of the Company, nor do they contain any rights to participate in distributions or offers of further securities made by the Company. The terms under the Option Agreements were determined principally after arm's length negotiations among the Core Creditors, the Investor and the Company. Details of the number of the Option Shares to be issued to each of the Core Creditors are set out in the section headed "INTERCREDITORS' AGREEMENT" in the Board Letter.

Under the terms of the Investor Option Agreement as supplemented by the Supplemental Option Agreement the Investor has agreed not to exercise the Option to the extent that it would cause the Company to have less than 25% of its issued share capital held in public hands as required under Rule 8.08 of the Listing Rules. Under the Investor Option Agreement and the Supplemental Option Agreement, the Company has the right not to issue any Option Shares to the Investor upon exercise of subscription rights under the Option if to do so would cause the public float of the Company to fall below 25%.

The Option Subscription Price of HK\$0.08 per Option Share represents:

- (i) a discount of approximately 94.2% of the adjusted closing price (as adjusted by the Share Consolidation) of HK\$1.39 per Adjusted Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 92.1% to the adjusted closing price (as adjusted by the Share Consolidation) of HK\$1.01 per Adjusted Share as quoted on the Stock Exchange on the Last Trading Day; and
- (iii) a discount of approximately 92.9% to the adjusted average closing price (as adjusted by the Share Consolidation) of HK\$1.122 per Adjusted Share for the five consecutive trading days up to and including the Last Trading Day.

As advised by the Company, prior to the entering into of the Transactions, the Company has engaged in lengthy discussions with certain other potential investors/financiers; however in the opinions of the Directors, the Transactions were concluded to be in the best interests of the Company. As mentioned above, the Company has tried and failed to obtain bank financing and investment from other investors on terms different to those on offer from the Investor and the Core Creditors and if the Transactions are not successfully implemented, the Company may not be able to fulfill the repayment obligations under the Relevant Debt, the Trophy Advance and the Investor Loan. Also advised by the Company, in the event that the Transactions cannot be timely completed, the Directors will have to consider more radical alternative rationalisation and restructuring measures.

We are of the view that (i) the Option Agreements and the Rights Issue are inter-conditional to each other and both are parts of the Transactions which are essential for the recapitalization of the financial position of the Group; and (ii)

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under the Transactions, the Investor, the Core Creditors and the Qualifying Shareholders all have a role to play as investors to the Company, we consider the terms of the Transaction Documents should be viewed as a whole rather than on a standalone basis.

We are aware that the Options were granted at nil consideration and the size of the Options may have certain dilution impact on the shareholdings of the Independent Shareholder if the Options are exercised in full (details of the potential dilution as a result of the Transactions has been set out under below section headed "8. Potential dilution"), however, having considered (i) given the financial situation of the Company and the size of the Relevant Debt, it is in the interest of the Company to reduce its cash outflow as much as possible and the Option Agreements would allow the Company to settle part of the Relevant Debt without cash outflow and immediate shareholding dilution; (ii) in the event that the Transactions have been approved and completed, with the deep discount at the Option Subscription Price as compared with the market price of the Adjusted Shares, the Option Agreements would provide incentive to the Investor, who will become a controlling Shareholder of the Company upon completion of the Transactions, for its continuous contribution to the Company in the future; (iii) the Options are one of the major components of the Relevant Debt settlement arrangement between the Company and the Core Creditors and pursuant to the Intercreditors' Agreement, the Core Creditors have agreed not to exercise or enforce any of their rights or remedies or take or commence any legal proceedings or accelerate or demand repayment of any principal or interest owing to each of them under their respective Relevant Debt at this point of time and until the Standstill Expiry Date and hence loosen the financial pressure of the Company; (iv) there will be additional cash inflow to the Company in the event that the Options are exercised; and (v) if the Transactions are not successfully implemented, it may be difficult for the Company to have an alternative source of funding and further radical rationalization and restructuring measures may be necessary. These will inevitably lead to further loss in value of the Company which is not in the interests of the Independent Shareholders, we consider the Company only has limited bargaining power on the terms of the Option Agreements. Also, if the Option Agreements which is part and parcel of the Transactions, were not accepted by the Core Creditors and the Investor, the Transactions cannot be completed and the Company is not able to enjoy the benefits of improving the financial situation to be brought by the completion of the Transactions and the Independent Shareholders are not able to enjoy the benefits of improving the value of their investments in the Company. Given the abovementioned and the fact that the Option Subscription Price of HK\$0.08 represents a premium over the RI Subscription Price and hence the beneficiaries of the Options are no better off in terms of pricing than the RI Subscription Price to be offered to all Qualifying Shareholders under the Rights Issue, we consider the Option Subscription Price is fair and reasonable and the Option Agreements are in the interests of the Company and the Independent Shareholders as a whole.

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4. *Share Subscription Agreement*

Under the terms of the Share Subscription Agreement, the Investor has agreed, subject to, inter alia, the completion of the Rights Issue and the Intercreditors' Agreement, to subscribe for 1,880,000,000 Adjusted Shares at the Share Subscription Price of HK\$0.07 per Adjusted Share for a total amount of HK\$131,600,000.

In addition to the aforementioned subscription and depending on the amount of Adjusted Shares that the Investor may acquire by virtue of its participation in the Rights Issue under the Sub-underwriting Letter, pursuant to the Share Subscription Agreement, the Investor may at its option further subscribe for up to a maximum of 988,000,000 Top-up Shares within a period of 45 days from completion of the Share Subscription Agreement at the subscription price of HK\$0.07 per Adjusted Share pursuant to the Top-up Subscription such that immediately after issuance thereof, the Investor shall beneficially own approximately 52.5% of the then issued share capital of the Company. We were given to understand that the terms under the Share Subscription Agreement were under arm's length negotiation between the Company and the Investor and the Share Subscription Price was determined with reference to the RI Subscription Price.

We are of the view that (i) the Share Subscription Agreement and the Rights Issue are inter-conditional to each other and both are parts of the Transactions which are essential for the recapitalization of the financial position of the Group; and (ii) under the Transactions, the Investor, the Core Creditors and the Qualifying Shareholders all have a role to play as investors to the Company, we consider the terms of the Transaction Documents should be viewed as a whole rather than on a standalone basis. In addition, given (i) the dire financial position of the Company as mentioned above; (ii) in the absence of other viable financing arrangements in a timely manner; (iii) limited bargaining power regarding the discount on the Share Subscription Price; and (iv) if the Share Subscription Agreement which is part and parcel of the Transactions, was not accepted by the Investor, the Transactions cannot be completed and the Company is not able to enjoy the benefits of improving the financial situation to be brought by the completion of the Transactions and the Independent Shareholders are not able to enjoy the benefits of improving the value of their investments in the Company, we consider it is inevitable for the Company to offer terms which are in the interest of the Investor to induce the Investor to act as a white knight to the Company. Given the Share Subscription Price is equivalent to the RI Subscription Price and hence the Investor is no better off in terms of pricing than the RI Subscription Price to be offered to all Qualifying Shareholders under the Rights Issue, we consider the Share Subscription Price is fair and reasonable.

In light of (i) the financial situation of the Company; (ii) the needs of additional funding for the Company's existing projects and fulfilling its financial obligations; (iii) the terms under the Share Subscription Agreement were under arm's length negotiation between the Company and the Investor; (iv) the Share Subscription Price is equivalent to the RI Subscription Price and hence the Investor

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is no better off in terms of pricing than the RI Subscription Price to be offered to all Qualifying Shareholders under the Rights Issue; and (v) the intended use of the net proceeds for the repayment of the debts and for the general working capital of the Company, we consider the Share Subscription Price is fair and reasonable and the Share Subscription including the Top-up Subscription is in the interest of the Company and the Independent Shareholders. In addition, given the needs of funding and the importance of the role of the Investor as a white knight to the Company, we consider that it is justifiable for granting the right to the Investor for the Top-up Subscription to maintain its majority shareholding interest in the Company and avoid possible dilution as a result of the Rights Issue and the issue of Conversion Shares and the Option Shares as a result of the Intercreditors' Agreement.

5. *Bridge Loan Agreement*

Pursuant to the Bridge Loan Agreement, the Investor has conditionally agreed to provide the Company with the Investor Loan of up to HK\$20,000,000 with the initial HK\$3,500,000 of the facility utilised to fully repay the earnest money owed to the Investor under the Exclusivity Agreement, and with the remaining HK\$16,500,000 of the facility to be used to assist the Company in funding its working capital requirements.

All amounts owing shall be repayable by the Company upon demand by the Investor and also on the occurrence of certain events of default (including but not limited to any material adverse change in the Company's liability position after initial draw-down) or, if no demand has been made, on the date falling 120 days from the date of the Bridge Loan Agreement. Any undrawn facility may be cancelled by the Investor upon the occurrence of certain of these events of default. Interest on the principal at the rate of 20% per annum (the "**Interest**") shall be payable on the date falling 120 days from the date of the Bridge Loan Agreement.

We were given to the understand that (i) due to the unsatisfactory financial position of the Group, the Company is unable to obtain bank financing and the Company has withdrawn funding support to the US subsidiaries in order to safeguard working capital; (ii) in order to obtain emergency funding of HK\$3.5 million for working capital requirement, the Company entered into the Exclusivity Agreement with the Investor and such funding was utilized as working capital as at the Latest Practicable Date; and (iii) the Interest and the terms under the Bridge Loan Agreement was under arm's length negotiation between the Company and the Investor.

We are aware of the high interest rate charged under the Bridge Loan Agreement, however, having considered (i) the Company has failed to obtain bank financing; (ii) the Investor Loan is unsecured and has a short repayment term; and (iii) the tight liquidity position of the Company and the emergency need of the funding for working capital, we share the view of the Company that it has no other viable alternatives for the required funding for working capital and it is commercially justifiable for the Investor to charge at a high interest rate under the Bridge Loan Agreement given the dire financial position of the Company.

6. *Undertaking Letter*

Under the Undertaking Letter entered into on 10 February 2010 by the Undertaking Group in favour of the Investor, the Undertaking Group (holder of (i) in aggregate 752,703,900 Shares, representing approximately 20.9% of the issued share capital of the Company and; (ii) the Winnington Convertible Note (HK\$38,000,000 of which is held by Trophy LV Master Fund)) shall, or shall procure that members of the Undertaking Group who are Shareholders shall (to the extent not required by the Listing Rules or the Takeovers Code to abstain from voting) vote in favour of any resolutions proposed by the Company to approve the Transactions (or such of them requiring Shareholders' approval of the Company) at the SGM.

Given we are of the opinion that the Transactions which essentially provide the Company with (i) up-front financing via the Investor Loan, the Share Subscription and the Rights Issue; (ii) a temporary standstill from the Core Creditors through the Intercreditors' Agreement; and (iii) a full settlement of the Relevant Debt, are in the interest of the Company and the Independent Shareholders as a whole, we consider the Undertaking Letter which enhances the voting in favour of the resolutions approving the Transactions, is in the interests of the Company and the Independent Shareholders as a whole.

7. *Financial effects*

(a) Net tangible assets

According to the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group set out in Appendix II to the Circular, the unaudited consolidated net tangible liabilities (adjusted for intangible assets) of the Group was approximately HK\$38.94 million as at 30 September 2009. The adjusted unaudited pro forma consolidated net tangible assets of the Group would be approximately HK\$318.83 million as a result of (i) the inflow of the estimated net proceeds of approximately HK\$95.95 million from the Rights Issue; (ii) the inflow of the estimated net proceeds of approximately HK\$131.60 million from the Share Subscription; and (iii) the increase in net assets of approximately HK\$130.21 million as a result of the debt re-structuring through the Intercreditors' Agreement.

Also set out in the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group, the adjusted unaudited consolidated net tangible liabilities per Adjusted Share as at 30 September 2009 was approximately HK\$0.108 (based on 360,151,838 Adjusted Shares). Upon completion of the Rights Issue, the Share Subscription and the debt re-structuring through the Intercreditors' Agreement, the adjusted unaudited pro forma consolidated net tangible assets per Adjusted Share would be approximately HK\$0.071 (based on 4,470,759,190 Adjusted Shares).

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(b) Gearing ratio

On the basis that the unaudited total liabilities of the Group and the unaudited total asset of the Group as at 30 September 2009 were approximately HK\$291.50 million and HK\$749.70 million respectively, the gearing ratio, which is calculated by dividing the total liabilities by the total assets of the Group, was about 0.39 times as at 30 September 2009. The gearing ratio of the Group is expected to improve immediately following the Transactions as the Company intends to use the net proceeds of the Rights Issue and the Share Subscription to finance the repayment of loan due to its creditors and the Relevant Debt would be settled upon completion of the Intercreditors' Agreement and hence reduce the total liabilities and the gearing of the Group.

In light of the enhancement of the unaudited pro forma adjusted consolidated net tangible assets attributable to the Shareholders and the gearing level of the Group as a result of the Transactions, we are of the opinion that the Transactions are in the interests of the Company and the Independent Shareholders as a whole.

8. *Potential dilution*

As shown in Table A in the section headed "SHAREHOLDING STRUCTURE OF THE COMPANY" in the Board Letter, as at the Latest Practicable Date, the Shareholders excluding the Winnington Concert Party Group and the Directors were interested in approximately 78.60% of the issued share capital of the Company. Immediately upon completion of the Rights Issue, the Share Subscription (excluding the Top-up Subscription), the Core Creditors' Share Conversion and the exercise of the Options as shown in Table C of such section, the aggregate shareholding interests of the Shareholders excluding the Investor, the Winnington Concert Party Group and the Directors in the Company will be reduced to approximately 25.0% at the maximum. Details of the changes in the shareholding of the Company have been set out under the section headed "SHAREHOLDING STRUCTURE OF THE COMPANY" in the Board Letter.

Having considered

- (i) the persistent loss making track record of the Company and the dire financial position of the Company;
- (ii) failing the successful implementation of the Transactions and in the absence of any other viable financing alternative, the Company may be unable to meet its financial obligations and its ability to operate as a going concern in such circumstances would be in doubt;

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- (iii) the Investor Loan which shall be repayable upon demand or, if no demand has been made, on the date falling 120 days from the date of the Bridge Loan Agreement which was 10 February 2010;
- (iv) the Rights Issue and the Share Subscription would enable the Company to recapitalize and strengthen its financial position and provide the Group with new funds for the payment of its debt and for developing projects and its existing business operation; and
- (v) the Intercreditors' Agreement will enable the Group to settle the Relevant Debt by the issue of the Conversion Shares and the Options for partial settlement of the Relevant Debt, the cash outflows from the Group would be reduced,

we are of the view that the dilution of the shareholding interests of the Independent Shareholders in the Company as a result of the Rights Issue, the Share Subscription (excluding the Top-up Subscription), the Core Creditors' Share Conversion and the exercise of the Options is acceptable.

Independent Shareholders should note that under the terms of the Investor Option Agreement as supplemented by the Supplemental Option Agreement the Investor has agreed not to exercise the Option to the extent that it would cause the Company to have less than 25% of its issued share capital held in public hands as required under Rule 8.08 of the Listing Rules. Under the Investor Option Agreement and the Supplemental Option Agreement, the Company has the right not to issue any Option Shares to the Investor upon exercise of subscription rights under the Option if to do so would cause the public float of the Company to fall below 25%.

9. Background and intention of the Investor

As set out in the Board Letter, the Investor, Idea Talent Limited, is a company incorporated in the British Virgin Islands with limited liability whose directors are Grandwin Enterprises Limited and Better Lead Limited. Grandwin Enterprises Limited (a company wholly and beneficially owned by Mr. Leung) owns 60% of the total issued share capital of the Investor, and Better Lead Limited (a company wholly and beneficially owned by Mr. Chung) owns the remaining 40%. Further details of Mr. Leung and Mr. Chung have been set out under the section headed "BACKGROUND OF THE INVESTOR" in the Board Letter.

The Company understands from the Investor that the Investor intends to maintain the listing of the Adjusted Shares on the Stock Exchange after completion of the Transactions. It is the intention of the Investor to rationalise the business operation of the Group and to build on its established reputation and expertise in the animated film business for potential business opportunities in local, mainland China and overseas markets. The Group will continue to seek new business opportunities to improve the Group's profitability and prospects and may consider diversifying the business of the Group with an objective to broaden its income

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source should suitable opportunities arise. However, no such investment or business opportunities have been identified at this stage.

The Company understands from the Investor that it has no intention to introduce any changes to the businesses of the Group including redeployment of the fixed assets of the Group as they are confident in the prospect of the core businesses of the Group. Furthermore, the Group intends to utilise the proceeds from the Transactions for the existing businesses which is in line with the long-term core businesses of the Group.

The Directors further understand from the Investor that it has no intention of redeploying the employees other than in the ordinary course of business of the Company and that at completion of the Transactions, the Investor may seek to appoint such number of persons as it may require as Directors, including independent non-executive Directors in accordance with Rule 3.10 of the Listing Rules, in accordance with the bye-laws of the Company.

As the Latest Practicable Date, the Investor had no agreement, arrangement, understanding, intention or negotiation in respect of any disposal and/or termination and/or scaling-down of the Group's existing business.

In view of the extensive management experience of Mr. Leung and Mr. Chung and the relevant experience of Mr. Leung in investment banking, we consider that the introduction of the Investor as a majority Shareholder may bring positive impacts on the management and financial arrangement of the Group and hence turnaround the existing serious financial position of the Group.

10. Recommendation

Having considered the above principal factors and reasons, we consider that (i) the terms of the Transactions are fair and reasonable; (ii) the Transactions are in the interests of the Company and the Independent Shareholders as a whole; and (iii) the Connected Transactions are on normal commercial terms. Accordingly, we recommend the Independent Shareholders to vote in favor of the resolutions approving the Transactions at the SGM and advise the Independent Board Committee to make the same recommendation.

C. THE WHITEWASH WAIVER

Upon completion of the Rights Issue, pursuant to the sub-underwriting arrangements between the Investor and the Underwriter, the Investor may be required (if called upon by the Underwriter) to subscribe for not more than 900,000,000 Rights Shares that are not subscribed for under the Rights Issue, which will result in the Investor and its concert parties holding not more than 900,000,000 Adjusted Shares, representing approximately 50.0% of the enlarged issued share capital of the Company upon completion of the Rights Issue. Following the Rights Issue, the Investor shall further subscribe for 1,880,000,000 Adjusted Shares under the Share Subscription Agreement and shall be entitled to subscribe for up to a

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further 988,000,000 Top-up Shares (such that immediately after the issuance of the Top-up Shares, the Investor shall beneficially own approximately 52.5% of the then enlarged share capital of the Company) and be entitled to exercise the right to subscribe for a further 1,500,000,000 Adjusted Shares in accordance with the Option Agreement.

Under the Transactions (and as indicated in Table C under the section headed "SHAREHOLDING STRUCTURE OF THE COMPANY" in the Board Letter), the Investor may potentially own up to a maximum of 3,030,000,000 Adjusted Shares, representing approximately 59.2% of the share capital of the Company as enlarged by the Adjusted Shares to be issued under the Rights Issue (assuming that the Investor is called upon to take up 900,000,000 Rights Shares under the sub-underwriting arrangements), the Share Subscription Agreement (excluding the Top-up Subscription), the Option Agreements and the Intercreditors' Agreement, thereby triggering an obligation for the Investor and parties acting in concert with it to make a mandatory general offer under Rule 26 of the Takeovers Code for all the Adjusted Shares not already owned and/or agreed to be acquired by it and parties acting in concert with it. Upon completion of the Rights Issue, the Share Subscription Agreement (excluding the Top-up Subscription), the Option Agreements and the Intercreditors' Agreement, the Investor and parties acting in concert with it may hold more than 50% of the then issued share capital of the Company in which case, the Investor and parties acting in concert with it may acquire further voting rights in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

An application has been made by the Investor to the Executive for the Whitewash Waiver pursuant to Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that the Whitewash Waiver will be granted and will be conditional upon, among other things, the approval of the Independent Shareholders at the SGM by way of poll, in which Shareholders who are involved in, or interested in, the Whitewash Waiver (including Winnington Concert Party Group and parties acting in concert with any of them) will abstain from voting on the resolution for the Whitewash Waiver. It is a condition precedent to the completion of the Rights Issue that prior to the completion of the Underwriting Agreement there shall be no early termination of the Share Subscription Agreement, which in turn contains a condition that the Whitewash Waiver be granted by the Executive (unless waived by the Investor) and approved by the Independent Shareholders by way of poll at the SGM. Thus, (unless waived by the Investor) if the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Rights Issue and the transactions contemplated under the Share Subscription Agreement, Option Agreements and the Intercreditors' Agreement may not proceed.

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Based on our analysis of the terms of the Transactions, we consider that the Transactions are in the interests of the Company and the Independent Shareholders as a whole. Unless waived by the Investor, if the Whitewash Waiver is not granted by the Executive or approved by the Independent Shareholders at the SGM, the Transactions may not proceed and the Company will lose all the benefits that are expected to be brought by the Transactions. As mentioned in the Board Letter, the successful implementation of the Transactions would allow the Group to restructure its balance sheet and recapitalize the Group, and is an essential part of the Company's strategy to restore the long-term viability of the Group, failing which and in the absence of any other viable financing alternative, the Company may be unable to meet its financial obligations and its ability to operate as a going concern in such circumstances would be in doubt. Accordingly, we are of the view that for the purposes of implementing the Transactions, the approval of the Whitewash Waiver by the Independent Shareholders at the SGM is in the interests of the Company and the Independent Shareholders as a whole.

Recommendation

Having considered the above-mentioned we consider that the Whitewash Waiver is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favor of the resolution approving the Whitewash Waiver at the SGM and advise the Independent Board Committee to make the same recommendation.

D. THE SPECIAL DEALS

As at 10 February 2010, being the date of the Intercreditors' Agreement, the Option Agreements and the Share Subscription Agreement, Trophy Fund, Trophy LV Master Fund, Winnington Capital, Mr. Hung and Ms. Chu Jocelyn (being the wife of Mr. Hung) held 597,219,634 Shares, 57,734,266 Shares, 250,000 Shares, 97,500,000 Shares and 2,500,000 Shares, respectively. Under the Takeovers Code, each of (i) the settlement of the Relevant Debt in cash and the issue of the Adjusted Shares pursuant to the Intercreditors' Agreement; (ii) the grant of the Options pursuant to the Option Agreements to each of Trophy LV Master Fund and Trophy Fund; and (iii) the use of the proceeds from the Rights Issue to repay in cash the full amount under the Trophy Advance would constitute a favourable condition not extended to all Shareholders and therefore a special deal under Rule 25 of the Takeovers Code and requires the consent of the Executive. An application for consent to the Special Deals pursuant to Note 5 to Rule 25 of the Takeovers Code has been made to the Executive. The Executive has indicated that the consent will be granted and will be subject to our opinions which have publicly stated the terms of the Transactions are fair and reasonable and the approval by the Independent Shareholders by way of a poll at the SGM.

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Recommendation

Having taken into account of the following factors:

- (i) under the Intercreditors' Agreement, the Core Creditors have agreed not to exercise or enforce any of their rights or remedies or take or commence any legal proceedings or accelerate or demand repayment of any principal or interest owing to each of them under their respective Relevant Debts at this point of time and until the Standstill Expiry Date;
- (ii) the Intercreditors' Agreement will enable the Group to discharge from the Relevant Debt and settle part of the Relevant Debt by the issue of the Conversion Shares and the Options, the cash outflows from the Group would be reduced;
- (iii) the apportionment of the Conversion Shares, Options and cash receivable by the Core Creditors under the Intercreditors' Agreement was determined by arm's length negotiations between the Company, the Investor and the Core Creditors;
- (iv) given the continued loss incurred from the operation of the Group, the current net liabilities position of the Group as at 30 September 2009 and the outstanding borrowings as at 31 January 2010, the Directors consider that it is difficult for the Group to obtain external financing through banks and financial institutions and the Trophy Advance and the Bridge Loan were the only resource accessible and available to the Group to support its operation at the material time; and
- (v) the settlement of the Trophy Advance which carry an interest of 20% per annum would reduce the Company's interest expense,

we consider that the terms of the Special Deals are fair and reasonable so far as the Company and the Independent Shareholders are concerned. We also consider that the terms of the Special Deals were entered into upon normal commercial terms and that the Special Deals are arm's length transactions. We also consider that the Special Deals are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Special Deals and advise the Independent Board Committee to make the same recommendation.

Your faithfully,

For and on behalf of

Veda Capital Limited

Hans Wong
Chairman

Julisa Fong
Managing Director

FINANCIAL SUMMARY

1. THREE-YEAR FINANCIAL SUMMARY

The following is a summary of the audited consolidated financial results of the Group for each of the three years ended 31 March 2009 as extracted from the relevant annual reports of the Company.

No qualified opinions were issued by the Company's auditors, Deloitte Touche Tohmatsu, for each of the three years ended 31 March 2009.

There were no exceptional and extraordinary items during the three years ended 31 March 2009.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2009

	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000
Revenue	3,613	17,189	243,485
Cost of sales	<u>(3,789)</u>	<u>(25,931)</u>	<u>(331,815)</u>
Gross loss	(176)	(8,742)	(88,330)
Other income	1,260	10,048	5,353
Distribution and selling expenses	(11,780)	(1,835)	(2,104)
Administrative expenses	(52,118)	(54,267)	(40,613)
Loss on re-measurement of liability component of convertible loan notes	(34,490)	–	–
Impairment loss recognised in respect of computer graphics ("CG") animation pictures	(87,090)	–	(8,144)
Finance costs	<u>(99)</u>	<u>(2,168)</u>	<u>(4,507)</u>
Loss before taxation	(184,493)	(56,964)	(138,345)
Income tax credit (expense)	<u>7,066</u>	<u>(865)</u>	<u>(617)</u>
Loss for the year	<u><u>(177,427)</u></u>	<u><u>(57,829)</u></u>	<u><u>(138,962)</u></u>
Basic loss per share	<u><u>(HK\$0.105)</u></u>	<u><u>(HK\$0.037)</u></u>	<u><u>(HK\$0.109)</u></u>
Dividend	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>–</u></u>
Dividend per share	<u><u>N/A</u></u>	<u><u>N/A</u></u>	<u><u>N/A</u></u>

CONSOLIDATED BALANCE SHEET
AT 31 MARCH 2009

	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000
Non-current assets			
Property, plant and equipment	71,392	86,364	64,421
CG animation pictures	738,647	463,757	142,075
Goodwill	3,228	3,228	3,228
Long term rental deposits	11,017	9,644	–
Club debentures	2,510	3,201	3,201
	<u>826,794</u>	<u>566,194</u>	<u>212,925</u>
Current assets			
Inventory	–	–	155
Trade and other receivables, deposits and prepayments	10,935	12,142	26,968
Tax recoverable	10	666	771
Bank balances and cash	3,808	175,530	367,584
	<u>14,753</u>	<u>188,338</u>	<u>395,478</u>
Current liabilities			
Other payables and accruals	39,286	20,257	38,186
Unearned revenue	5,090	67	110
Tax payable	338	593	670
Bridge loans	93,600	–	–
Convertible loan notes	132,000	–	–
Obligations under finance lease – due within one year	693	670	59
	<u>271,007</u>	<u>21,587</u>	<u>39,025</u>
Net current (liabilities) assets	<u>(256,254)</u>	<u>166,751</u>	<u>356,453</u>
Total assets less current liabilities	<u>570,540</u>	<u>732,945</u>	<u>569,378</u>
Non-current liabilities			
Obligations under finance lease – due after one year	1,341	2,034	175
Convertible loan notes	–	83,095	54,299
Deferred tax	2,396	9,973	363
	<u>3,737</u>	<u>95,102</u>	<u>54,837</u>
Net assets	<u>566,803</u>	<u>637,843</u>	<u>514,541</u>
Capital and reserves			
Share capital	172,875	163,795	144,113
Reserves	393,928	474,048	370,428
Total equity attributable to equity holders of the Company	<u>566,803</u>	<u>637,843</u>	<u>514,541</u>

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE TWO YEARS ENDED 31 MARCH 2009

Set out below are the audited consolidated financial statements of the Group for the two years ended 31 March 2009 which are published in the Company's annual report 2009:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2009

	<i>Notes</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Revenue	8	3,613	17,189
Cost of sales		<u>(3,789)</u>	<u>(25,931)</u>
Gross loss		(176)	(8,742)
Other income	10	1,260	10,048
Distribution and selling expenses		(11,780)	(1,835)
Administrative expenses		(52,118)	(54,267)
Loss on re-measurement of liability component of convertible loan notes	26	(34,490)	–
Impairment loss recognised in respect of computer graphics (“CG”) animation pictures	19	(87,090)	–
Finance costs	11	<u>(99)</u>	<u>(2,168)</u>
Loss before taxation	12	(184,493)	(56,964)
Income tax credit (expense)	13	<u>7,066</u>	<u>(865)</u>
Loss for the year		<u><u>(177,427)</u></u>	<u><u>(57,829)</u></u>
Basic loss per share	17	<u><u>(HK\$0.105)</u></u>	<u><u>(HK\$0.037)</u></u>

CONSOLIDATED BALANCE SHEET
AT 31 MARCH 2009

	<i>Notes</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	18	71,392	86,364
CG animation pictures	19	738,647	463,757
Goodwill	20	3,228	3,228
Long term rental deposits	22	11,017	9,644
Club debentures	21	2,510	3,201
		<hr/>	<hr/>
		826,794	566,194
		<hr/>	<hr/>
Current assets			
Trade and other receivables, deposits and prepayments	22	10,935	12,142
Tax recoverable		10	666
Bank balances and cash	23	3,808	175,530
		<hr/>	<hr/>
		14,753	188,338
		<hr/>	<hr/>
Current liabilities			
Other payables and accruals		39,286	20,257
Unearned revenue		5,090	67
Tax payable		338	593
Bridge loans	25	93,600	–
Convertible loan notes	26	132,000	–
Obligations under finance lease – due within one year	24	693	670
		<hr/>	<hr/>
		271,007	21,587
		<hr/>	<hr/>
Net current (liabilities) assets		(256,254)	166,751
		<hr/>	<hr/>
Total assets less current liabilities		570,540	732,945
		<hr/>	<hr/>
Non-current liabilities			
Obligations under finance lease – due after one year	24	1,341	2,034
Convertible loan notes	26	–	83,095
Deferred tax	27	2,396	9,973
		<hr/>	<hr/>
		3,737	95,102
		<hr/>	<hr/>
Net assets		566,803	637,843
		<hr/> <hr/>	<hr/> <hr/>
Capital and reserves			
Share capital	28	172,875	163,795
Reserves		393,928	474,048
		<hr/>	<hr/>
Total equity attributable to equity holders of the Company		566,803	637,843
		<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2009

	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000 (note 1)	Translation reserve HK\$'000	Convertible loan notes equity reserve HK\$'000	Share option reserve HK\$'000	Other reserve HK\$'000 (note 2)	Accu- mulated losses HK\$'000	Total HK\$'000
At 1 April 2007	144,113	517,675	909	38	10,278	31,970	-	(190,442)	514,541
Exchange differences arising on translation of foreign operations and recognised directly in equity	-	-	-	996	-	-	-	-	996
Loss for the year	-	-	-	-	-	-	-	(57,829)	(57,829)
Total recognised income and expenses for the year	-	-	-	996	-	-	-	(57,829)	(56,833)
Recognition of equity-settled share-based payments (note 29)	-	-	-	-	-	73,980	-	-	73,980
Exercise of share options (note 28(a))	2,035	10,439	-	-	-	(4,762)	-	-	7,712
Share options forfeited for the year (note 29)	-	-	-	-	-	(5,753)	-	5,753	-
Recognition of equity component of convertible notes (note 26)	-	-	-	-	52,087	-	-	-	52,087
Deferred tax liability on recognition of equity component of convertible notes (note 27)	-	-	-	-	(9,115)	-	-	-	(9,115)
Conversion of equity component of convertible notes (note 28(b))	17,647	48,102	-	-	(10,278)	-	-	-	55,471
At 31 March 2008	163,795	576,216	909	1,034	42,972	95,435	-	(242,518)	637,843

	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Translation reserve HK\$'000	Convertible loan notes equity reserve HK\$'000	Share option reserve HK\$'000	Other reserve HK\$'000	Accu- mulated losses HK\$'000	Total HK\$'000
Exchange differences arising on translation of foreign operations and recognised directly in equity	-	-	-	(38)	-	-	-	-	(38)
Loss for the year	-	-	-	-	-	-	-	(177,427)	(177,427)
Total recognised expenses for the year	-	-	-	(38)	-	-	-	(177,427)	(177,465)
Share issue	9,060	46,622	-	-	-	-	22,650	-	78,332
Share issue expenses	-	(416)	-	-	-	-	-	-	(416)
Decrease in opening deferred tax liability due to a decrease in applicable rate (note 27)	-	-	-	-	521	-	-	-	521
Recognition of equity-settled share-based payments (note 29)	-	-	-	-	-	27,949	-	-	27,949
Exercise of share options (note 28(c))	20	47	-	-	-	(28)	-	-	39
Share options forfeited for the year (note 29)	-	-	-	-	-	(8,484)	-	8,484	-
At 31 March 2009	172,875	622,469	909	996	43,493	114,872	22,650	(411,461)	566,803

Notes:

1. Merger reserve represents the difference between the nominal value of the 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.
2. Other reserve represents the difference between the subscription price of a share subscription by a new shareholder and the diluted subscription price after taking into account of the transfer of gift shares from an existing shareholder to the new shareholder. (For details, please refer to Note 28(d)).

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2009

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
OPERATING ACTIVITIES		
Loss before taxation	(184,493)	(56,964)
Adjustments for:		
Amortisation of CG animation pictures	3,639	25,212
Bank interest income	(800)	(6,822)
Depreciation of property, plant and equipment	1,406	1,820
Impairment loss recognised in respect of CG animation pictures	87,090	–
Fair value change in derivative financial instrument	–	504
Finance costs	99	2,168
Loss on disposal of club debenture	411	–
Loss on disposal of property, plant and equipment	109	669
Loss on re-measurement of liability component of convertible loan notes	34,490	–
Share-based payment expenses	2,606	16,645
	<hr/>	<hr/>
Operating cash flow before movements in working capital	(55,443)	(16,768)
Decrease in inventories	–	185
Decrease in trade and other receivables, deposits and prepayments and long term rental deposits	174	5,820
Increase (decrease) in other payables and accruals	13,811	(17,925)
Increase (decrease) in unearned revenue	5,023	(43)
	<hr/>	<hr/>
Net cash used in operations	(36,435)	(28,731)
Overseas tax refunded (paid)	331	(467)
Hong Kong Profits Tax refunded	–	7
	<hr/>	<hr/>
NET CASH USED IN OPERATING ACTIVITIES	(36,104)	(29,191)
	<hr/>	<hr/>
INVESTING ACTIVITIES		
Cost incurred in CG animation pictures	(297,363)	(266,125)
Purchase of property, plant and equipment	(12,853)	(42,579)
Purchase of club debenture	(60)	–
Proceeds from disposal of property, plant and equipment	1,961	850
Interest received	800	7,093
	<hr/>	<hr/>
NET CASH USED IN INVESTING ACTIVITIES	(307,515)	(300,761)
	<hr/>	<hr/>

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
FINANCING ACTIVITIES		
Bridge loans raised	93,600	–
Proceeds from issue of shares	78,332	7,712
Other borrowing raised	1,120	–
Proceeds from exercise of share options	39	–
Repayment of obligations under finance leases	(670)	(388)
Shares issued expenses	(416)	–
Interest paid	(149)	(1,596)
Proceeds from issue of convertible notes	–	132,000
	<hr/>	<hr/>
NET CASH FROM FINANCING ACTIVITIES	171,856	137,728
	<hr/>	<hr/>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(171,763)	(192,224)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	175,530	367,584
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	41	170
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash	<u>3,808</u>	<u>175,530</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2009

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its parent and ultimate holding company is Sunni International Limited (incorporated in the British Virgin Islands). The addresses of the Company's registered office and principal place of business are disclosed in the "Corporate Information" to the annual report.

The consolidated financial statements are presented in Hong Kong dollars ("HKD"), which is also the functional currency of the Company.

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in Note 37.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Group incurred a net loss of HK\$177,427,000 for the year ended 31 March 2009 and, as of that date, the Group's current liabilities exceeded its current assets by HK\$256,254,000. This condition indicates the existence of a fundamental uncertainty which may cast doubt on the Group's ability to continue as a going concern. To address this fundamental uncertainty, the directors have been actively pursuing various financing activities to improve the Group's financial position and to meet in full the Group's financial obligations as they fall due, including the followings:

- (a) Between 21 January 2009 to 31 March 2009, the Company has secured bridge loan facilities from a related company and certain independent third parties (the "Bridge Loan lenders") in an aggregate amount of US\$26.5 million (equivalent to approximately HK\$206.7 million), of which US\$12 million (equivalent to approximately HK\$93.6 million) were drawn down as at 31 March 2009. Subsequent to 31 March 2009, the aggregate sum of the facilities has been increased to US\$36.5 million (equivalent to approximately HK\$284.7 million).

On 15 May 2009, an agreement was entered into between the Company and the Bridge Loan Lenders whereby each of the Bridge Loan Lenders has agreed, subject to, inter-alia, completion of the Rights Issue (as defined below), to convert, contemporaneously with the redemption of CN Jan 2008 (as defined in Note 26), all its respective outstanding bridge loan principal and accrued interest into shares in the Company at a conversion price of HK\$0.175 per share (the "Bridge Loan Conversion").

- (b) Before 31 March 2009, the Group has secured minimum guaranteed income on distribution of its feature film, *Astro Boy*, from distributors in an aggregate amount of approximately HK\$51.2 million, of which HK\$3.0 million were collected by the Group as at 31 March 2009. Subsequent to 31 March 2009, the aggregate amount of the minimum guaranteed income has been increased to approximately HK\$70.7 million.
- (c) During the year, the Group breached certain covenants in relation to a convertible note with a principal sum of HK\$132 million (the "CN Jan 2008", as defined in Note 26) and as a result of which the holder of CN Jan 2008 was entitled to exercise its early redemption right, the Company has in May 2009 secured an agreement with the holder of CN Jan 2008 not to demand immediate repayment of the convertible notes as a result of such breaches prior to 31 August 2009.

In addition, on 15 May 2009, the Company and the holder of CN Jan 2008 entered into another agreement whereby, subject to, inter-alia, completion of the Rights Issue and the contemporaneous completion of the Bridge Loan Conversion, CN Jan 2008 will be redeemed by the issue of a new convertible note with the same principal amount (the “New CN”). If issued, the New CN will be for a period of 2 years from the date of its issue and will be convertible into shares of the Company at HK\$0.30 per share. The issuance of the New CN is not yet completed at the report date.

- (d) On 27 May 2009, the Company announced that it proposed to raise approximately HK\$108.05 million, before expenses, by issuing not less than 432,188,463 rights shares (the “Rights Issue”) at a subscription price of HK\$0.25 per rights share, on the basis of one rights share for every four shares in issue. The estimated net proceeds of the Rights Issue will be approximately HK\$100.4 million. The rights shares were increased to 432,738,463 due to the exercise of share options subsequent to 27 May 2009 with the estimated net proceeds of the Rights Issue revised to approximately HK\$100.0 million. The Rights Issue has been fully underwritten by Guotai Junan Securities (Hong Kong) Limited. The Company intends to use the net proceeds principally to strengthen its financial position, to complete the production and marketing of *Astro Boy* and to finance the ongoing operations of the Group. On 30 July 2009, shareholders of the Company approved the Rights Issue in a special general meeting. Completion of the Rights Issue is expected to take place prior to 24 August 2009, subject to the underwriting agreement not being terminated in accordance with its provisions. Details of the Rights Issues are set out in a circular issued by the Company dated 14 July 2009.
- (e) On 15 June 2009, the Company entered into a conditional placing agreement with a placing agent to subscribe or procure subscription for 130,000,000 shares and on a best efforts basis an additional 100,000,000 shares at a price of HK\$0.441 per placing share (the “Placing”). In July, 2009, the transaction was completed and the gross proceeds from the Placing of approximately HK\$101.4 million was received and will be used for the general working capital of the Group and to fund forthcoming film projects. Details of the Placing are set out in the Company’s announcement dated 18 June 2009.

The directors are of the opinion that, taking into account the undrawn facilities of the bridge loans and the minimum guaranteed income from film distributions, and provided that the Rights Issue and the Placing will be completed as planned, the Group will have sufficient resources to meet its financial obligations as they fall due in the next twelve months from the balance sheet date. Accordingly the consolidated financial statements have been prepared on a going concern basis and the Group’s non-current assets are stated in the consolidated balance sheet in accordance with the Group’s normal accounting policies.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS”)

In the current year, the Group has applied the following new amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are or have become effective.

HKAS39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

HKFRSs (Amendments)	Improvements to HKFRSs ¹
HKFRSs (Amendments)	Improvements to HKFRSs 2009 ²
HKAS 1 (Revised)	Presentation of Financial Statements ³
HKAS 23 (Revised)	Borrowing Costs ³
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ⁴
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ³
HKAS 39 (Amendment)	Eligible Hedged Items ⁴
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate ³
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ³
HKFRS 3 (Revised)	Business Combinations ⁴
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments ³
HKFRS 8	Operating Segments ³
HK(IFRIC)-Int 9 & HKAS 39 (Amendments)	Embedded Derivatives ⁵
HK(IFRIC)-Int 13	Customer Loyalty Programmes ⁶
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate ³
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation ⁷
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners ⁴
HK(IFRIC)-Int 18	Transfers of Assets from Customers ⁸

¹ Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

² Effective for annual periods beginning on or after 1 January 2009, 1 July 2009 and 1 January 2010, as appropriate

³ Effective for annual periods beginning on or after 1 January 2009

⁴ Effective for annual periods beginning on or after 1 July 2009

⁵ Effective for annual periods ending on or after 30 June 2009

⁶ Effective for annual periods beginning on or after 1 July 2008

⁷ Effective for annual periods beginning on or after 1 October 2008

⁸ Effective for transfers on or after 1 July 2009

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 April 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new or revised standards and interpretations will have no material impact on the results and the financial position of the Group.

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 values, 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.

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.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on an acquisition of net assets and operations of another entity for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant acquiree at the date of acquisition.

For previously capitalised goodwill arising on acquisitions of net assets and operations of another entity after 1 April 2001, the Group has discontinued amortisation from 1 April 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash-generating unit (the "CGU") to which the goodwill relates may be impaired.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

For the purpose of impairment testing, goodwill, arising from an acquisition is allocated to each of the relevant CGUs, or groups of CGUs, that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant CGU, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair values of considerations received or receivable.

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 balance sheet.

Income from the licensing of the distribution and broadcasting rights over CG animation pictures is recognised when the Group's entitlement to such payments has been established, which, subject to the terms of the relevant agreements, is upon delivery of the relevant tapes to the distributors.

Income from the licensing of rights to exploit CG 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.

Property, plant and equipment

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

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.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant leases.

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 the consolidated income statement in the year in which the item is derecognised.

CG animation pictures

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

CG animation pictures in progress are stated at costs incurred to date, including all the costs directly attributable to the CG animation pictures in progress and borrowing costs capitalised, less accumulated impairment losses. Upon completion and release of the CG 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 CG animation pictures.

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

CG animation pictures 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 CG animation pictures, which is calculated as the difference between the sale proceeds and the carrying value of the item is recognised in the consolidated income statement.

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.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of 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 each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet 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.

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. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended uses or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

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. Taxable profit differs from profit 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 balance sheet date.

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, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised 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 arising on 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement benefit cost

Payments to the Mandatory Provident Fund Scheme/defined contribution retirement benefit plans are charged as expenses when employees have rendered service entitling them to the contributions.

Intangible assets

Intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet 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.

Financial assets

The Group's financial assets are classified as loans and receivables.

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.

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. At each balance sheet date subsequent to initial recognition, loans and receivables (including long term rental deposits, 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 each balance sheet date. Financial assets are 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.

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, an impairment loss is recognised in profit or loss when there is objective evidence that the asset 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.

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

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 through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Convertible loan notes contain liability and equity components

Convertible loan notes issued by the Group that contain both liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest rates for similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the conversion option for the holders to convert the loan notes into equity, is included in equity (convertible loan notes equity reserve).

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible loan notes equity reserve until the embedded option is exercised (in which case the balance stated in convertible loan notes equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible loan notes equity reserve will be released to the accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

If the Group revises its estimates of payments, the Group adjusts the carrying amount of the liability component to reflect actual and revised estimated cash flows. The liability component with a demand feature is re-measured to the amount payable on demand. The re-measurement for such revision of estimation is recognised as income or expense in profit or loss.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

Other financial liabilities

Other financial liabilities including other payables and bridge loans 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.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, 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 directly in equity is recognised in profit or loss.

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.

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 options reserve).

At each balance sheet date, 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, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium.

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.

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 previously charged to profit or loss is reversed to profit or loss. For forfeiture of share options where the vesting period of the share options has completed, the relevant recognised share-based payment previously charged to profit or loss is not reversed but credited to accumulated losses, with a corresponding adjustment to share options reserve.

Impairment losses other than goodwill (see the accounting policy in respect of goodwill above)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets 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 asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 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 balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment loss on CG animation pictures

Management regularly reviews the recoverability of the Group's CG animation pictures with reference to their intended uses and current market environment. Appropriate impairment for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the CG animation pictures are impaired.

In determining whether there is any objective evidence that the CG animation pictures are impaired, the Group takes into consideration the current market condition with reference to the existing operating plan and budget. Recoverable amount is determined based on the higher of estimated future cash flow and fair value less cost to sell. Where the recoverable amount of the CG animation pictures is less than the carrying amount at the balance sheet date as a result of an adverse change in market condition or an escalation of cost, impairment loss may result. During the year ended 31 March 2009, an impairment loss of approximately HK\$87 million (2008: Nil) in respect of the CG animation pictures was recognised by the Group and as at 31 March 2009, the carrying amount of CG animation pictures was approximately HK\$738,647,000 (2008: HK\$463,757,000). Details of the recoverable amount of CG animation pictures are disclosed in Note 19.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 March 2009, the carrying amount of goodwill is HK\$3,228,000 (2008: HK\$3,228,000). Details of the recoverable amount calculation are disclosed in Note 20.

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 debts, which include bridge loans and convertible loan notes disclosed in Notes 25 and 26, respectively, and equity attributable to equity holders of the Company, comprising issued share capital and various reserves.

7. FINANCIAL INSTRUMENTS

7a. Categories of financial instruments

	2009 HK\$'000	2008 HK\$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	23,756	195,446
Financial liabilities		
Amortised cost	228,291	83,590

7b. Financial risk management objectives and policies

The Group's major financial instruments include long term rental deposits, trade and other receivables, deposits, bank balances and cash, other payables, bridge loans and convertible loan notes. 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 HKD and United States dollars ("USD") and it pays its costs and expenses substantially in HKD and USD, the functional currency of the respective group entities.

The carrying amounts of the Group's net monetary (liabilities) assets, mainly represent USD bridge loans and bank balances (2008: USD bank balances), denominated in currencies other than the functional currency of the relevant group entities at the balance sheet date are as follows:

	(Liabilities) assets	
	2009 HK\$'000	2008 HK\$'000
USD	(95,260)	18,120

As HKD is pegged to USD, the currency risk exposure is considered insignificant.

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances, and exposed to fair value interest rate risk in relation to a fixed-rate other payable representing a short term borrowing from an independent third party bearing an interest rate of 5% per annum, bridge loans (see Note 25) and liability component of convertible loan notes (see Note 26). The Group's policy on financial liabilities is to keep at fixed rate of interests so as to minimise the cash flow interest rate risk having regard the magnitude of the borrowings.

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

Credit risk

As at 31 March 2009, 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 various receivables as stated in the consolidated balance sheet.

In order to minimise the credit risk, 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 each balance sheet date 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 Group has a number of counterparties and customers, however, the Group's credit risks are concentrated on certain major customers, which are renowned distributors with high credit rating in the film industry. At 31 March 2009, the Group's total trade receivable balances were represented by one (2008: three) customer. However, taking into account for the strong financial background and good creditability of the customer, the management considers that there is no significant uncovered 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 management monitors the utilisation of borrowings and ensures compliance with loan covenants.

As stated in Note 2, the directors are of the opinion that the Group will be able to operate on a going concern basis in the next twelve months from the balance sheet date. The Rights issue is approved on 30 July 2009, together with the Placing, the bridge loans and the redemption of the CN Jan 2008 and reissue of the New CN, the directors believe the Group has the ability to complete the CG animation pictures in progress and meet its other financial obligations. As such, the liquidity risk of the Group is substantially reduced.

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

	Weighted average effective interest rate %	Less than 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31.03.2009 HK\$'000
2009							
Non-derivative financial assets							
Long term rental deposits	-	-	-	-	11,017	11,017	11,017
Trade and other receivables and deposits	-	4	5,791	3,136	-	8,931	8,931
Bank balances and cash	0.001	3,808	-	-	-	3,808	3,808
		<u>3,812</u>	<u>5,791</u>	<u>3,136</u>	<u>11,017</u>	<u>23,756</u>	<u>23,756</u>
Non-derivative financial liabilities							
Other payables	5.0	1,644	-	1,071	-	2,715	2,691
Bridge loans	22.25	-	-	100,083	-	100,083	93,600
Convertible loan notes	16.6	132,000	-	-	-	132,000	132,000
		<u>133,644</u>	<u>-</u>	<u>101,154</u>	<u>-</u>	<u>234,798</u>	<u>228,291</u>
2008							
	Weighted average effective interest rate %	Less than 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31.03.2008 HK\$'000
Long term deposits	-	-	-	-	9,644	9,644	9,644
Trade and other receivables and deposits	-	405	2,866	7,001	-	10,272	10,272
Bank balances and cash	2.33	175,871	-	-	-	175,871	175,530
		<u>176,276</u>	<u>2,866</u>	<u>7,001</u>	<u>9,644</u>	<u>195,787</u>	<u>195,446</u>
Non-derivative financial liabilities							
Other payables	-	495	-	-	-	495	495
Convertible loan notes	16.6	-	-	-	132,000	132,000	83,095
		<u>495</u>	<u>-</u>	<u>-</u>	<u>132,000</u>	<u>132,495</u>	<u>83,590</u>

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 using prices or rates from observable current market transactions as input.

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

Revenue represents the amounts received and receivable for goods sold or services rendered by the Group during the year and is summarised as follows:

	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Income from licensing of CG animation pictures	388	11,436
Production service income from CG animation pictures	803	278
Income from licensing of ancillary rights of CG animation pictures	2,422	5,475
	<u>3,613</u>	<u>17,189</u>

9. BUSINESS AND GEOGRAPHICAL SEGMENTS**Business segments**

In both years, the Group is operating in a single business, which is the production and licensing of CG animation pictures and their ancillary rights. Accordingly, no business segment analysis is presented.

Geographical segments

The Group's operations are mainly located in North America and Hong Kong. These locations are the basis on which the Group reports its primary segment information and is identified according to the location of the Group's assets.

Segment information, with inter-segment sales charged at prevailing market rates, for the two years ended 31 March 2009 is presented below:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2009

	North America HK\$'000	Hong Kong HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE					
External sales	2,422	803	388	–	3,613
Inter-segment sales	<u>199,109</u>	<u>166,419</u>	<u>1,797</u>	<u>(367,325)</u>	<u>–</u>
Total	<u>201,531</u>	<u>167,222</u>	<u>2,185</u>	<u>(367,325)</u>	<u>3,613</u>
RESULTS					
Segment results	<u>(29,168)</u>	<u>(109,484)</u>	<u>(822)</u>		(139,474)
Other income					1,260
Unallocated corporate expenses					(11,690)
Loss on re-measurement of liability component of convertible loan notes					(34,490)
Finance costs					<u>(99)</u>
Loss before taxation					(184,493)
Income tax credit					<u>7,066</u>
Loss for the year					<u>(177,427)</u>

CONSOLIDATED ASSETS AND LIABILITIES

At 31 March 2009

ASSETS					
Segment assets	34,858	799,973	388		835,219
Unallocated corporate assets					<u>6,328</u>
Consolidated total assets					<u>841,547</u>
LIABILITIES					
Segment liabilities	15,108	31,223	79		46,410
Unallocated corporate liabilities					<u>228,334</u>
Consolidated total liabilities					<u>274,744</u>

OTHER INFORMATION*For the year ended 31 March 2009*

	North America HK\$'000	Hong Kong HK\$'000	Others HK\$'000	Consolidated HK\$'000
Capital additions	3,902	374,570	–	378,472
Depreciation and amortisation	6,434	22,788	173	29,395
Impairment loss recognised in respect of CG animation pictures	4,599	82,491	–	87,090
Loss on disposal of property, plant and equipment	44	65	–	109
	<u>44</u>	<u>65</u>	<u>–</u>	<u>109</u>

As the location of its customers is different from the location of its assets, below is an analysis of revenue from sales to external customers by location of customers:

	North America HK\$'000	Hong Kong HK\$'000	Others HK\$'000	Consolidated HK\$'000
REVENUE				
External sales	3,204	–	409	3,613
	<u>3,204</u>	<u>–</u>	<u>409</u>	<u>3,613</u>

CONSOLIDATED INCOME STATEMENT*For the year ended 31 March 2008*

	North America HK\$'000	Hong Kong HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE					
External sales	15,025	395	1,769	–	17,189
Inter-segment sales	176,011	187,564	1,356	(364,931)	–
Total	<u>191,036</u>	<u>187,959</u>	<u>3,125</u>	<u>(364,931)</u>	<u>17,189</u>
RESULTS					
Segment results	<u>(9,656)</u>	<u>(29,857)</u>	<u>(4,067)</u>		(43,580)
Other income					10,048
Unallocated corporate expenses					(21,264)
Finance costs					<u>(2,168)</u>
Loss before taxation					(56,964)
Income tax expense					<u>(865)</u>
Loss for the year					<u>(57,829)</u>

CONSOLIDATED ASSETS AND LIABILITIES

At 31 March 2008

	North America HK\$'000	Hong Kong HK\$'000	Others HK\$'000	Consolidated HK\$'000
ASSETS				
Segment assets	40,612	532,205	2,318	575,135
Unallocated corporate assets				<u>179,397</u>
Consolidated total assets				<u><u>754,532</u></u>
LIABILITIES				
Segment liabilities	6,616	16,030	382	23,028
Unallocated corporate liabilities				<u>93,661</u>
Consolidated total liabilities				<u><u>116,689</u></u>

OTHER INFORMATION

For the year ended 31 March 2008

	North America HK\$'000	Hong Kong HK\$'000	Others HK\$'000	Consolidated HK\$'000
Capital additions	22,617	369,714	–	392,331
Depreciation and amortisation	24,284	19,134	3,810	47,228
Loss on disposal of property, plant and equipment	<u>–</u>	<u>669</u>	<u>–</u>	<u>669</u>

As the location of its customers is the same as the location of its assets, there was no separate disclosure of revenue from sales to external customers by location of customers.

10. OTHER INCOME

	2009 HK\$'000	2008 HK\$'000
Interest income	800	6,822
VAT refund relating to a previously disposed business	–	3,186
Others	<u>460</u>	<u>40</u>
	<u><u>1,260</u></u>	<u><u>10,048</u></u>

11. FINANCE COSTS

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Interest wholly repayable within five years on:		
– obligations under finance leases	149	176
– bridge loans	2,049	–
Effective interest expense on convertible loan notes (<i>Note 26</i>)	<u>14,415</u>	<u>5,270</u>
	16,613	5,446
<i>Less:</i> amounts capitalised in CG animation pictures	<u>(16,514)</u>	<u>(3,278)</u>
	<u>99</u>	<u>2,168</u>

The interest expense on the bridge loans and the effective interest expense on the convertible loan note issued on 30 January 2008 were fully capitalised as they are specific borrowings used for the production of CG animation pictures.

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.80% (2008: 9.74%) per annum to expenditure on qualifying assets.

12. LOSS BEFORE TAXATION

	2009 HK\$'000	2008 HK\$'000
Loss before taxation has been arrived at after charging:		
Directors' emoluments (<i>Note 14</i>)	9,292	27,810
Contribution to retirement benefit scheme	3,411	2,899
Other staff costs	249,338	180,613
Equity-settled share-based payments expenses other than directors	<u>26,788</u>	<u>62,541</u>
Total staff costs	288,829	273,863
Less: amounts capitalised in CG animation pictures	<u>(264,849)</u>	<u>(241,009)</u>
	<u>23,980</u>	<u>32,854</u>
Depreciation of property, plant and equipment	25,756	22,016
Less: amounts capitalised in CG animation pictures	<u>(24,350)</u>	<u>(20,196)</u>
	<u>1,406</u>	<u>1,820</u>
Rentals in respect of premises under operating leases	22,609	13,489
Less: amounts capitalised in CG animation pictures	<u>(20,716)</u>	<u>(12,483)</u>
	<u>1,893</u>	<u>1,006</u>
Auditor's remuneration	1,600	1,300
Amortisation of CG animation pictures (included in cost of sales)	3,639	25,212
Loss on disposal of a club debenture	411	–
Loss on disposal of property, plant and equipment	109	669
Cost of inventories recognised as expenses	128	535
Fair value change in derivative financial instrument (included in administrative expenses)	–	504
Net foreign exchange losses	<u>82</u>	<u>556</u>

13. INCOME TAX (CREDIT) EXPENSE

	2009 HK\$'000	2008 HK\$'000
The charge comprises:		
Underprovision of Hong Kong Profits Tax in prior years	–	24
Other jurisdictions		
– current tax	103	13
– (over)underprovision in the prior year	(113)	333
	(10)	346
Deferred tax (<i>Note 27</i>)		
– current year	(12,013)	495
– reversal of deferred tax asset previously recognised (<i>note</i>)	4,957	–
	(7,056)	495
Total	(7,066)	865

Note: The reversal of deferred tax asset is due to decrease of tax losses available for offset of deferred tax liabilities subsequent to finalisation of tax losses by Inland Revenue Department in current year.

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profit tax rate from 17.5% to 16.5% effective from the year of assessment of 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2008: 17.5%) on the estimated assessable profits for the current year.

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

The tax (credit) charge for the year can be reconciled to the loss before taxation per the consolidated income statement as follows:

	2009 HK\$'000	2008 HK\$'000
Loss before taxation	(184,493)	(56,964)
Tax at the Hong Kong Profits Tax rate of 16.5% (2008: 17.5%)	(30,441)	(9,969)
Tax effect of expenses not deductible for tax purpose	310	2,173
Tax effect of income not taxable for tax purpose	(72)	(1,734)
Tax effect of tax losses not recognised	20,142	10,117
Utilisation of tax losses previously not recognised	(160)	–
Reversal of deferred tax asset previously recognised	4,957	357
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1,802)	(79)
Tax (credit) charge for the year	(7,066)	865

Details of deferred tax at the balance sheet date and during the year are set out in Note 27.

14. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 12 (2008: 9) directors were as follows:

For the year ended 31 March 2009

	Mr. Kao Cheung Chong, Michael HK\$'000 (note (a))	Mr. Kao Wai Ho, Francis HK\$'000 (note (e))	Mr. Douglas Esse Glen HK\$'000 (note (c))	Mr. Tse Chi Man, Terry HK\$'000 (note (f))	Mr. Paul Steven Serfaty HK\$'000 (note (f))	Mr. Lam Pak Kin, Philip HK\$'000 (note (b))	Mr. Phoon Chiong Kit HK\$'000 (note (f))	Mr. William Montgo- merie Courtald HK\$'000 (note (f))	Mr. Ng See Yuen HK\$'000 (note (d))	Mr. Lai Chi Kin, Lawrence HK\$'000 (note (g))	Mr. Richard Arthur Witts HK\$'000 (note (g))	Total 2009 HK\$'000
Fees	-	-	-	-	-	20	-	-	356	356	70	802
Other emoluments:												
Salaries and other benefits	-	2,701	3,785	819	-	-	-	-	-	-	-	7,305
Equity-settled share-based payment expense	-	-	5,614	(4,549)	-	-	-	-	48	48	-	1,161
Contributions to retirement benefit scheme	-	10	12	2	-	-	-	-	-	-	-	24
Total emoluments	-	2,711	9,411	(3,728)	-	20	-	-	404	404	70	9,292

notes:

- (a) Mr. Kao Cheung Chong, Michael retired as executive director of the Company on 9 April 2008.
- (b) Mr. Lam Pak Kin, Philip resigned as non-executive director of the Company on 1 May 2008.
- (c) Mr. Tse Chi Man, Terry resigned as executive director of the Company on 2 June 2008.
- (d) Mr. Lai Chi Kin, Lawrence resigned as independent non-executive director of the Company on 14 July 2008.
- (e) Mr. Kao Wai Ho, Francis resigned as executive director of the Company on 11 February 2009.
- (f) Mr. Paul Steven Serfaty, Mr. Phoon Chiong Kit and Mr. William Montgomerie Courtald were appointed as non-executive directors of the Company on 16 February 2009.
- (g) Mr. Richard Arthur Witts was appointed as independent non-executive director of the Company on 16 February 2009.

For the year ended 31 March 2008

	Mr. Kao Cheung Chong, Michael HK\$'000	Mr. Kao Wai Ho, Francis HK\$'000	Mr. Douglas Esse Glen HK\$'000	Mr. Tse Chi Man, Terry HK\$'000	Mr. Thomas Knox Gray HK\$'000	Mr. Lam Pak Kin, Philip HK\$'000	Mr. Oh Kok Chi HK\$'000	Mr. Ng See Yuen HK\$'000	Mr. Lai Chi Kin, Lawrence HK\$'000	Total 2009 HK\$'000
					(note (a))					
Fees	240	-	-	-	-	240	240	240	240	1,200
Other emoluments:										
Salaries and other benefits	-	3,540	3,515	2,954	5,014	-	40	40	40	15,143
Equity-settled share-based payment expense	-	-	5,156	6,283	-	-	-	-	-	11,439
Contributions to retirement benefit scheme	-	12	4	12	-	-	-	-	-	28
Total emoluments	<u>240</u>	<u>3,552</u>	<u>8,675</u>	<u>9,249</u>	<u>5,014</u>	<u>240</u>	<u>280</u>	<u>280</u>	<u>280</u>	<u>27,810</u>

note:

- (a) Mr. Thomas Knox Gray resigned as executive director of the Company on 14 November 2007.

No directors waived any emoluments for the two years ended 31 March 2009.

15. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2008: three) were directors of the Company whose emoluments are included in the disclosures in note 14. The emoluments of the three employee (2008: two) and one resigned director (2008: none) whose salary and relevant employment benefits subsequent to his resignation as a director are as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Salaries and other benefits	10,188	7,693
Equity-settled share-based payments expenses	2,605	2,497
Contributions to retirement benefit scheme	759	–
	<u>13,552</u>	<u>10,190</u>

The emoluments of the above individuals in their role as an employee were within the following bands:

	2009 <i>Number of employee</i>	2008 <i>Number of employee</i>
HK\$nil to HK\$1,000,000	1	–
HK\$1,000,001 to HK\$2,000,000	–	–
HK\$2,000,001 to HK\$3,000,000	–	–
HK\$3,000,001 to HK\$4,000,000	1	1
HK\$4,000,001 to HK\$7,000,000	2	1
	<u>4</u>	<u>2</u>

16. DIVIDENDS

The directors do not recommend the payment of a dividend for any of the two years ended 31 March 2008 and 2009.

17. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to equity holders of the Company for the year of approximately HK\$177,427,000 (2008: HK\$57,829,000) and on the weighted average number of 1,685,510,000 (2008: 1,545,771,845) shares in issue during the year.

No diluted loss per share for any of the two years ended 31 March 2009 are presented as the exercise of share options and the conversion of convertible loan notes would result in a decrease in loss per share.

18. 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 2007	17,792	87,572	4,356	109,720
Exchange realignment	4	70	–	74
Additions	4,925	35,852	4,660	45,437
Disposals	(12)	(3,474)	(659)	(4,145)
	<u>22,709</u>	<u>120,020</u>	<u>8,357</u>	<u>151,086</u>
At 31 March 2008	22,709	120,020	8,357	151,086
Exchange realignment	1	10	–	11
Additions	1,100	11,753	–	12,853
Disposals	–	(4,280)	(2,830)	(7,110)
	<u>23,810</u>	<u>127,503</u>	<u>5,527</u>	<u>156,840</u>
At 31 March 2009	23,810	127,503	5,527	156,840
DEPRECIATION				
At 1 April 2007	6,180	37,981	1,138	45,299
Exchange realignment	1	32	–	33
Provided for the year	3,583	17,184	1,249	22,016
Eliminated on disposals	(1)	(2,388)	(237)	(2,626)
	<u>9,763</u>	<u>52,809</u>	<u>2,150</u>	<u>64,722</u>
At 31 March 2008	9,763	52,809	2,150	64,722
Exchange realignment	1	9	–	10
Provided for the year	4,021	20,672	1,063	25,756
Eliminated on disposals	–	(4,034)	(1,006)	(5,040)
	<u>13,785</u>	<u>69,456</u>	<u>2,207</u>	<u>85,448</u>
At 31 March 2009	13,785	69,456	2,207	85,448
CARRYING VALUE				
At 31 March 2009	<u>10,025</u>	<u>58,047</u>	<u>3,320</u>	<u>71,392</u>
At 31 March 2008	<u>12,946</u>	<u>67,211</u>	<u>6,207</u>	<u>86,364</u>

The above items of property, plant and equipment are depreciated, after taking into account their estimated residual values, on a straight-line basis over their estimated useful lives as follows:

Leasehold improvements	Over a period of 5 years or the term of relevant lease, whichever is shorter
Furniture, fixtures and equipment	Over a period of 5 years
Motor vehicles	Over a period of 5 years

At 31 March 2009, the carrying value of property, plant and equipment of the Group included an amount of approximately HK\$3,245,000 (2008: HK\$4,063,000) in respect of motor vehicles held under a finance leases.

19. CG ANIMATION PICTURES

	Completed CG animation pictures HK\$'000	CG animation pictures in progress HK\$'000	Total HK\$'000
COST			
At 1 April 2007	396,134	159,192	555,326
Additions	<u>2,920</u>	<u>343,974</u>	<u>346,894</u>
At 31 March 2008	399,054	503,166	902,220
Additions	<u>260</u>	<u>365,359</u>	<u>365,619</u>
At 31 March 2009	<u>399,314</u>	<u>868,525</u>	<u>1,267,839</u>
AMORTISATION AND IMPAIRMENT			
At 1 April 2007	370,463	42,788	413,251
Provided for the year	<u>25,212</u>	<u>-</u>	<u>25,212</u>
At 31 March 2008	395,675	42,788	438,463
Provided for the year	3,639	-	3,639
Impairment loss recognised	<u>-</u>	<u>87,090</u>	<u>87,090</u>
At 31 March 2009	<u>399,314</u>	<u>129,878</u>	<u>529,192</u>
CARRYING VALUE			
At 31 March 2009	<u>-</u>	<u>738,647</u>	<u>738,647</u>
At 31 March 2008	<u>3,379</u>	<u>460,378</u>	<u>463,757</u>

Completed CG animation pictures and CG animation pictures in progress are internally generated.

Completed CG animation pictures 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 CG animation pictures.

CG animation pictures in progress are stated at production costs incurred to date, including borrowing costs capitalised, less accumulated impairment losses, if any.

In both years, the directors conducted a review of the Group's CG animation pictures in light of the current market condition with reference to the existing operating plan and budget. During the year ended 31 March 2009, the directors determined to focus on the production of certain categories of CG animation pictures and accordingly assessed the costs and benefits in further investing in the Group's existing CG animation pictures not falling into those categories, resulting in an impairment loss of approximately HK\$87 million (2008: Nil) identified and recognised in the consolidated income statement for the current year.

20. GOODWILL

HK\$'000

COST

At 1 April 2007, 31 March 2008 and 2009

3,228

For the purpose of impairment testing, goodwill has been allocated to a CGU operating under a principal subsidiary of the Group, Imagi Production Limited, which is engaged in the production and licensing of CG animation pictures.

During the year ended 31 March 2009, management of the Group determined that the CGU containing goodwill had not suffered any impairment.

The basis of the recoverable amount of the above CGU and the major underlying assumptions are summarised below:

The recoverable amount of the CGU has been determined based on a value in use calculation. For impairment purpose, that calculation uses cash flow projections based on financial budgets approved by management covering a three-year period and discount rate of 26% (2008: 26%). Management estimates discount rate using risk-free rate, equity risk premium and the risks specific to the CGUs. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of the CGU.

21. CLUB DEBENTURES

	2009 HK\$'000	2008 HK\$'000
Club debentures	<u>2,510</u>	<u>3,201</u>

The directors are of the opinion that there were no impairment on the club debentures since the second hand market price are higher than their carrying values.

22. LONG TERM RENTAL DEPOSITS, TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2009 HK\$'000	2008 HK\$'000
Long term rental deposits	11,017	9,644
Trade receivables	201	2,051
Other receivables, deposits and prepayments	<u>10,734</u>	<u>10,091</u>
	<u>21,952</u>	<u>21,786</u>
Shown as		
– non-current	11,017	9,644
– current	<u>10,935</u>	<u>12,142</u>
	<u>21,952</u>	<u>21,786</u>

Long term rental deposits represented the rental deposits for the office premises and were stated at amortised cost as at balance sheet date.

The Group allows its trade customers a credit period in accordance with the terms specified in the contracts, normally ranging from 0 to 90 days.

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

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
0 to 60 days	–	415
Over 60 days	201	1,636
	<u>201</u>	<u>1,636</u>
	<u><u>201</u></u>	<u><u>2,051</u></u>

Before accepting any new customer, the Group will assess the potential customer's credit quality and defines its credit limits. Credit sales are made to customers with a satisfactory trustworthy credit history. Credit limits attributed to customers are reviewed regularly. At the balance sheet date, there is no trade receivables (2008: 81%) that are neither past due nor impaired without default payment history.

Included in the Group's trade receivable balance is a debtor with carrying amount of approximately HK\$201,000 (2008: HK\$390,000) which was past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over this balance. The age of this receivable is about one year (2008: one year).

Trade and other receivables included HK\$201,000 (2008: HK\$1,661,000) that are denominated in USD, other than the functional currency of the respective group entities, at the balance sheet date.

23. BANK BALANCES AND CASH

Bank balances

Bank balances carried interest at market rates which range from 0.001% to 2% per annum (2008: 0.01% to 5.80% per annum). Bank balances included approximately HK\$181,000 (2008: HK\$16,459,000) that are denominated in USD, which is not the functional currency of the group entities.

24. OBLIGATIONS UNDER FINANCE LEASE

The Group lease certain of its motor vehicles under finance lease. The average lease term is four years (2008: three years) and the average effective interest rate is 7.8% (2008: 6.5%). Interest rates underlying all obligations under finance lease were fixed at the contract date ranging from 4% to 9% for both years. All lease is on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Amounts payable under finance lease:				
Within one year	799	819	693	670
In the second to fifth year inclusive	1,433	2,231	1,341	2,034
	2,232	3,050	2,034	2,704
Less: future finance charges	(198)	(346)	-	-
Present value of lease obligations	<u>2,034</u>	<u>2,704</u>	2,034	2,704
Less: Amount due within one year and shown under current liabilities			(693)	(670)
Amount due after one year			<u>1,341</u>	<u>2,034</u>

The Group's obligations under finance lease is secured by the lessor's charge over the leased assets.

25. BRIDGE LOANS

During the year, the Company was granted US\$ loan facilities by the Bridge Loan Lenders for an aggregate sum of US\$26.5 million (equivalent to approximately HK\$206.7 million), of which US\$12 million (equivalent to approximately HK\$93.6 million) was drawn and outstanding at 31 March 2009.

Lenders	At 31 March 2009		Fixed interest rate	Maturity date
	Maximum loan facilities HK\$'000	Loan balances HK\$'000		
Evertop Capital Limited ("Evertop")	117,000 (US\$15,000)	67,080 (US\$8,600)	2% per month	31 July 2009
Asia CGI Investments Limited	50,700 (US\$6,500)	19,695 (US\$2,525)	2% per month	30 June 2009
Mehta-Imagi LLC	39,000 (US\$5,000)	6,825 (US\$875)	9% per annum	31 March 2009
	<u>206,700</u>	<u>93,600</u>		

The bridge loan facilities are secured by the Group's CG animation picture, *Astro Boy*, and all its related intellectual property rights.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's secured bridge loans are from 9% to 24% per annum.

The bridge loans were to be repayable on maturity date. However, on 15 May 2009, an agreement was entered into between the Company and the Bridge Loan Lenders whereby each of the Bridge Loan Lenders has agreed, subject to, inter-alia, completion of the Rights Issue, to convert, contemporaneously with the redemption of CN Jan 2008, all its respective outstanding bridge loan principal and accrued interest into shares in the Company at a conversion price of HK\$0.175 per share. The conversion is not yet completed at the report date.

26. CONVERTIBLE LOAN NOTES

The Company issued convertible loan notes with principal amounts of HK\$50,000,000, HK\$20,000,000 and HK\$132,000,000 on 30 November 2005 ("CN Nov 2005"), 5 January 2006 ("CN Jan 2006") and 30 January 2008 ("CN Jan 2008") respectively.

All convertible loan notes are denominated in Hong Kong dollars. CN Nov 2005 and CN Jan 2006 carried coupon interest rates of 3% per annum and were to be paid semi-annually up until the settlement dates. CN Jan 2008 is a zero coupon note.

The major terms of these convertible loan notes are as follows:

	Principal amount of convertible loan notes <i>HK\$'000</i>	Maturity date	Effective interest rate	Conversion price
CN Nov 2005	50,000	29 November 2008	9.58%	HK\$0.34 per ordinary share
CN Jan 2006	20,000	4 January 2009	9.28%	HK\$0.34 per ordinary share
CN Jan 2008	132,000	29 January 2011	16.63%	HK\$1.768 per ordinary share

CN Nov 2005 and CN Jan 2006 entitled the holders thereof to convert, in whole or in part, the principal amount into ordinary shares of the Company at any time prior to one month before the maturity dates. CN Jan 2008 is convertible by the holder thereof during the period from the 90th day after its issue to the 15th day prior to its maturity date.

Unless previously converted or early redeemed (as described below), CN Jan 2008 will be redeemed at its principal sum of HK\$132,000,000 upon maturity.

CN Jan 2008 entitles the holder thereof to require the Company to redeem, in whole or in part, the outstanding principal during the period commencing from the 30th month from the date of issue and ending on the date which is not later than 60 days prior to the maturity date at their principal amount plus a premium equal to the accrued interest thereon at a rate of 10% per annum, compounded on an annual basis. However, upon occurrence of certain events including (i) a delisting of the Company's shares on the Stock Exchange, (ii) a change in control in the Company (as defined in the CN Jan 2008 agreement) or (iii) a pledge of the Group's assets on other liabilities, the holders of CN Jan 2008 can early exercise their redemption right by issuing early redemption notices.

The early redemption feature of CN Jan 2008 is included in the liability portion as it is closely related to the host liability contract. The comparative figures as at 31 March 2008 have been reclassified accordingly as the Group previously classified the early redemption feature of CN Jan 2008 separately as a derivative financial instrument. The financial impact on the Group's results during the year ended 31 March 2008 due to such reclassification is insignificant. As such, no prior year adjustment is provided.

During the year ended 31 March 2008, the then outstanding principal of CN Nov 2005 and CN Jan 2006 were converted into a total of 147,058,824 and 29,411,764 ordinary shares of HK\$0.10 each in the Company respectively at the conversion price of HK\$0.34 as set out in Note 28(b).

No part of CN Jan 2008 has been converted or redeemed since its issuance.

During the year, the Group pledged assets of the Group in favour of the Bridge Loan Lenders and hence breached certain covenants contained in CN Jan 2008 and as a result of which the holder of CN Jan 2008 was entitled to exercise its early redemption right. The carrying amount of CN Jan 2008 was re-measured at its redemption amount, resulting a loss on re-measurement of approximately HK\$34,490,000 (2008: Nil). Accordingly, the convertible loan notes are classified as current in the consolidated balance sheet as at 31 March 2009.

In May 2009, the Company has secured an agreement with the holder of CN Jan 2008 not to demand repayment of the convertible note prior to 31 August 2009 as a result of such breach.

Subsequent to the breach, the Group's CG animation picture, *Astro Boy*, and all its related intellectual property rights were pledged to secure the CN Jan 2008.

The movement of the liability components of the convertible notes for the year is set out below:

	CN Nov 2005 HK\$'000	CN Jan 2006 HK\$'000	CN Jan 2008 HK\$'000	Total HK\$'000
At 1 April 2007	45,258	9,041	–	54,299
Issued during the year	–	–	80,417	80,417
Conversion during the year	(46,300)	(9,171)	–	(55,471)
Interest charge (Note 11)	2,163	429	2,678	5,270
Interest paid	(1,121)	(299)	–	(1,420)
	<u>–</u>	<u>–</u>	<u>83,095</u>	<u>83,095</u>
At 31 March 2008	–	–	83,095	83,095
Interest charge (Note 11)	–	–	14,415	14,415
Loss on re-measurement of liability component	–	–	34,490	34,490
	<u>–</u>	<u>–</u>	<u>34,490</u>	<u>34,490</u>
At 31 March 2009	<u>–</u>	<u>–</u>	<u>132,000</u>	<u>132,000</u>

On 15 May 2009, the Company and the holder of CN Jan 2008 entered into another agreement whereby, subject to, inter-alia, completion of the Rights Issue and the contemporaneous completion of the Bridge Loan Conversion, CN Jan 2008 will be redeemed by the issue of a new convertible note with the same principal amount (the "New CN"). If issued, the New CN will be a zero coupon note for a period of 2 years from the date of its issue and will be convertible into shares of the Company at HK\$0.30 per share. The holder of the New CN has no right to redeem the outstanding principal prior to maturity date except for the occurrence of an event of default.

27. DEFERRED TAX

The followings are the major deferred tax (liabilities) assets recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation <i>HK\$'000</i>	Recognised tax losses <i>HK\$'000</i>	Convertible loan notes <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2007	(8,312)	7,949	–	(363)
(Charge) credit to consolidated income statement	(1,248)	753	–	(495)
Charge to equity	–	–	(9,115)	(9,115)
At 31 March 2008	(9,560)	8,702	(9,115)	(9,973)
Effect of change in tax rate	497	(497)	521	521
Credit (charge) to consolidated income statement	1,371	(2,909)	8,594	7,056
At 31 March 2009	<u>(7,692)</u>	<u>5,296</u>	<u>–</u>	<u>(2,396)</u>

At the balance sheet date, the Group had unused tax losses of approximately HK\$288,078,000 (2008: HK\$184,608,000) available to offset against future assessable profits. A deferred tax asset has been recognised in respect of approximately HK\$32,097,000 (2008: HK\$49,727,000) of such losses. No deferred tax has been recognised in respect of the remaining tax losses of HK\$255,981,000 (2008: HK\$134,881,000) due to the unpredictability of future profit streams. Unused tax losses can be carried forward indefinitely.

Withholding income tax is imposed on dividends to foreign investors for certain overseas subsidiaries. Deferred tax has not been provided for in the consolidated financial statements in respect of the temporary differences as either the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future or these overseas subsidiaries suffer from tax losses.

28. SHARE CAPITAL OF THE COMPANY

	Number of shares	Values <i>HK\$'000</i>
Authorised:		
Ordinary shares of HK\$0.10 each at 31 March 2008 and 2009	2,500,000,000	250,000
Issued and fully paid:		
At 1 April 2008	1,441,133,265	144,113
Exercise of share options after share subdivision (<i>note a</i>)	20,350,000	2,035
Conversion of convertible loan notes (<i>note b</i>)	176,470,588	17,647
At 31 March 2008	1,637,953,853	163,795
Exercise of share options (<i>note c</i>)	200,000	20
Placement of shares (<i>note d</i>)	90,600,000	9,060
At 31 March 2009	<u>1,728,753,853</u>	<u>172,875</u>

The movements in the ordinary share capital for the year ended 31 March 2008 were as follows,

- (a) The Company issued 5,000,000, 4,350,000 and 11,000,000 ordinary shares of HK\$0.10 each in the Company for cash at HK\$0.195, HK\$0.196 and HK\$0.535 per share respectively, as a result of the exercise of share options.
- (b) Convertible notes of principal amount of HK\$50,000,000 and HK\$10,000,000 were converted into 147,058,824 and 29,411,764 ordinary shares of HK\$0.10 each in the Company respectively at the conversion price of HK\$0.34.

The movements in the ordinary share capital for the year ended 31 March 2009 were as follows:

- (c) The Company issued 200,000 ordinary shares of HK\$0.10 each in the Company for cash at HK\$0.196 per share, as a result of the exercise of share options.
- (d) Pursuant to the subscription agreement entered on 2 September 2008, the Company agreed to issue, and the subscriber, Smart Will Investment Limited (“Smart Will”), a wholly owned subsidiary of Shui On Holdings Limited, agreed to subscribe for 90,600,000 new ordinary shares at a subscription price of HK\$0.86 per share (the “Share Subscription”). The subscription price represents a premium of approximately 40.98% to the closing market price of the Company’s share on 2 September 2008, being the last trading day immediately preceding the date of the placing agreement. Smart Will held 3.01% of the Company before the Share Subscription. The subscription shares represent approximately 5.53% and 5.24% of the issued share capital of the Company before and after the Share Subscription.

Sunni International Limited (“Sunni”), a controlling shareholder of the Company interested in approximately 35.75% of the issued share capital of the Company before the completion of the Share Subscription, executed two deed polls, pursuant to which upon completion of the Share Subscription, Sunni would transfer 70,000,000 share (“the Gift Shares”) by way of gift at nil consideration to Smart Will. The Gift Shares represent approximately 4.27% of the issued share capital of the Company before the Share Subscription and approximately 4.05% of the issued share capital as enlarged by the Share Subscription.

After taking into account of the Share Subscription and the transfer of Gift Shares as a whole, Smart Will’s subscription price is diluted to HK\$0.485 per share (the “Diluted Subscription Price”), representing a discount of approximately 20.47% to the closing market price of the Company’s share on 2 September 2008, being the last trading day immediately preceding the date of the placing agreement. The difference arising from the par value and the Diluted Subscription Price of the shares of approximately HK\$46,622,000 is credited to share premium and approximately HK\$22,650,000 is credited to other reserve as deemed contribution from Sunni.

The Share Subscription and the transfer of Gift Shares were completed on 22 September 2008. The net proceeds from the Shares Subscription of approximately HK\$77,916,000 were used for the development of Group’s CG animation pictures.

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

29. SHARE-BASED PAYMENT TRANSACTIONS**(a) General terms and conditions of the share option scheme**

On 16 August 2002, the Company adopted a share option scheme (the "2002 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 will be ending on 15 August 2012. Under the 2002 Scheme, 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.

Pursuant to the 2002 Scheme, the maximum number of shares in the Company in respect of which options may be granted 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. 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 any other share option schemes of the Company at any time shall not exceed 30% of the shares in issue from time to time.

At 31 March 2009, the number of shares in respect of which options had been granted and remained outstanding under the 2002 Scheme was 91,625,000 (2008: 83,891,000), representing 5.30% (2008: 5.12%) of the total number of shares of the Company in issue at that date.

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.

(b) Movements of share options

The following table discloses details of the Company's share options held by directors, employees and consultant and movements in such holding during the current and prior years:

For the year ended 31 March 2009

	Number of share options			Total
	Directors	Employees	Consultant	
Outstanding at 1 April 2008	17,000,000	66,891,000	–	83,891,000
Granted during the year (note i)	4,000,000	11,690,000	5,000,000	20,690,000
Granted with modification during the year (note i and ii)	7,000,000	–	–	7,000,000
Cancelled with modification during the year (note ii)	(7,000,000)	–	–	(7,000,000)
Exercised during the year (note iii)	–	(200,000)	–	(200,000)
Cancelled during the vesting period (note iv)	(3,500,000)	(4,992,000)	–	(8,492,000)
Forfeited during the year (note v)	(1,500,000)	(2,764,000)	–	(4,264,000)
Outstanding at 31 March 2009	<u>16,000,000</u>	<u>70,625,000</u>	<u>5,000,000</u>	<u>91,625,000</u>

	Weighted average exercise price		
	Directors	Employees	Consultant
Outstanding at 1 April 2008	2.455	1.880	–
Granted during the year	1.849	0.674	0.412
Granted with modification during the year	0.402	–	–
Cancelled with modification during the year	2.570	–	–
Exercised during the year	–	0.196	–
Cancelled during the vesting period	2.178	2.178	–
Forfeited during the year	2.178	2.305	–
Outstanding at 31 March 2009	<u>1.441</u>	<u>1.648</u>	<u>0.412</u>

notes:

- (i) On 7 April 2008, 22 July 2008, 22 December 2008, 29 December 2008 and 12 January 2009, 4,690,000, 1,000,000, 10,000,000, 7,000,000 and 5,000,000 share options were granted respectively. The closing prices of the Company's shares immediately before the respective date of grant were HK\$1.49, HK\$0.58, HK\$0.39, HK\$0.39 and HK\$0.38 respectively.
- (ii) During the year, 7,000,000 share options previously granted on 9 October 2006 with an exercise price of HK\$2.570 per share were cancelled and the same number of share options were granted to the option holders with revised terms as follows:

Date of grant	Number of share options	Option exercise price	Exercisable period	Vesting period
29/12/2008	5,000,000	0.402	29/12/2008 to 28/12/2013	Nil
	2,000,000	0.402	29/12/2009 to 28/12/2014	29/12/2008 to 28/12/2009
Total:	<u>7,000,000</u>			

The replacements were accounted as a modification of the original grant. The incremental fair value arising from the modification of terms is approximately HK\$802,000.

- (iii) The weighted average closing market price of the Company's shares immediately before the dates on which the share options were exercised was HK\$0.753.
- (iv) 8,492,000 share options were cancelled due to resignation of a director and the employees during the vesting period which have been reflected in the estimate of the number of options to be vested in the calculation of share-based payment expenses.
- (v) 4,264,000 share options were forfeited due to resignation of a director and employees after the vesting period.
- (vi) Total consideration received for the grant of options during the year was approximately HK\$100 (2008: HK\$3,080).

- (vii) Directors, employees and consultant are entitled to a gradual increase in the number of share options being vested upon increase in the years of services to the Group. Details of date of grant, vesting period, exercisable period and exercise price of the share options outstanding at 31 March 2009 for directors, employees and consultant are as follows:

Date of grant	Vesting period	Exercisable period	Exercise price	Outstanding at 31 March 2009
Directors				
9 October 2006	Nil to 5 years	5 years	2.570	5,000,000
7 April 2008	2.74 to 4.74 years	5 years	2.178	3,000,000
22 July 2008	1 to 4 years	5 years	0.860	1,000,000
29 December 2008	Nil to 1 year	5 years	0.402	<u>7,000,000</u>
				<u>16,000,000</u>
Employees				
24 May 2005	Nil	5 years	0.196	3,500,000
7 June 2005	Nil	5 years	0.195	5,000,000
13 February 2006	Nil	3 to 5 years	0.535	2,300,000
8 November 2006	Nil	5 years	3.070	860,000
15 May 2007	0.67 to 3 years	5 years	2.178	39,525,000
25 September 2007	0.33 to 3 years	5 years	2.178	6,750,000
17 January 2008	1 to 3 years	5 years	2.178	1,000,000
7 April 2008	1 to 3 years	5 years	2.178	1,690,000
22 December 2008	Nil	5 years	0.420	<u>10,000,000</u>
				<u>70,625,000</u>
Consultant				
12 January 2009	0.05 to 1.97 years	5 years	0.412	<u>5,000,000</u>
			Total:	<u><u>91,625,000</u></u>

For the year ended 31 March 2008

	Number of share options			Total
	Directors	Employees	Supplier of services	
Outstanding at 1 April 2007	31,000,000	72,126,000	5,000,000	108,126,000
Granted during the year (note i)	–	13,035,000	–	13,035,000
Granted with modification during the year (note i and ii)	5,000,000	47,200,000	–	52,200,000
Cancelled with modification during the year (note ii)	(5,000,000)	(47,200,000)	–	(52,200,000)
Exercised during the year (note iii)	(14,000,000)	(6,350,000)	–	(20,350,000)
Cancelled during the vesting period (note iv)	–	(10,920,000)	–	(10,920,000)
Forfeited during the year (note v)	–	(1,000,000)	(5,000,000)	(6,000,000)
	<u>17,000,000</u>	<u>66,891,000</u>	<u>–</u>	<u>83,891,000</u>
Outstanding at 31 March 2008	<u>17,000,000</u>	<u>66,891,000</u>	<u>–</u>	<u>83,891,000</u>

	Weighted average exercise price		
	Directors	Employees	Supplier of services
Outstanding at 1 April 2007	1.883	3.334	1.762
Granted during the year	–	2.178	–
Granted with modification during the year	2.178	2.178	–
Cancelled with modification during the year	4.350	4.350	–
Exercised during the year	0.414	0.303	–
Cancelled during the vesting period	–	3.236	–
Forfeited during the year	–	3.270	1.762
Outstanding at 31 March 2008	<u>2.455</u>	<u>1.880</u>	<u>–</u>

notes:

- (i) On 15 May 2007, 18 May 2007, 25 September 2007 and 17 January 2008, 51,925,000, 260,000, 12,050,000 and 1,000,000 share options were granted respectively. The closing prices of the Company's shares immediately before the respective dates of the grant were HK\$2.17, HK\$2.09, HK\$1.52 and HK\$1.80 respectively.

- (ii) During the year ended 31 March 2008, 52,200,000 share options previously granted on 19 January 2007 with an exercise price of HK\$4.350 per share were cancelled and the same number of share options were granted to the option holders with revised terms as follows:

Date of grant	Number of share options	Option exercise price	Exercisable period	Vesting period
15/05/2007	13,962,000	2.178	15/01/2008 to 14/01/2013	15/05/2007 to 14/01/2008
	13,962,000	2.178	15/01/2009 to 14/01/2014	15/05/2007 to 14/01/2009
	18,616,000	2.178	15/01/2010 to 14/01/2015	15/05/2007 to 14/01/2010
	<u>46,540,000</u>			
18/05/2007	78,000	2.146	18/01/2008 to 17/01/2013	18/05/2007 to 17/01/2008
	78,000	2.146	18/01/2009 to 17/01/2014	18/05/2007 to 17/01/2009
	104,000	2.146	18/01/2010 to 17/01/2015	18/05/2007 to 17/01/2010
	<u>260,000</u>			
25/09/2007	1,620,000	2.178	25/01/2008 to 24/01/2013	25/09/2007 to 24/01/2008
	1,620,000	2.178	25/01/2009 to 24/01/2014	25/09/2007 to 24/01/2009
	2,160,000	2.178	25/01/2010 to 24/01/2015	25/09/2007 to 24/01/2010
	<u>5,400,000</u>			
Total:	<u><u>52,200,000</u></u>			

The replacements were accounted as a modification of the original grant. The total incremental fair value arising from the modification of terms is approximately HK\$6,347,000.

- (iii) The closing prices of the Company's share immediately before the various exercise dates during the year ended 31 March 2008 ranged from HK\$1.49 and HK\$3.85 and the weighted average closing market price per share immediately before the dates on which the share options were exercised was HK\$2.88.
- (iv) 10,920,000 share options were cancelled due to resignation of employees during the vesting period.
- (v) 1,000,000 share options previously granted to employees and 5,000,000 share options previously to a supplier of services, an individual providing similar services as employees, were forfeited due to resignation of employees and termination of services after the vesting period respectively.

- (vi) Total consideration received for the grant of options during the year ended 31 March 2008 was approximately HK\$3,080 (2007: HK\$3,270).
- (vii) Directors and employees are entitled to a gradual increase in the number of share options being vested upon increase in the years of services to the Group. Details of date of grant, vesting period, exercisable period and exercise price of the share options outstanding at 31 March 2008 for Directors and employees are as follows:

Date of grant	Vesting period	Exercisable period	Exercise price	Outstanding at 31 March 2008
9 October 2006	Nil to 5 years	5 years	2.570	12,000,000
25 September 2007	0.33 to 2.33 years	5 years	2.178	<u>5,000,000</u>
				<u>17,000,000</u>
Employees				
24 May 2005	Nil	5 years	0.196	3,700,000
7 June 2005	Nil	5 years	0.195	5,000,000
13 February 2006	Nil	3 to 5 years	0.535	2,300,000
8 November 2006	Nil	5 years	3.070	1,256,000
15 May 2007	0.67 to 3 years	5 years	2.178	46,485,000
18 May 2007	0.67 to 2.67 years	5 years	2.146	100,000
25 September 2007	0.33 to 3 years	5 years	2.178	7,050,000
17 January 2008	1 to 3 years	5 years	2.178	<u>1,000,000</u>
				<u>66,891,000</u>
			Total:	<u>83,891,000</u>

(c) Recognition of share-based payments expenses

The total fair value of the share options granted during the year, at the respective dates of grant, is approximately HK\$7,923,000 (2008: HK\$9,618,000), calculated using the Binomial option pricing model with the following inputs:

Date of grant	Share price on date of grant HK\$	Fair value per option HK\$	Vesting period	Exercisable period	Expected volatility %	Expected dividend yield %	Risk free rate %	Expected life
For the year ended 31 March 2009								
7 April 2008	1.460	0.468 to 0.770	1 to 4.74 years	5 years	79.87 to 115.67	0	2.24 to 2.58	6 to 9.75 years
22 July 2008	0.570	0.249 to 0.279	1 to 4 years	5 years	80.39 to 94.08	0	3.40 to 3.60	6 to 9 years
22 December 2008	0.420	0.204	Nil	5 years	71.04	0	1.21	5 years
29 December 2008 (note 1)	0.400	0.194	Nil to 1 year	5 years	66.51 to 70.98	0	1.19 to 1.21	5 to 6 years
12 January 2009	0.385	0.181 to 0.226	0.05 to 1.97 years	5 years	66.88 to 95.20	0	1.14 to 1.25	5.05 to 6.97 years
For the year ended 31 March 2008								
15 May 2007 (note 2)	2.150	1.252 to 1.443	0.67 to 3 years	5 years	61.04	0	4.04 to 4.10	5.67 years to 8 years
18 May 2007 (note 2)	2.100	1.215 to 1.379	0.67 to 2.67 years	5 years	60.75	0	4.04 to 4.10	5.67 years to 7.67 years
25 September 2007 (note 2)	1.630	0.866 to 1.060	0.33 to 3 years	5 years	65.19	0	4.04 to 4.10	5.34 years to 8 years
17 January 2008	1.700	0.550 to 0.570	1 to 3 years	5 years	64.23 to 64.53	0	2.40 to 2.58	4.14 years to 6.60 years

Notes:

- the incremental fair value due to modification of terms is detailed in Note 29 (b)(ii) for 2009.
- the incremental fair value due to modification of terms is detailed in Note 29 (b)(ii) for 2008.

Expected volatility was determined using the historical volatility of the Company's share price over five years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

The fair value of the share options granted during the year, together with the unamortised fair value of the share options granted in previous years, were amortised to various financial periods with reference to the vesting periods attached to the respective share options on a straight-line basis. On such basis, share-based payment expenses attributable to the year ended 31 March 2009 amounted to approximately HK\$27,949,000 (2008: HK\$73,980,000) and were analysed between:

	2009 HK\$'000	2008 HK\$'000
Directors' emoluments	1,161	11,439
Other staff cost	26,479	62,541
Consultant	309	–
	<u>27,949</u>	<u>73,980</u>

The above staff costs were partly capitalised as CG animation picture work in progress and partly accounted for as operating expenses as follows:

	2009 HK\$'000	2008 HK\$'000
Capitalised in CG animation pictures	25,343	57,335
Charged to consolidated income statement	2,606	16,645
	<u>27,949</u>	<u>73,980</u>

30. PLEDGE OF ASSETS

At 31 March 2009, a CG animation picture of the Group, *Astro Boy*, and all its related intellectual property rights, with an aggregate carrying value of approximately HK\$340,946,000 were pledged as collateral for the bridge loans as per Note 25 and CN Jan 2008 as per note 26.

31. CAPITAL COMMITMENTS

	2009 HK\$'000	2008 HK\$'000
Capital expenditure in respect of CG animation pictures authorised but not contracted for in the consolidated financial statements	<u>35,690</u>	<u>301,771</u>
Capital expenditure in respect of CG animation pictures and property, plant and equipment contracted for but not provided in the consolidated financial statements	<u>5,645</u>	<u>8,500</u>

32. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Within one year	20,513	13,099
In the second to fifth years inclusive	40,438	36,507
Over five years	8,703	17,928
	<u>69,654</u>	<u>67,534</u>

Operating lease payments represent rentals payable by the Group for office premises and staff quarters. Leases were negotiated for an average term of three years (2008: three years) and rentals were fixed for an average term of two years (2008: two years).

33. RETIREMENT BENEFITS SCHEME

The Group participates in a MPF Scheme established under the Mandatory Provident Fund Scheme Ordinance for all its employees in Hong Kong. The scheme is a defined contribution scheme effective from December 2000 and is funded by contributions from employer and employees according to the rules of the MPF Scheme. The assets of the scheme are held separately from those of the Group, in funds under the control of an independent trustee. During the year, the total amount contributed by the Group to the scheme was approximately HK\$3,411,000 (2008: HK\$2,899,000), of which HK\$3,032,000 (2008: HK\$2,572,000) was capitalised in CG animation pictures and HK\$379,000 (2008: HK\$327,000) charged to consolidated income statement and no contributions were forfeited. The Group contributes at the lower of HK\$1,000 or 5% of the relevant payroll costs to the MPF Scheme.

34. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 March 2009, the Company recognised share-based payment expenses of approximately HK\$27,949,000 of which approximately HK\$25,343,000 was capitalised in CG animation pictures and approximately HK\$2,606,000 was charged to the consolidated income statement.

During the year ended 31 March 2008, the major non-cash transactions were as follows:

- (a) The Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of approximately HK\$2,858,000.
- (b) The Company recognised share-based payment expenses of approximately HK\$73,980,000 of which approximately HK\$57,335,000 was capitalised in CG animation pictures and approximately HK\$16,645,000 was charged to the consolidated income statement.
- (c) Two convertible notes of principal amounts of HK\$50,000,000 and HK\$10,000,000 were converted into 147,058,824 and 29,411,764 ordinary shares of the Company respectively of HK\$0.10 each at the conversion price of HK\$0.34.

35. RELATED PARTY DISCLOSURES

In February 2009, the Company obtained a bridge loan facility to the extent of HK\$117 million from Evertop, a company related to Winnington Capital Limited, a substantial shareholder of the Company. Detailed terms of the facility and the amount utilised by the Group at 31 March 2009 are set out in Note 25.

On 30 January 2008, the Company issued CN Jan 2008 to Goodyear Group Limited and Trophy LV Master Fund.

Compensation of key management personnel

The remunerations of key management personnel during the year were as follows:

	2009 HK\$'000	2008 HK\$'000
Short-term benefits	36,201	30,718
Post-employment benefits	1,881	82
Equity-settled share-based payments expenses	5,729	14,313
	<u>43,811</u>	<u>45,113</u>

36. POST BALANCE SHEET EVENTS

Significant post balance sheet events are set out in Note 2.

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company				Principal activities
			Directly		Indirectly		
			2009 %	2008 %	2009 %	2008 %	
Diamond Century International Limited	British Virgin Islands/ Hong Kong	US\$4	-	-	100	100	Investment holding
Great Trend International Limited	British Virgin Islands/ Hong Kong	US\$4	100	100	-	-	Investment holding
Highland Fling, Inc.	United States of America	US\$5,000	-	-	100	100	Production management of CG animation pictures
iDream Production Limited	Hong Kong	HK\$2	-	-	100	100	Provision of CG and special effects production services in respect of pictures

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company				Principal activities
			Directly		Indirectly		
			2009 %	2008 %	2009 %	2008 %	
Imagi Animation Studios Limited	Hong Kong	HK\$2	-	-	100	100	Investment holding and holding and licensing of intellectual property rights in respect of CG animation pictures
Imagi Character Licensing B.V.	Netherlands	EUR18,100	-	-	100	100	Sub-licensing of intellectual property rights in respect of CG animation pictures
Imagi Character Limited	Labuan	US\$100	-	-	100	100	Holding and licensing of intellectual property rights in respect of CG animation pictures
Imagi Crystal Limited	Hong Kong	HK\$1	-	-	100	100	Holding and licensing of intellectual property rights in respect of CG animation pictures
Imagi Diamond Limited	Hong Kong	HK\$1	-	-	100	100	Holding and licensing of intellectual property rights in respect of CG animation pictures
Imagi Emerald limited	Hong Kong	HK\$1	-	-	100	100	Holding and licensing of intellectual property rights in respect of CG animation pictures
Imagi Global Distribution Inc.	United States of America	US\$100	-	-	100	100	Distribution and licensing of intellectual property rights in respect of CG animation pictures
Imagi Platinum Limited	Hong Kong	HK\$1	-	-	100	100	Inactive

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company				Principal activities
			Directly		Indirectly		
			2009 %	2008 %	2009 %	2008 %	
Imagi Production Limited	Hong Kong	HK\$28,572	-	-	100	100	Production of CG animation pictures and holding and licensing of intellectual property rights in respect of CG animation pictures
Imagi (Zentrix) Licensing B.V.	Netherlands	EUR18,000	-	-	100	100	Sub-licensing of intellectual property rights in respect of CG animation pictures
Imagi International Japan Company Limited	Japan	JPY30,000,000	-	-	100	100	Provision of marketing services on project licensing and acting as a full-service project management house in respect of CG animation pictures
Imagi Intellectual Properties Limited	Labuan	US\$1,000	-	-	100	100	Holding and licensing of intellectual property rights in respect of CG animation pictures
Imagi Services Limited	Hong Kong	HK\$2	-	-	100	100	Provision of administrative services
Imagi Services (USA) Limited	United States of America	US\$100	-	-	100	100	Marketing of CG animation pictures
Imagi Studios (USA) Inc.	United States of America	US\$5,000	-	-	100	100	Production management of CG animation pictures
Kings Quest, Inc.	United States of America	US\$5,000	-	-	100	100	Production management of CG animation pictures
Magic Marble Investments Limited	British Virgin Islands/ Hong Kong	US\$4	100	100	-	-	Investment holding

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company				Principal activities
			Directly		Indirectly		
			2009	2008	2009	2008	
			%	%	%	%	
Neo-Mad House Intellectual Properties Licensing B.V.	Netherlands	EUR18,000	-	-	100	100	Sub-licensing of intellectual property rights in respect of CG animation pictures
Neo-Mad House (X.S.I.) Limited	Labuan	US\$1	-	-	100	100	Holding and licensing of intellectual property rights in respect of CG animation pictures
Rover's Trek, Inc.	United States of America	US\$5,000	-	-	100	100	Production management of CG animation pictures
Top Bond Technology Limited	Hong Kong	HK\$2	-	-	100	100	Development of intellectual property rights in respect of CG games
Topway Asset Limited	British Virgin Islands/ Hong Kong	US\$4	100	100	-	-	Investment holding
Turbo Money Investments Limited	British Virgin Islands/ Hong Kong	US\$4	-	-	100	100	Financing of CG animation pictures
Victory Gem International Limited	British Virgin Islands/ Hong Kong	US\$4	100	100	-	-	Investment holding

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

3. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

Set out below are the unaudited consolidated financial statements of the Group for the six months ended 30 September 2009 which are published in the Company's interim report 2009:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME For the six months ended 30th September 2009

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th September 2009

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September 2009

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

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

notes:

- (i) The merger reserve represents the difference between the nominal value of shares of subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition at the time of a previous corporate reorganisation.
- (ii) Other reserve represents the difference between the subscription price of a share subscription by a new shareholder and the diluted subscription price after taking into account of the transfer of gift shares from an existing shareholder to the new shareholder.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th September 2009

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th September 2009

1. BASIS OF PREPARATION OF FINANCIAL INFORMATION

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

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

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

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

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

Prepaid expenditures on advertising and promotional activities

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

Derecognition of financial liabilities

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

2. PRINCIPAL ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

3. SEGMENT INFORMATION

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

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

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

Six months period ended 30th September 2009

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

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

Six months period ended 30th September 2008

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

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

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

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

4. SHARE OPTIONS

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

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

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

notes:

- (i) 2,000,000, 200,000 and 2,800,000 share options were exercised by the employees on 2nd July 2009, 9th July 2009 and 12th August 2009 at exercise price of HK\$0.420, HK\$0.196 and HK\$0.196 respectively before rights issue. The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HK\$0.454.
- (ii) During the current reporting period, 80,000 share options were cancelled as a result of the resignation of employees prior to the vesting of relevant share options. The impact of the cancellation is either to adjust the CG animation pictures where the share options were previously capitalised or to recognise in the profit and loss, with a corresponding adjustment to the share options reserve.
- (iii) 120,000 share options were forfeited due to the resignation of employees after the vesting period.
- (iv) As a result of the rights issue as set out in note 16(iv), the number of the outstanding share options was adjusted accordingly based on the adjustment factor of rights issue and the exercise prices of the share options were also adjusted as follows:

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

- (v) 550,000 share options were exercised by an employee on 16th September 2009 at exercise price of HK\$0.178 after rights issue. The closing price of the Company's shares immediately before the date on which the options were exercised was HK\$0.450.
- (vi) On 21st August 2009, 23,000,000 and 167,738,000 share options were granted to directors and employees respectively. The closing prices of the Company's shares immediately before 21st August 2009 was HK\$0.285.

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

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

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

Recognition of share-based payment expenses

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

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

5. LOSS BEFORE TAX

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

6. INCOME TAX CREDIT

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

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

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

7. DIVIDEND

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

8. LOSS PER SHARE

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

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

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

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

9. PROPERTY, PLANT AND EQUIPMENT

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

10. CG ANIMATION PICTURES

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

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

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

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

11. GOODWILL

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

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

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

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

notes:

- (i) The Group allows its trade customers a credit period in accordance with the terms specified in the contracts, normally ranging from 0 days to 90 days. The trade receivable at the end of the reporting period were aged over 60 days.
- (ii) The amount represents prepayment to Summit Entertainment, LLC (“Summit”), the film distributor who performs promotion activities in connection with the launch of the Group’s *Astro Boy*.

13. PRINTS AND ADVERTISING LOAN

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

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

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

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

14. BRIDGE LOANS

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

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

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

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

15. CONVERTIBLE LOAN NOTE

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

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

CN Jan 2008 entitled the holder to require the Company to redeem, in whole or in part, the outstanding principal during the period commencing from the 30th month from the date of issue and ending on the date which is not later than 60 days prior to the maturity date at their principal amount plus a premium equal to the accrued interest thereon at a rate of 10% per annum, compounded on an annual basis. However, upon occurrence of certain events including (i) a delisting of the Company's shares on the Stock Exchange, (ii) a change in control in the Company (as defined in the CN Jan 2008 agreement) or (iii) a pledge of the Group's assets on other liabilities, the holders of CN Jan 2008 could early exercise their redemption right by issuing early redemption notices. The early redemption feature of CN Jan 2008 was included in the liability portion as it is closely related to the host liability contract.

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

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

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

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

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

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

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

19th August 2009

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

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

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

16. SHARE CAPITAL

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

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

- (i) Pursuant to a special general meeting held on 30th July 2009, the increase in authorised share capital of HK\$7,500,000,000 was approved.
- (ii) The Company issued 2,000,000, 200,000, 2,800,000 and 550,000 ordinary shares of HK\$0.10 each in the Company for cash at HK\$0.420, HK\$0.196, HK\$0.196 and HK\$0.178 per share, respectively, as a result of the exercise of share options.

- (iii) Pursuant to the placing agreement entered into on 15th June 2009, a placing agent agreed to subscribe or procure subscription for 130,000,000 shares and on a best efforts basis an additional 100,000,000 shares at the price of HK\$0.441 per placing share. The placing was completed on 29th July 2009 and an aggregate of 230,000,000 ordinary share of the Company were issued.
- (iv) On 19th August 2009, a rights issue on the basis of one rights share for every four shares in issue then held by the shareholders on the register of members on 28th July 2009 was effected at an subscription price of HK\$0.25 per rights share. A total of 432,738,463 rights shares were issued resulting in gross proceeds of approximately HK\$108 million to the Company.

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

17. MAJOR NON-CASH TRANSACTIONS

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

- (a) The Company recognised share-based payment expenses of approximately HK\$12,699,000 of which approximately HK\$7,084,000 was capitalised in CG animation pictures and approximately HK\$5,615,000 was charged to the condensed consolidated statement of comprehensive income.
- (b) The bridge loans as mentioned in Note 14 were converted into 1,204,476,068 ordinary shares of the Company of HK\$0.10 each at a conversion price of HK\$0.175 per share.
- (c) CN Jan 2008 was redeemed by the issue of CN Aug 2009 with the same principal amount of HK\$132 million as detailed in Note 15.

18. RELATED PARTY TRANSACTIONS

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

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

In addition, the P&A Facility as stated in Note 13 is secured by a cash collateral provided by Fortunate City Investment Limited ("FCI") to the bank.

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

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

19. CAPITAL COMMITMENTS

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

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

20. EVENTS AFTER THE END OF REPORTING PERIOD

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

- (i) On 19th October 2009, the Company was granted a US\$2.5 million loan facility by Trophy Fund. The loan facility was fully drawn down by the Company on 20th October 2009.
- (ii) Shareholders in the Company's special general meeting held on 17th November 2009 granted approval to:
 - cancel 43,580,000 unexercised share options and re-grant the same number of new options to the affected grantees;
 - issue 1,000,000 shares to Mr. William Courtauld, a Non-executive Director of the Company, for each month during his term of service; and
 - pay Mr. Phoon Chiong Kit, an Executive Director, Deputy Chairman and Chief Executive Officer of the Company, a non-cash bonus comprising an one-time grant of 2,000,000 shares.
- (iii) The US\$10 million P&A Facility as stated in Note 13 was drawn down by the Company on 30th November 2009.

4. FINANCIAL AND TRADING PROSPECTS

As mentioned in the Company's Interim Report and Recent Announcements, the Company's financial and liquidity position has been adversely affected by the disappointing box office performance of its last feature film *Astro Boy*. Since then, the Company has been actively implementing cost cutting and business rationalisation measures to preserve cash and Shareholder value in the Company. These actions have led to a major restructuring of the Group's financial and operational structures. The Group's cost base has been significantly reduced following the withdrawal of financial support to the US subsidiaries and the Hong Kong based production subsidiary. Consequently, the Group has reduced its staff numbers from over 450 employees in September 2009 to under 30 employees currently and the cost base has been reduced significantly.

The Group has also decided to focus its resources on the higher added value services of the creation of animation content, marketing and exploitation of the Group's intellectual property rights. Instead of producing the films entirely in-house, the digital production of animation films will now be outsourced to third parties. These measures should result in a more stream-lined business structure with a manageable cost base that is suited to the business direction going forward. The Group will focus in the short term to continue the development of the Group's two animation films.

The Group is currently in the course of preparing the various pre-production processes of its two animation film projects, which are in different stages of completion. The progress of these processes will depend on the availability of working capital which is currently being funded partly by the Investor Loan to a limited extent, and will more critically depend on the timely completion of the Transactions.

The Group is also implementing a major restructuring of the balance sheet. These measures include, among others, a debt for equity swap in favour of the Core Creditors and an injection of new funds by the Investor. The successful implementation of the Transactions will enable the Group to restore its long-term financial viability and to take advantage of market opportunities as they arise.

5. INDEBTEDNESS OF THE GROUP

As at 31 January 2010, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding borrowings of approximately HK\$230.7 million, comprising the following:

	<i>HK\$'M</i>
unsecured borrowings (<i>notes 1 & 4</i>)	20.6
secured borrowings (<i>notes 2 & 4</i>)	78.0
convertible notes payable (<i>notes 3 & 4</i>)	132.0
obligation under finance leases	0.1
	<hr/>
Total	230.7
	<hr/> <hr/>

Notes:

1. Included is an amount of HK\$19.5 million due to Trophy Fund.
2. Secured by CG animation picture, Astro Boy.
3. Being the principal amount of the Company's convertible notes with a liability component carrying amount of approximately HK\$90,232,000.
4. These debts, including the unsecured borrowings, secured borrowings and convertible notes payable, (except for HK\$1.1 million in the unsecured borrowings amount), are owed to the "Core Creditors".

The above indebtedness does not include a debt of approximately HK\$65 million as at 31 January 2010 due by Imagi Global Distribution Inc., an entity which was previously a US subsidiary of the Company up to 25 January 2010 upon which date, the Group has withdrawn its financial support to, and ceased to have control over, this entity. Accordingly, this entity is no longer regarded as a subsidiary of the Group thereafter.

On 10 February 2010, the Company and the Core Creditors entered into the Intercreditors' Agreement to re-structure the debts due to the Core Creditors. Further details of which are set out on pages 17 to 18 of this circular.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables in the normal course of business, as at the close of business on 31 January 2010, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

6. WORKING CAPITAL STATEMENT

Provided that (a) the Transactions are completed as scheduled; and (b) there will not be any material changes in the Group's operating, financial or investment strategies following a change in control in the Company as contemplated in this circular, the Directors, after due and careful consideration, are of the opinion that, taking into account (i) the internal financial resources; (ii) the present available loan facility; and (iii) the cash flows in connection with the operating activities, the Group will have sufficient working capital for at least twelve months from the date of this circular.

7. MATERIAL CHANGE

As at the Latest Practicable Date, save as

- (i) the interim results of the Group as disclosed in the Interim Report;
- (ii) the disclaimer of conclusion expressed by the auditors in respect of its review of interim financial information for the six months ended 30 September 2009;
- (iii) all the announcements of the Company published since 28 July 2009 (being the date of the publication of the annual report for the year ended 31 March 2009), in particular:
 - the announcement on 25 August 2009 in respect of the completion of the rights issue with net proceeds of approximately HK\$100.4 million; the issue of the new convertible note with principal amount of HK\$132 million; and the issue of 1,204,476,068 new shares at an issue price of HK\$0.175 per share to Mehta-Imagi LLC, Asia CGI Investment Limited and Evertop Capital Limited;
 - the announcement on 26 January 2010 in respect of the cessation of financial support for the US subsidiaries, termination of the employment contracts and the closing down of the United States office in Los Angeles;
 - the announcement on 2 February 2010 which set out the Company had adopted the position that instead of solely relying on the Group's in-house facilities in producing the animation films, the Company intended to use different production methods such as outsourcing the production to other animation houses, or utilising existing third party animation capacity available in the PRC; and
 - the announcement on 11 February 2010 in respect of the application made by Imagi Production Limited to the High Court of the Hong Kong Special Administrative Region for the appointment of provisional liquidators.
- (iv) the management is also in the process of reviewing the realisable value of the Group's computer graphics animation pictures which were carried at approximately \$497 million at 30 September 2009. This review, when completed, may result in an impairment loss to be recognised and this loss could be material.

the Board is not aware of any material change in the financial or trading position or outlook of the Group since 31 March 2009, being the date to which the latest audited consolidated financial statements of the Group were made up, up to the Latest Practicable Date.

APPENDIX II	UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP
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1. UNAUDITED PRO FORMA STATEMENT OF CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The unaudited pro forma statement of consolidated net tangible assets (the “Unaudited Pro Forma Financial Information”) of the Group prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the Rights Issue on the consolidated net tangible assets of the Group as if the Rights Issue had been completed on 30 September 2009.

The Unaudited Pro Forma Financial Information of the Group has been prepared for illustration purposes only, and because of its nature, it may not give a true picture of the financial position of the Group following the Rights Issue.

The Unaudited Pro Forma Financial Information of the Group is prepared based on the consolidated net assets of the Group at 30 September 2009, as extracted from the published interim report of the Group as set out in Appendix I to the Circular and the adjustments described below.

Unaudited consolidated net assets of the Group attributable to owners of the Company as at 30 September 2009 <i>HK\$'000</i> <i>(note i)</i>	Adjustment for intangible assets <i>HK\$'000</i> <i>(note ii)</i>	Adjusted unaudited consolidated net tangible liabilities of the Group attributable to owners of the Company as at 30 September 2009 <i>HK\$'000</i>	Estimated net proceeds from Rights Issue <i>HK\$'000</i> <i>(note iii)</i>	Adjusted unaudited pro forma consolidated net tangible assets of the Group attributable to owners of the Company after Rights Issue <i>HK\$'000</i>	Estimated proceeds from Share Subscription <i>HK\$'000</i> <i>(note iv)</i>	Increase in net assets as a result of debt re-structuring <i>HK\$'000</i> <i>(note v)</i>	Adjusted unaudited pro forma consolidated net tangible assets of the Group attributable to owners of the Company after Rights Issue, Share Subscription and debt re-structuring <i>HK\$'000</i>
458,194	497,130	(38,936)	95,950	57,014	131,600	130,211	318,825

Adjusted unaudited consolidated net tangible liabilities of the Group attributable to owners of the Company per Adjusted Share as at 30 September 2009 <i>(note vi)</i>	<u><u>(HK\$0.108)</u></u>
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Adjusted unaudited pro forma consolidated net tangible assets of the Group attributable to owners of the Company after Rights Issue per Adjusted Share <i>(note vii)</i>	<u><u>HK\$0.032</u></u>
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Adjusted unaudited pro forma consolidated net tangible assets of the Group attributable to owners of the Company after Rights Issue, Share Subscription and debt re-structuring per Adjusted Share <i>(note viii)</i>	<u><u>HK\$0.071</u></u>
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Notes:

- i. The unaudited consolidated net assets of the Group attributable to owners of the Company as at 30 September 2009 is extracted from the published unaudited consolidated financial statements of the Group for the period ended 30 September 2009 as set out in Appendix I to this Circular.
- ii. The intangible assets represent the Group's computer graphic animation pictures of approximately HK\$497,130,000 which is extracted from the published unaudited consolidated financial statements of the Group for the period ended 30 September 2009 as set out in Appendix I to this Circular.
- iii. The estimated net proceeds from the Rights Issue are based on 1,440,607,352 Rights Shares issued (based on 3,601,518,384 shares, which shall undergo a share consolidation whereby every 10 issued shares having a par value of HK\$0.10 each will be consolidated into one share (the "Adjusted Share") and on the basis of four Rights Shares for every Adjusted Share in issue on the Record Date at a subscription price of HK\$0.07 per Rights Share, after deduction of the expenses attributable to the Rights Issue of approximately HK\$4,893,000.
- iv. The estimated net proceeds from share subscription are based on 1,880,000,000 Subscription Shares (as defined in the Circular) to be issued at a subscription price of HK\$0.07 per Adjusted Share. The Rights Issue is conditional on the approval by the shareholders of the Company of, among other things, the Share Subscription.
- v. Pursuant to the Intercreditors' Agreement, further details of which are set out on pages 17 and 18 of this circular, the amounts due to the Core Creditors (which included amounts advanced to the Group subsequent to 30 September 2009) will be settled through a combination of cash payment of approximately HK\$69,750,000, the issue of 790,000,000 shares and the grant of an option to subscribe for further shares in the Company. Accordingly, the Group's net assets will be increased by approximately HK\$130,211,000 which represents the difference between the carrying amount of the liability portion of these debts and the cash payment.

The Rights Issue is conditional on the approval by the shareholders of the Company of, among other things, the debt re-structuring.
- vi. The number of shares used for the calculation of adjusted unaudited consolidated net tangible liabilities per Adjusted Share attributable to owners of the Company at 30 September 2009 and prior to Rights Issue, Share Subscription and debt re-structuring is based on 360,151,838 Adjusted Shares.
- vii. The number of shares used for the calculation of adjusted unaudited pro forma consolidated net tangible assets of the Group attributable to owners of the Company per Adjusted Share subsequent to Rights Issue but before Share Subscription and debt re-structuring is based on 1,800,759,190 shares calculated as follows:
 - i. 360,151,838 Adjusted Shares in issue as at 30 September 2009 (*note iii*); and
 - ii. 1,440,607,352 Rights Shares (*note iii*).
- viii. The number of shares used for the calculation of adjusted unaudited pro forma consolidated net tangible assets of the Group attributable to owners of the Company per Adjusted Share subsequent to Rights Issue, Share Subscription and debt re-structuring is based on 4,470,759,190 shares calculated as follows:
 - i. 360,151,838 Adjusted Shares in issue as at 30 September 2009 (*note iii*);
 - ii. 1,440,607,352 Rights Shares (*note iii*);
 - iii. 1,880,000,000 Subscription Shares (*note iv*); and
 - iv. 790,000,000 shares arising from debt re-structuring (*note v*).

**2. REPORT ON UNAUDITED PRO FORMA STATEMENT OF CONSOLIDATED
NET TANGIBLE ASSETS OF THE GROUP****ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA STATEMENT OF
CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP****Deloitte.**
德勤**To the Directors of Imagi International Holdings Limited**

We report on the unaudited pro forma statement of consolidated net tangible assets ("Unaudited Pro Forma Financial Information") of Imagi International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages II-1 and II-2 of Appendix II to the circular dated 24 March 2010 (the "Circular"), in connection with the rights issue of not less than 1,440,607,352 rights shares on the basis of four rights shares for every one Adjusted Share (as defined in the Circular) having a par value of HK\$0.001 each in issue at a subscription price of HK\$0.07 per rights share (the "Rights Issue") held on the Record Date (as defined in the Circular), which has been prepared by the directors of the Company for illustration purpose only, to provide information about how the Rights Issue might have affected the financial information presented, for inclusion in Appendix II of the Circular. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in the accompanying introduction and notes to the Unaudited Pro Forma Financial Information included in Appendix II to the Circular.

**Respective responsibilities of directors of the Company and reporting
accountants**

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustration purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 30 September 2009 or at any future date.

Opinion

In our opinion:

- a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 24 March 2010

Set out below is a summary of certain provisions of the memorandum of association (the “Memorandum of Association”) and bye-laws (the “Bye-laws”) of the Company and of certain aspects of Bermuda company law.

1. MEMORANDUM OF ASSOCIATION

The Memorandum of Association states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the Company is an exempted company as defined in the Companies Act. The Memorandum of Association also sets out the objects for which the Company was formed including acting as a holding and investment company. As an exempted company, the Company will be carrying on business outside Bermuda from a place of business within Bermuda.

In accordance with and subject to section 42A of the Companies Act, the Memorandum of Association empowers the Company to purchase its own shares and pursuant to its Bye-laws, this power is exercisable by the board of Directors (the “board”) upon such terms and subject to such conditions as it thinks fit.

2. BYE-LAWS

The Bye-laws were adopted on 12 February, 1997 and amended on 6 August, 2004 and 19 August, 2005. The following is a summary of certain provisions of the Bye-laws:

(a) Directors

(i) *Power to allot and issue shares and warrants*

Subject to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Act, any preference shares may be issued or converted into shares that are liable to be redeemed, at a determinable date or at the option of the Company or, if so authorised by the Memorandum of Association, at the option of the holder, on such terms and in such manner as the Company before the issue or conversion may by ordinary resolution determine. The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Act, the Bye-laws, any direction that may be given by the Company in general meeting and, where applicable, the rules of any Designated Stock Exchange (as defined in the Bye-laws) and without prejudice to any special rights or restrictions for the

time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Bye-laws relating to the disposal of the assets of the Company or any of its subsidiaries.

Note: The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Bye-laws or the Companies Act to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are no provisions in the Bye-laws relating to the making of loans to Directors. However, the Companies Act contains restrictions on companies making loans or providing security for loans to their directors, the relevant provisions of which are summarised in the paragraph headed "Bermuda Company Law" in this Appendix.

(v) Financial assistance to purchase shares of the Company

Neither the Company nor any of its subsidiaries shall directly or indirectly give financial assistance to a person who is acquiring or proposing to acquire shares in the Company for the purpose of that acquisition whether before or at the same time as the acquisition takes place or afterwards, provided that the Bye-laws shall not prohibit transactions permitted under the Companies Act.

(vi) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of auditor of the Company) in conjunction with his office of Director for such period and, subject to the Companies Act, upon such terms as the board may determine, and may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Bye-laws. A Director may be or become a director or other officer of, or a member of, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Bye-laws, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Act and to the Bye-laws, no Director or proposed or intending Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by

him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived);
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates; or
- (ff) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(vii) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such remuneration (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably incurred or expected to be incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other Bye-law. A Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependants or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependants, or to any of such persons, including pensions or benefits

additional to those, if any, to which such employees or ex-employees or their dependants are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(viii) Retirement, appointment and removal

Subject to the manner of retirement by rotation of Directors prescribed under the rules of the Designated Stock Exchange (as defined in the Bye-laws), at each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Note: There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or, subject to authorisation by the members in general meeting, as an addition to the existing board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the members in general meeting. Any Director appointed by the Board to fill a casual vacancy shall hold office until the next annual general meeting of Members after his appointment and be subject to re-election at such meeting. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) provided that the notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director fourteen (14) days before the meeting and, at such meeting, such Director shall be entitled to be heard on the motion for his removal. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors unless otherwise determined from time to time by members of the Company.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period (subject to their continuance as Directors) and upon such terms as the board may determine and the board may revoke or terminate any of such appointments (but without prejudice to any claim for damages that such Director may have against the Company or vice versa). The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ix) Borrowing powers

The board may from time to time at its discretion exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Act, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Bye-laws in general, can be varied with the sanction of a special resolution of the Company.

(b) Alterations to constitutional documents

The Bye-laws may be rescinded, altered or amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association, to confirm any such rescission, alteration or amendment to the Bye-laws or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Act:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association;
- (v) change the currency denomination of its share capital;
- (vi) make provision for the issue and allotment of shares which do not carry any voting rights; and
- (vii) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may, by special resolution, subject to any confirmation or consent required by law, reduce its authorised or issued share capital or, save for the use of share premium as expressly permitted by the Companies Act, any share premium account or other undistributable reserve.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Act, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Bye-laws relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons or (in the case of a member being a corporation) its duly authorised representative holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or (in the case of a member being a corporation) its duly authorised representative or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

(e) Special resolution-majority required

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days specifying the

intention to propose the resolution as a special resolution, has been duly given. Provided that except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days has been given.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Bye-laws, at any general meeting on a show of hands, every member who is present in person (or being a corporation, is present by its duly authorised representative) or by proxy shall have one vote and on a poll every member present in person or by proxy or, being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share.

Notwithstanding anything contained in the Bye-laws, where more than one proxy is appointed by a member which is a clearing house (as defined in the Bye-laws) (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless voting by way of a poll is required by the rules of the Designated Stock Exchange (as defined in the Bye-laws) or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company

provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares held by that clearing house (or its nominee(s)) in respect of the number and class of shares specified in the relevant authorisation including the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Bye-laws), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year other than the year in which its statutory meeting is convened at such time (within a period of not more than 15 months after the holding of the last preceding annual general meeting unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Bye-laws)) and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the provisions of the Companies Act or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or, subject to the Companies Act, at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right of inspecting any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

Subject to the Companies Act, a printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure,

together with a copy of the auditors' report, shall be sent to each person entitled thereto at least twenty-one (21) days before the date of the general meeting and at the same time as the notice of annual general meeting and laid before the Company at the annual general meeting in accordance with the requirements of the Companies Act provided that this provision shall not require a copy of those documents to be sent to any person whose address the Company is not aware or to more than one of the joint holders of any shares or debentures; however, to the extent permitted by and subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Bye-laws), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Subject to the Companies Act, at the annual general meeting or at a subsequent special general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the members appoint another auditor. Such auditor may be a member but no Director or officer or employee of the Company shall, during his continuance in office, be eligible to act as an auditor of the Company. The remuneration of the auditor shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than Bermuda. If the auditing standards of a country or jurisdiction other than Bermuda are used, the financial statements and the report of the auditor should disclose this fact and name such country and jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting and any special general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days. All other special general meetings shall be called by notice of at least fourteen (14) clear days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such.

(j) **Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in Bermuda or such other place in Bermuda at which the principal register is kept in accordance with the Companies Act.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Bye-laws) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the

transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in an appointed newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Bye-laws), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Bye-laws supplement the Company's Memorandum of Association (which gives the Company the power to purchase its own shares) by providing that the power is exercisable by the board upon such terms and conditions as it thinks fit.

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Bye-laws relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Act, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board. The Company in general meeting may also make a distribution to its members out of contributed surplus (as ascertained in accordance with the Companies Act). No dividend shall be paid or distribution made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to a member by the Company on or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

(o) Call on shares and forfeiture of shares

Subject to the Bye-laws and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit,

receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect.

Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

The register and branch register of members shall be open to inspection between 10:00 a.m. and 12:00 noon on every business day by members without charge at the registered office or such other place in Bermuda at which the register is kept in accordance with the Companies Act, unless the register is closed in accordance with the Companies Act.

(q) Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two members present in person or (in the case of a member being a corporation) by its duly authorised representative or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Bye-laws relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Bermuda law, as summarised in paragraph 4(e) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act, divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

The Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Bye-laws) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Bye-laws), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Bye-laws) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Other provisions

The Bye-laws provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

The Bye-laws also provide that the Company is required to maintain at its registered office a register of directors and officers in accordance with the provisions of the Companies Act and such register is open to inspection by members of the public without charge between 10:00 a.m. and 12:00 noon on every business day.

3. VARIATION OF MEMORANDUM OF ASSOCIATION AND BYE-LAWS

The Memorandum of Association may be altered by the Company in general meeting. The Bye-laws may be amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association or to confirm any amendment to the Bye-laws or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' notice specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of twenty-one (21) clear days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95 percent in nominal value of the shares giving that right.

4. BERMUDA COMPANY LAW

The Company is incorporated in Bermuda and, therefore, operates subject to Bermuda law. Set out below is a summary of certain provisions of Bermuda company law, although this does not purport to contain all applicable qualifications and exceptions or to

be a complete review of all matters of Bermuda company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Share capital

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account", to which the provisions of the Companies Act relating to a reduction of share capital of a company shall apply as if the share premium account were paid up share capital of the company except that the share premium account may be applied by the company:

- (i) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;
- (ii) in writing off:
 - (aa) the preliminary expenses of the company; or
 - (bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or
- (iii) in providing for the premiums payable on redemption of any shares or of any debentures of the company.

In the case of an exchange of shares the excess value of the shares acquired over the nominal value of the shares being issued may be credited to a contributed surplus account of the issuing company.

The Companies Act permits a company to issue preference shares and subject to the conditions stipulated therein to convert those preference shares into redeemable preference shares.

The Companies Act includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. Where provision is made by the memorandum of association or bye-laws for authorising the variation of rights attached to any class of shares in the company, the consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required, and where no provision for varying such rights is made in the memorandum of association or bye-laws and nothing therein precludes a variation of such rights, the written consent of the holders of three-fourths of the issued shares of that class or the sanction of a resolution passed as aforesaid is required.

(b) Financial assistance to purchase shares of a company or its holding company

A company is prohibited from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares unless there are reasonable grounds for believing that the company is, and would after the giving of such financial assistance be, able to pay its liabilities as they become due. In certain circumstances, the prohibition from giving financial assistance may be excluded such as where the assistance is only an incidental part of a larger purpose or the assistance is of an insignificant amount such as the payment of minor costs.

(c) Purchase of shares and warrants by a company and its subsidiaries

A company may, if authorised by its memorandum of association or bye-laws, purchase its own shares. Such purchases may only be effected out of the capital paid up on the purchased shares or out of the funds of the company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of funds of the company otherwise available for dividend or distribution or out of the company's share premium account. Any amount due to a shareholder on a purchase by a company of its own shares may (i) be paid in cash; (ii) be satisfied by the transfer of any part of the undertaking or property of the company having the same value; or (iii) be satisfied partly under (i) and partly under (ii). Any purchase by a company of its own shares may be authorised by its board of directors or otherwise by or in accordance with the provisions of its bye-laws. Such purchase may not be made if, on the date on which the purchase is to be effected, there are reasonable grounds for believing that the company is, or after the purchase would be, unable to pay its liabilities as they become due. The shares so purchased may either be cancelled or held as treasury shares. Any purchased shares that are cancelled will, in effect, revert to the status of authorised but unissued shares. If shares of the company are held as treasury shares, the company is prohibited to exercise any rights in respect of those shares, including any right to attend and vote at meetings, including a meeting under a scheme of arrangement, and any purported exercise of such a right is void. No dividend shall be paid to the company in respect of shares held by the company as treasury shares; and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) shall be made to the company in respect of shares held by the company as treasury shares. Any shares allotted by the company as fully paid bonus shares in respect of shares held by the company as treasury shares shall be treated for the purposes of the Companies Act as if they had been acquired by the company at the time they were allotted.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Bermuda law that a company's memorandum of association or its bye-laws contain a specific provision enabling such purchases.

Under Bermuda law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. The holding company is, however, prohibited from giving financial assistance for the purpose of the acquisition, subject to certain circumstances provided by the Companies Act. A company, whether a subsidiary or a holding company, may only purchase its own shares if it is authorised to do so in its memorandum of association or bye-laws pursuant to section 42A of the Companies Act.

(d) Dividends and distributions

A company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts. Contributed surplus is defined for purposes of section 54 of the Companies Act to include the proceeds arising from donated shares, credits resulting from the redemption or conversion of shares at less than the amount set up as nominal capital and donations of cash and other assets to the company.

(e) Protection of minorities

Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company or is illegal or would result in the violation of the company's memorandum of association and bye-laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than actually approved it.

Any member of a company who complains that the affairs of the company are being conducted or have been conducted in a manner oppressive or prejudicial to the interests of some part of the members, including himself, may petition the court which may, if it is of the opinion that to wind up the company would unfairly prejudice that part of the members but that otherwise the facts would justify the making of a winding up order on just and equitable grounds, make such order as it thinks fit, whether for regulating the conduct of the company's affairs in future or for the purchase of shares of any members of the company by other members of the

company or by the company itself and in the case of a purchase by the company itself, for the reduction accordingly of the company's capital, or otherwise. Bermuda law also provides that the company may be wound up by the Bermuda court, if the court is of the opinion that it is just and equitable to do so. Both these provisions are available to minority shareholders seeking relief from the oppressive conduct of the majority, and the court has wide discretion to make such orders as it thinks fit.

Except as mentioned above, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in Bermuda.

A statutory right of action is conferred on subscribers of shares in a company against persons, including directors and officers, responsible for the issue of a prospectus in respect of damage suffered by reason of an untrue statement therein, but this confers no right of action against the company itself. In addition, such company, as opposed to its shareholders, may take action against its officers including directors, for breach of their statutory and fiduciary duty to act honestly and in good faith with a view to the best interests of the company.

(f) Management

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Furthermore, the Companies Act requires that every officer should comply with the Companies Act, regulations passed pursuant to the Companies Act and the bye-laws of the company. The directors of a company may, subject to the bye-laws of the company, exercise all the powers of the company except those powers that are required by the Companies Act or the bye-laws to be exercised by the members of the company.

(g) Accounting and auditing requirements

The Companies Act requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Furthermore, it requires that a company keeps its records of account at the registered office of the company or at such other place as the directors think fit and that such records shall at all times be open to inspection by the directors or the resident representative of the company. If the records of account are kept at some place outside Bermuda, there shall be kept at the office of the company in Bermuda such records as will enable the directors or the resident representative of the

company to ascertain with reasonable accuracy the financial position of the company at the end of each three month period, except that where the company is listed on an appointed stock exchange, there shall be kept such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each six month period.

The Companies Act requires that the directors of the company must, at least once a year, lay before the company in general meeting financial statements for the relevant accounting period. Further, the company's auditor must audit the financial statements so as to enable him to report to the members. Based on the results of his audit, which must be made in accordance with generally accepted auditing standards, the auditor must then make a report to the members. The generally accepted auditing standards may be those of a country or jurisdiction other than Bermuda or such other generally accepted auditing standards as may be appointed by the Minister of Finance of Bermuda under the Companies Act; and where the generally accepted auditing standards used are other than those of Bermuda, the report of the auditor shall identify the generally accepted auditing standards used. All members of the company are entitled to receive a copy of every financial statement prepared in accordance with these requirements, at least five (5) days before the general meeting of the company at which the financial statements are to be tabled. A company the shares of which are listed on an appointed stock exchange may send to its members summarized financial statements instead. The summarized financial statements must be derived from the company's financial statements for the relevant period and contain the information set out in the Companies Act. The summarized financial statements sent to the company's members must be accompanied by an auditor's report on the summarized financial statements and a notice stating how a member may notify the company of his election to receive financial statements for the relevant period and/or for subsequent periods.

The summarized financial statements together with the auditor's report thereon and the accompanied notice must be sent to the members of the company not less than twenty-one (21) days before the general meeting at which the financial statements are laid. Copies of the financial statements must be sent to a member who elects to receive the same within seven (7) days of receipt by the company of the member's notice of election.

(h) Auditors

At each annual general meeting, a company must appoint an auditor to hold office until the close of the next annual general meeting; however, this requirement may be waived if all of the shareholders and all of the directors, either in writing or at the general meeting, agree that there shall be no auditor.

A person, other than an incumbent auditor, shall not be capable of being appointed auditor at an annual general meeting unless notice in writing of an intention to nominate that person to the office of auditor has been given not less than twenty-one (21) days before the annual general meeting. The company must send a copy of such notice to the incumbent auditor and give notice thereof to the members not less than seven (7) days before the annual general meeting. An incumbent auditor may, however, by notice in writing to the secretary of the company waive the requirements of the foregoing.

Where an auditor is appointed to replace another auditor, the new auditor must seek from the replaced auditor a written statement as to the circumstances of the latter's replacement. If the replaced auditor does not respond within fifteen (15) days, the new auditor may act in any event. An appointment as auditor of a person who has not requested a written statement from the replaced auditor is voidable by a resolution of the shareholders at a general meeting. An auditor who has resigned, been removed or whose term of office has expired or is about to expire, or who has vacated office is entitled to attend the general meeting of the company at which he is to be removed or his successor is to be appointed; to receive all notices of, and other communications relating to, that meeting which a member is entitled to receive; and to be heard at that meeting on any part of the business of the meeting that relates to his duties as auditor or former auditor.

(i) Exchange control

An exempted company is usually designated as "non-resident" for Bermuda exchange control purposes by the Bermuda Monetary Authority. Where a company is so designated, it is free to deal in currencies of countries outside the Bermuda exchange control area which are freely convertible into currencies of any other country. The permission of the Bermuda Monetary Authority is required for the issue of shares and securities by the company and the subsequent transfer of such shares and securities. In granting such permission, the Bermuda Monetary Authority accepts no responsibility for the financial soundness of any proposals or for the correctness of any statements made or opinions expressed in any document with regard to such issue. Before the company can issue or transfer any further shares and securities in excess of the amounts already approved, it must obtain the prior consent of the Bermuda Monetary Authority.

The Bermuda Monetary Authority has granted general permission for the issue and transfer of shares and securities to and between persons regarded as resident outside Bermuda for exchange control purposes without specific consent for so long as any equity securities, including shares, are listed on an appointed stock exchange (as defined in the Companies Act). Issues to and transfers involving persons regarded as "resident" for exchange control purposes in Bermuda will be subject to specific exchange control authorisation.

(j) Taxation

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, nor any Bermuda tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of the company held by non-residents of Bermuda. Furthermore, a company may apply to the Minister of Finance of Bermuda for an assurance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so applicable until 28th March 2016, although this assurance will not prevent the imposition of any Bermuda tax payable in relation to any land in Bermuda leased or let to the company or to persons ordinarily resident in Bermuda.

(k) Stamp duty

An exempted company is exempt from all stamp duties except on transactions involving "Bermuda property". This term relates, essentially, to real and personal property physically situated in Bermuda, including shares in local companies (as opposed to exempted companies). Transfers of shares and warrants in all exempted companies are exempt from Bermuda stamp duty.

(l) Loans to directors

Bermuda law prohibits the making of loans by a company to any of its directors or to their families or companies in which they hold more than a twenty per cent. (20%) interest, without the consent of any member or members holding in aggregate not less than nine-tenths of the total voting rights of all members having the right to vote at any meeting of the members of the company. These prohibitions do not apply to (a) anything done to provide a director with funds to meet the expenditure incurred or to be incurred by him for the purposes of the company, provided that the company gives its prior approval at a general meeting or, if not, the loan is made on condition that it will be repaid within six months of the next following annual general meeting if the loan is not approved at or before such meeting, (b) in the case of a company whose ordinary business includes the lending of money or the giving of guarantees in connection with loans made by other persons, anything done by the company in the ordinary course of that business, or (c) any advance of moneys by the company to any officer or auditor under Section 98(2)(c) of the Companies Act which allows the company to advance moneys to an officer or auditor of the company for the costs incurred in defending any civil or criminal proceedings against them, on condition that the officer or auditor shall repay the advance if any allegation of fraud or dishonesty is proved against them. If the approval of the company is not given for a loan, the directors who authorised it will be jointly and severally liable for any loss arising therefrom.

(m) Inspection of corporate records

Members of the general public have the right to inspect the public documents of a company available at the office of the Registrar of Companies in Bermuda which will include the company's certificate of incorporation, its memorandum of association (including its objects and powers) and any alteration to the company's memorandum of association. The members of the company have the additional right to inspect the bye-laws of a company, minutes of general meetings and the company's audited financial statements, which must be presented to the annual general meeting. Minutes of general meetings of a company are also open for inspection by directors of the company without charge for not less than two (2) hours during business hours each day. The register of members of a company is open for inspection by members of the public without charge. The company is required to maintain its share register in Bermuda but may, subject to the provisions of the Companies Act, establish a branch register outside Bermuda. Any branch register of members established by the company is subject to the same rights of inspection as the principal register of members of the company in Bermuda. Any person may on payment of a fee prescribed by the Companies Act require a copy of the register of members or any part thereof which must be provided within fourteen (14) days of a request. Bermuda law does not, however, provide a general right for members to inspect or obtain copies of any other corporate records.

A company is required to maintain a register of directors and officers at its registered office and such register must be made available for inspection for not less than two (2) hours in each day by members of the public without charge. If summarized financial statements are sent by a company to its members pursuant to section 87A of the Companies Act, a copy of the summarized financial statements must be made available for inspection by the public at the registered office of the company in Bermuda.

(n) Winding up

A company may be wound up by the Bermuda court on application presented by the company itself, its creditors or its contributors. The Bermuda court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Bermuda court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred

to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where, on a voluntary winding up, a majority of directors make a statutory declaration of solvency, the winding up will be a members' voluntary winding up. In any case where such declaration has not been made, the winding up will be a creditors' voluntary winding up.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators within the period prescribed by the Companies Act for the purpose of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice published in an appointed newspaper in Bermuda.

In the case of a creditors' voluntary winding up of a company, the company must call a meeting of creditors of the company to be summoned on the day following the day on which the meeting of the members at which the resolution for winding up is to be proposed is held. Notice of such meeting of creditors must be sent at the same time as notice is sent to members. In addition, such company must cause a notice to appear in an appointed newspaper on at least two occasions.

The creditors and the members at their respective meetings may nominate a person to be liquidator for the purposes of winding up the affairs of the company provided that if the creditors nominate a different person, the person nominated by the creditors shall be the liquidator. The creditors at the creditors' meeting may also appoint a committee of inspection consisting of not more than five persons.

If a creditors' winding up continues for more than one year, the liquidator is required to summon a general meeting of the company and a meeting of the creditors at the end of each year to lay before such meetings an account of his acts and dealings and of the conduct of the winding up during the preceding year. As soon as the affairs of the company are fully wound up, the liquidator must make an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon shall call a general meeting of the company and a meeting of the creditors for the purposes of laying the account before such meetings and giving an explanation thereof.

5. GENERAL

Conyers Dill & Pearman, the Company's legal advisers on Bermuda law, have sent to the Company a letter of advice summarising certain aspects of Bermuda company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix IV. Any person wishing to have a detailed summary of Bermuda company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Takeovers Code and the Listing Rules for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries that, to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statement in this circular misleading.

2. SHARE CAPITAL

(a) Share Capital

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately following the Capital Reorganisation, the Rights Issue (assuming the Rights Issue becoming unconditional, no options under the Share Option Scheme are exercised on or before the Record Date and all Rights Shares are subscribed for by the Qualifying Shareholders), the completion of the Share Subscription Agreement, the Core Creditors' Share Conversion, the issue of Top-up Shares and the issue of Option Shares were or will be as follows:

<i>Authorised</i>	<i>HK\$</i>
(i) As at the Latest Practicable Date 10,000,000,000 Shares	<u>1,000,000,000.00</u>
(ii) After completion of the Capital Reorganisation 1,000,000,000,000 Adjusted Shares	<u>1,000,000,000.00</u>
<i>Issued and to be issued (paid up or credited as fully paid):</i>	
3,601,518,384 Shares as at the Latest Practicable Date	<u>360,151,838.40</u>
360,151,838 Adjusted Shares (assuming Capital Reorganisation becoming effective and based on the number of Shares as at the Latest Practicable Date)	360,151.84
1,440,607,352 Rights Shares to be issued pursuant to the Rights Issue	1,440,607.35
1,880,000,000 Subscription Shares to be issued pursuant to the Share Subscription Agreement	1,880,000.00
988,000,000 Top-up Shares to be issued pursuant to the Share Subscription Agreement	988,000.00
790,000,000 Conversion Shares to be issued pursuant to the Intercreditors' Agreement	790,000.00
1,900,000,000 Adjusted Shares to be issued pursuant to the exercise of the Options under the Option Agreements	<u>1,900,000.00</u>
7,358,759,190 Adjusted Shares	<u>7,358,759.19</u>

No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and OTCQX and no application is being made or is currently proposed or sought for the Shares to be listed or dealt in on any other stock exchanges.

The Adjusted Shares, Rights Shares, Subscription Shares, Conversion Shares, Top-up Shares and Option Shares will be identical in all respects and rank *pari passu* in all respects with each other as to voting, return of capital and all future dividends and distributions which are declared, made or paid. The Rights Shares, Subscription Shares, Conversion Shares, Top-up Shares and Option Shares (when allotted, fully paid or credited as fully paid and issued) will rank *pari passu* in all respects with the Adjusted Shares in issue on the date of allotment and issue of the Rights Shares, Subscription Shares, Conversion Shares, Top-up Shares and Option Shares. Holders of the Adjusted Shares, the Rights Shares, Subscription Shares, Conversion Shares, Top-up Shares and Option Shares will be entitled to vote, receive any return of capital and all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Rights Shares, Subscription Shares, Conversion Shares, Top-up Shares and Option Shares respectively. There is no restriction effecting the remittance of profits or the regulation of capital into Hong Kong from outside Hong Kong.

(b) Options, derivatives, warrants and conversion rights:

Set out below are the details of the outstanding share options granted under the Share Option Scheme as at the Latest Practicable Date:

Name/Category of participants	As at Latest Practicable Date	Grant Date	Exercisable Period (Note 1)	Exercise Price HK\$
Directors/Former Directors				
Phoon Chiong Kit (Note 2)	10,000,000	21 August 2009	Between 1 October 2010 and 30 September 2017	0.315
Ng See Yuen (Note 2)	1,500,000	21 August 2009	Between 1 October 2010 and 30 September 2017	0.315
	551,088	22 July 2008	Between 22 July 2009 and 21 July 2017	0.78
William Montgomerie Courtauld (Note 3)	2,000,000	21 August 2009	Between 1 October 2010 and 30 September 2017	0.315
Employees in aggregate	182,708,409	Between 24 May 2005 to 17 November 2009	Between 25 May 2005 and 30 September 2017	Between 0.177 to 2.785
Consultants				
Douglas Esse Glen (Note 4)	16,532,640	Between 9 October 2006 and 29 December 2008	Between 29 December 2008 and 1 January 2018	Between 0.365 to 2.332
James Sheridan	5,510,880	12 January 2009	Between 1 February 2009 and 31 December 2015	0.374
Total	218,803,017			

Notes:

- The share options with the exercise price of ranging from HK\$0.177 to HK\$2.785 are vested or to be vested and exercisable from 24 May 2005 to 1 January 2018.
- As at the Latest Practicable Date, (i) Mr. Phoon Chiong Kit, an executive Director, held share options entitling him to subscribe for 10,000,000 Shares at a subscription price of HK\$0.315 per Share; and (ii) Mr. Ng See Yuen, an independent non-executive Director, held share options entitling him to subscribe for 2,051,088 Shares at a subscription price of between HK\$0.315 to HK\$0.78 per Share. Save for the aforesaid, the Directors did not have any interest in the share options as at the Latest Practicable Date.
- Mr. William Montgomerie Courtauld passed away as announced on 11 March 2010.
- Mr. Douglas Esse Glen resigned as a Director with effect from 8 May 2009. Pursuant to the Share Option Scheme, Mr. Glen will be entitled to exercise the right to subscribe for any option shares under the share options properly vested to him during the course of his employment within a five year term commencing from the vesting date of such option.

Upon the Rights Issue becoming unconditional, the exercise price of and/or the number of Shares comprised in the outstanding share options may be subject to adjustments.

Save for the share options granted pursuant to the Share Option Scheme, the Winnington Convertible Note, Adjusted Shares to be issued upon the completion of the Transactions including the Rights Issue, the Share Subscription (including Top-up Shares), the Core Creditors' Share Conversion and the exercise of the subscription rights under the Options, no share nor loan capital of the Company has been issued or is proposed to be issued for cash or otherwise, or has been put under option or agreed conditionally or unconditionally to be put under option, and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any such capital and no options, warrants, derivatives, convertible securities or conversion rights affecting the Shares have been issued or granted or agreed conditionally or unconditionally to be issued or granted.

Details of the Winnington Convertible Note are summarised as follows:

Name of note holder	Date of convertible note	Principal amount HK\$	Interest %	Maturity date	Conversion price HK\$
Goodyear Group Limited and Trophy LV Master Fund	15 May 2009	132,000,000	0	19 August 2011	0.30

Note: Pursuant to the Intercreditors' Agreement, Goodyear Group Limited and Trophy LV Master Fund have agreed to accept in full settlement of the Winnington Convertible Note in aggregate 389,649,700 Adjusted Shares at the issue price of HK\$0.07 per Conversion Share; Options to subscribe for 206,500,000 Adjusted Shares at the issue price of HK\$0.08 per Option Share; and HK\$34,402,615 in cash.

(c) Movements in issued share capital

Since 31 March 2009 and up to the Latest Practicable Date, the Company had issued a total of 1,872,764,531 Shares pursuant to the right issue completed on 19 August 2009 (as detailed in the Company's prospectus dated 31 July 2009 and the Company's announcement dated 27 May 2009), the issue of Shares under a bridge loan conversion (as detailed in the Company's announcement dated 27 May 2009) and the placing of new Shares completed on 29 July 2009 (as detailed in the Company's announcement dated 17 June 2009). Save as aforesaid, there has been no alteration in the number of Shares issued since 31 March 2009, the date on which the latest audited financial statements of the Group were made up, and up to the Latest Practicable Date.

3. MARKET PRICES

The table below shows the closing price of the Shares on the Stock Exchange on (i) the last day on which trading took place in each of the calendar months during the period commencing six months preceding the date of the Joint Announcement up to the Latest Practicable Date; (ii) the Last Trading Day; and (iii) the Latest Practicable Date:

Date	Closing price per Share HK\$
31 August 2009	0.430
30 September 2009	0.490
30 October 2009	0.210
30 November 2009	0.137
31 December 2009	0.123
29 January 2010	0.115
26 February 2010	0.127
Last Trading Day	0.101
Latest Practicable Date	0.139

The highest and lowest closing prices per Share recorded on the Stock Exchange during the period commencing six months preceding the date of the Joint Announcement and ending on the Latest Practicable Date were HK\$0.520 and HK\$0.078 on 10 September 2009 and 21 December 2009, respectively.

4. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(a) Interests and long/short positions in Shares, underlying Shares and debentures of the Company as at the Latest Practicable Date

Name of Directors	Capacity	Personal interests	Position	Number of underlying Shares held under equity derivatives	Approximate percentage of the Company's issued share capital
Ng See Yuen	Beneficial owner	1,000,000	Long	–	0.03%
Phoon Chiong Kit (Note 1)	Beneficial owner	2,000,000	Long	–	0.06%
William Montgomerie Courtauld (Note 2)	Beneficial owner	5,483,870	Long	–	0.15%
	Held through controlled corporation	12,170,085	Long	–	0.34%

Notes:

1. These Shares relate to share grants approved by the Shareholders on 17 November 2009 which have yet to be issued.
2. Mr. Courtauld passed away as announced on 11 March 2010. These Shares relate to share grants approved by the Shareholders on 17 November 2009 which have yet to be issued.

(b) Persons who have interests or short positions in the Shares or underlying Shares which is discloseable under Divisions 2 and 3 of Part XV of the SFO

Name of holder of Options	Date of grant	Exercisable period*	No. of Options	Exercise price per Share HK\$
Ng See Yuen	22 July 2008	Between 22 July 2009 and 21 July 2017	551,088	HK\$0.78
	21 August 2009	Between 1 October 2010 and 30 September 2017	1,500,000	HK\$0.315
Phoon Chiong Kit	21 August 2009	Between 1 October 2010 and 30 September 2017	10,000,000	HK\$0.315
William Montgomerie Courtauld (<i>Note 1</i>)	21 August 2009	Between 1 October 2010 and 30 September 2017	2,000,000	HK\$0.315

Note 1: Mr. Courtauld passed away as announced on 11 March 2010.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any interests or short positions in the securities of the Company or any of its associated corporation (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to section 341 of the SFO (including interest which any such Director was taken or deemed to have under section 344 of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, save for Mr. Phoon Chiong Kit who is a nominee of Winnington Capital and is currently employed by Winnington Capital as executive Director and the Head of Private Equity and Investments, none of the Directors was a director or employee of a company which had an interest in the Shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO.

(c) Dealings in securities of the Company

During the period beginning six months prior to the date of the Joint Announcement and ending on the Latest Practicable Date:

- (a) none of the Company and the Directors had dealt for value in the Shares, convertible securities, warrants, options and derivatives of the Investor or the Company;
- (b) save for entering into the Transaction Documents, none of the Investor and parties acting in concert with it have dealt for value in the Shares, convertible securities, warrants, options and derivatives of the Company;
- (c) none of the Company's subsidiaries, pension fund of the Group, professional advisers named under the section headed "Experts and Consents" in this appendix or advisers to the Company as specified in class (2) of the definition of associates under the Takeovers Code had any interest in or had dealt for value in the Shares, convertible securities, warrants, options and derivatives of the Company;
- (d) no fund manager who managed securities of the Company on a discretionary basis and connected with the Company had any interest in or had dealt for value in any Shares, convertible securities, warrants, options and derivatives of the Company; and
- (e) save for (i) the announcement on 25 August 2009 in respect of, amongst others, the completion of the rights issue and the issue of the Winnington Convertible Note; and (ii) the transactions listed in the table below, none of the Undertaking Group and parties acting in concert with it had dealt for value in the Shares, convertible securities, warrants, options and derivatives of the Company.

Date	Undertaking Group member	Dealing	Number of Shares
24 August 2009	Trophy LV Master Fund	Disposal	1,900,000
25 August 2009	Trophy LV Master Fund	Disposal	2,950,000
28 August 2009	Trophy Fund	Disposal	16,500,000
28 August 2009	Trophy LV Master Fund	Disposal	233,058
02 September 2009	Trophy LV Master Fund	Disposal	10,000,000
30 September 2009	Trophy LV Master Fund	Disposal	2,000,000

5. INTERESTS OF SUBSTANTIAL SHAREHOLDERS/OTHER PERSONS RECORDED IN THE REGISTER KEPT UNDER THE SFO

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, the following persons (other than Directors or chief executive of the Company) had interests or short positions in the Shares, underlying Shares or debentures of the Company which would fall to be disclosed to the Company under the provisions Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

Interests and long/short positions of substantial shareholders in the Shares and underlying Shares of the Company:

Name of substantial shareholder	Nature of interest	No. of Shares and/or underlying Shares held	Position	Approximate percentage of the Company's issued share capital at the Latest Practicable Date
HSBC International Trustee Limited	Trustee	831,057,779	Long	23.07%
Happy Nation Limited	Held by controlled corporation	585,618,505	Long	16.26%
	Beneficial owner	12,197,985	Long	0.34%
China Link Holding Limited	Held by controlled corporation	597,816,490	Long	16.60%
Sunni International Limited (Note 1)	Beneficial owner	585,618,505	Long	16.26%
Kao Cheung Chong	Beneficial owner	12,306,765	Long	0.34%
	Held by controlled corporation	9,373,020	Long	0.26%
	Beneficiary of a trust	597,816,490	Long	16.60%
Kao Wai Ho, Francis	Beneficiary of a trust	585,618,505	Long	16.26%
Chu Jocelyn	Interest of Spouse	100,000,000	Long	2.78%
	Held by controlled corporation	655,203,900	Long	18.19%

Name of substantial shareholder	Nature of interest	No. of Shares and/or underlying Shares held	Position	Approximate percentage of the Company's issued share capital at the Latest Practicable Date
Hung Kam Biu	Beneficial owner	100,000,000	Long	2.78%
	Held by controlled corporation	655,203,900	Long	18.19%
Winnington Capital Limited (Note 2)	Beneficial owner	250,000	Long	0.01%
	Investment manager	654,953,900	Long	18.19%
Trophy Asset Management Limited	Investment manager	654,953,900	Long	18.19%
Trophy Fund	Beneficial owner	597,219,634	Long	16.58%
Citigroup Inc.	Custodian/approved lending agent	129,200	Long	0.004%
	Person having a security interest shares	259,741,058	Long	7.21%
		8,540,000	Short	0.24%
Bosrich Holdings (PTC) Inc. (Note 3)	Trustee	209,950,000	Long	5.83% (Note 4)
Lo Hong Sui, Vincent (Note 3)	Founder of discretionary trust	209,950,000	Long	5.83% (Note 4)
Shui On Company Limited (Note 3)	Held by controlled corporation	209,950,000	Long	5.83% (Note 4)
Chu Loletta (Note 3)	Interest of spouse	209,950,000	Long	5.83%
Shui On Holdings Limited (Note 3)	Held by controlled corporation	209,950,000	Long	5.83%
Shui On Investments Company Limited (Note 3)	Held by controlled corporation	209,950,000	Long	5.83%
Smart Will Investments Limited (Note 3)	Beneficial owner	209,950,000	Long	5.83%

Notes:

1. Sunni International Limited is 54.67% beneficially owned by Mr. Kao Wai Ho, Francis. Happy Nation Limited, is wholly owned by China Link Holding Limited, the entire issued share capital of which is in turn beneficially owned by HSBC International Trustee Limited, acting as trustee for The Cheerco Trust, of which Mr. Kao Cheung Chong, Michael and his family members excluding, Mr. Kao Wai Ho, Francis are discretionary objects.
2. To the best knowledge of the Directors, having made all reasonable enquiries, the 597,219,634 Shares and 57,734,266 Shares out of Winnington Capital's shareholdings are held by Trophy Fund and Trophy LV Master Fund, respectively, both of which are managed by Trophy Asset Management Limited, which in turn is wholly owned by Mr. Hung. Trophy Fund and Trophy LV Master Fund are also advised by Winnington Capital (delegated management by Trophy Asset Management Limited), which is 50% owned by each of Mr. Hung and his wife, Ms. Chu Jocelyn.
3. Smart Will Investments Limited is ultimately controlled by Lo Hong Sui, Vincent through Bosrich Holdings (PTC) Inc., Shui On Company Limited, Shui On Holdings Limited and Shui On Investment Company Limited. Chu Loletta is the wife of Lo Hong Sui, Vincent and the sister of Chu Jocelyn.
4. This shareholding percentage was calculated based on a total of 3,601,518,384 Shares in issue at the time the relevant disclosure of interest forms were filed.

Save as disclosed herein, as at the Latest Practicable Date, there was no person known to the Directors or the chief executive of the Company other than Directors or the chief executive of the Company, who had an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

6. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any member of the Group or any associated company of the Company which:

- (i) (including both continuous and fixed term contracts) have been entered into or amended within 6 months prior to 17 February 2010;
- (ii) are continuous contracts with a notice period of 12 months or more; or
- (iii) are fixed term contracts with more than 12 months to run irrespective of the notice period.

7. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors nor their associates had any interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

8. DIRECTORS' INTERESTS IN ASSETS, CONTRACTS OR ARRANGEMENTS OF THE GROUP

As at the Latest Practicable Date, none of the Directors or proposed Directors had any direct or indirect interest in any assets which since 31 March 2009 (being the date to which the latest published audited consolidated accounts of the Group was made up) have been acquired or disposed of or leased to or proposed to be acquired or disposed of or leased to any member of the Group.

None of the Directors were materially interested in any contract or arrangement (or any contract with the Investor) subsisting at the Latest Practicable Date which is significant in relation to the business of the Group taken as a whole.

9. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have been named in this circular or have given opinions, letters or advice contained in this circular:

Name	Qualification
Deloitte Touche Tohmatsu	Certified public accountants
Veda Capital	A corporation licensed to conduct Type 6 (advising on corporate finance) regulated activity under the SFO

Each of Deloitte Touche Tohmatsu and Veda Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter and/or references to its name, in the form and context in which it appears.

As at the Latest Practicable Date, each of Deloitte Touche Tohmatsu and Veda Capital was not beneficially interested in the share capital of the Company or any member of the Group nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in the Company or any member of the Group, nor did it have any interest, either directly or indirectly, in the assets which have been acquired or disposed of by or leased to the Company or any member of the Group since 31 March 2009, being the date to which the latest published audited consolidated financial statements of the Group were made up.

10. LITIGATION

In March 2010, one of the Company's subsidiaries, Imagi Crystal Limited ("Imagi Crystal") received a demand for payment from a film distributor in respect of an amount of approximately HK\$2,900,000 for amounts owing under a film distribution agreement, and threatening to initiate legal proceedings against Imagi Crystal. The Company is in discussions with the film distributor with a view to reaching a settlement. In the same month, a Japanese licensing company alleged that one of the Company's subsidiaries, Imagi Diamond Limited ("Imagi Diamond"), was in breach and/or anticipatory breach of its obligations under a film agreement and that it was entitled to terminate the grant of rights under the film agreement and that if it does so it may also seek recovery of

damages. As at the Latest Practicable Date, the claimant had not provided any details of the nature or amount of damages it might seek to recover. Based on legal advice obtained, the Directors believe that Imagi Diamond is not in breach of the agreement and that the allegation that Imagi Diamond is in anticipatory breach is without merit. Imagi Diamond will take all reasonable action to refute the claim. Save as disclosed above, neither the Company nor any of its subsidiaries were engaged in any litigation or arbitration or claim which is, in the opinion of the Directors, of material importance, and there is no litigation or claim which is, in the opinion of the Directors, of material importance pending or threatened by or against any member of the Group.

11. MISCELLANEOUS

As at the Latest Practicable Date:

- (a) no Shares, convertible securities, warrants, options and derivatives in respect of relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company were owned or controlled by a subsidiary of the Company or by a pension fund of any member of the Group or by Access Capital or the Underwriter or by any adviser to the Company as specified in class (2) of the definition of associate under the Takeovers Code;
- (b) no Shares, convertible securities, warrants, options and derivatives in respect of relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company were owned or controlled by a person who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate;
- (c) no Shares, convertible securities, warrants, options and derivatives in respect of relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company were managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company;
- (d) no Shares, convertible securities, warrants, options and derivatives in respect of relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company acquired/to be acquired by the Investor or parties acting in concert with it under the Transaction Documents, will be transferred, charged or pledged to any other persons;
- (e) none of the Company and the Directors, the Investor and any person acting in concert with them had borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;
- (f) the Directors who have beneficial shareholdings in the Company, intended to, in respect of their own beneficial shareholdings, accept the Rights Issue and to abstain from voting in relation to the resolution(s) in respect of the Rights Issue, the Whitewash Waiver, the Special Deals and the Connected Transactions. Mr. Ng See Yuen and Mr. Phoon Chiong Kit being Directors with

interests in the share options granted pursuant to the Share Option Scheme, do not intend to exercise their share options prior to the SGM and in the event that they exercise their share options prior to the SGM, they intend to abstain from voting in relation to the resolution(s) in respect of the Rights Issue, the Whitewash Waiver, the Special Deals and the Connected Transactions. Apart from Mr. Ng and Mr. Phoon, no Director held any Shares or relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;

- (g) no Shares, convertible securities, warrants, options and derivatives in respect of relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company were owned or controlled by a person with whom the Investor or any person acting in concert with it has any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code. There have been no shareholdings and dealing for value in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company by such persons in the six months prior to 14 January 2010 and up to the Latest Practicable Date;
- (h) save for the Transaction Documents and the Whitewash Waiver, there was (i) no agreement, arrangement or understanding (including any compensation arrangement) between the Investor or any person acting in concert with it and any Director, recent director, shareholder or recent shareholder of the Company which had any connection with or dependence upon the Transactions, the Rights Issue, the Whitewash Waiver, the Special Deals and the Connected Transactions; and (ii) no agreement or arrangement between any Director and any other person which was conditional on or dependent upon the outcome of, or otherwise connected with the Transactions, the Rights Issue, the Whitewash Waiver, the Special Deals or the Connected Transactions;
- (i) save for Shares held by Trophy Fund and Trophy LV Master Fund, who have undertaken not to exercise, dispose or subscribe for any of the nil-paid rights to be provisionally allotted to them under the Rights Issue, no shareholding in the Company was owned or controlled by any persons who, prior to the posting of this circular, irrevocably committed themselves to accept or reject the Rights Issue;
- (j) no benefit will be given to any Director as compensation for loss of office or otherwise in connection with the Transactions, the Rights Issue, the Whitewash Waiver, the Special Deals and the Connected Transactions;
- (k) no arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code exist between the Investor, or any person acting in concert with it, and any other person; and
- (l) save for the interest of Mr. Phoon Chiong Kit, no material contracts have been entered into by the Investor or any person acting in concert with it in which any Director has a material personal interest.

Save as disclosed in this circular and in paragraph “12. Material Contracts” below, as at the Latest Practicable Date, no commissions, discounts, brokerages or other special terms had been granted by any member of the Group to any Directors, proposed Directors, promoters or experts (as named in this circular) since the date to which the latest published audited accounts of the Company were made up, being 31 March 2009, in connection with the issue or sale of any capital of any member of the Group.

12. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by members of the Group after the date falling two years prior to 17 February 2010 and up to the Latest Practicable Date and are or may be material:

- (i) the subscription agreement dated 2 July 2008 (“Second Oxley Subscription Agreement”) entered into between the Company and Oxley Spring Media Limited in respect of the subscription of 181,395,349 new Shares at the price of HK\$0.86 each by Oxley Spring Media Limited (amounting to a total consideration of approximately HK\$156.0 million);
- (ii) the subscription agreement dated 2 July 2008 (“Third Oxley Subscription Agreement”) entered into between the Company and Oxley Spring Media Limited in respect of the subscription of 272,093,023 new Shares at the price of HK\$0.86 each by Oxley Spring Media Limited (amounting to a total consideration of approximately HK\$234.0 million);
- (iii) the supplemental agreement in respect of the Third Oxley Subscription Agreement dated 4 July 2008 entered into between the Company and Oxley Spring Media Limited in respect of a change of the definition of the term “Second Tranche Subscription Shares” as contained therein;
- (iv) the supplemental agreement dated 7 August 2008 entered into between the Company and Oxley Spring Media Limited to extend the completion date for subscription of the 181, 395,349 Shares under the Second Oxley Subscription Agreement to 29 August 2008;
- (v) the supplemental agreement dated 7 August 2008 entered into between the Company and Oxley Spring Media Limited to extend the long-stop date for fulfillment of the conditions precedent relating to the subscription of the 181,395,349 new Shares under the Second Oxley Subscription Agreement and the completion date for subscription of the Shares under the Third Oxley Subscription Agreement to 23 September 2008 and 30 September 2008, respectively;
- (vi) the subscription agreement dated 2 September 2008 entered into between the Company and Smart Will Investments Limited in respect of the subscription of 90,600,000 new Shares at the price of HK\$0.86 each by Smart Will Investments Limited (amounting to a total consideration of approximately HK\$77.92 million);

- (vii) the subscription agreement dated 5 September 2008 entered into between the Company and Mehta-Imagi LLC in respect of the subscription of 181,200,000 new Shares at the price of HK\$0.86 each by Mehta-Imagi LLC (amounting to a total consideration of HK\$155.83 million);
- (viii) the subscription agreement dated 29 September 2008 entered into between the Company and MPI-Imagi LLC in respect of the subscription of 377,938,144 new Shares at the price of HK\$0.485 each by MPI-Imagi LLC (amounting to a total consideration of approximately HK\$183.30 million);
- (ix) the subscription agreement dated 10 November 2008 (“Subscription Agreement A”) entered into between the Company and MPI-Imagi LLC in respect of the subscription of 190,000,000 new Shares (“First Tranche Subscription Shares”) at the price of HK\$0.40 each by Mehta-Imagi LLC (amounting to a total consideration of approximately HK\$76.0 million);
- (x) the subscription agreement dated 10 November 2008 (“Subscription Agreement B”) entered into between the Company and MPI-Imagi LLC in respect of the subscription of 200,000,000 new Shares (“Second Tranche Subscription Shares”) at the price of HK\$0.40 each by Mehta-Imagi LLC (amounting to a total consideration of approximately HK\$80.0 million);
- (xi) the first supplemental agreement to Subscription Agreement A dated 2 December 2008 entered into between the Company and MPI-Imagi LLC to extend the long-stop date for the fulfillment of the conditions precedent relating to the subscription of the First Tranche Subscription Shares (the “First Tranche Long Stop Date”) under Subscription Agreement A to 23 December 2008;
- (xii) the second supplemental agreement to Subscription Agreement A dated 23 December 2008 entered into between the Company and MPI-Imagi LLC to further extend the First Tranche Long Stop Date to 6 January 2009;
- (xiii) the first supplemental agreement to Subscription Agreement B dated 31 December 2008 entered into between the Company and MPI-Imagi LLC to extend the long-stop date for the fulfillment of the conditions precedent relating to the subscription of the Second Tranche Subscription Shares (the “Second Tranche Long Stop Date”) under Subscription Agreement B to 31 January 2009;
- (xiv) the third supplemental agreement to Subscription Agreement A dated 6 January 2009 entered into between the Company and MPI-Imagi LLC to further extend the First Tranche Long Stop Date to 3 February 2009;
- (xv) the second supplemental agreement to Subscription Agreement B dated 8 January 2009 entered into between the Company and MPI-Imagi LLC to further extend the Second Tranche Long Stop Date to 28 February 2009;

- (xvi) the security deed dated 21 January 2009 executed by the Company in favour of Mehta-Imagi LLC whereby the Company created security interests over certain of its assets to secure the Liabilities (as defined therein) of the Company;
- (xvii) the fourth supplemental agreement to Subscription Agreement A dated 3 February 2009 entered into between the Company and MPI-Imagi LLC to further extend the First Tranche Long Stop Date to 3 March 2009;
- (xviii) the loan agreement dated 3 February 2009 entered into by the Company and Mehta-Imagi LLC in respect of a principal loan of up to US\$5,000,000, at an interest rate of 9% on the amount funded and maturing on 31 March 2009, from Mehta-Imagi LLC to the Company (the “Mehta Loan Agreement”);
- (xix) the loan agreement dated 6 February 2009 entered into between the Company and Asia CGI Investments Limited in respect of a principal loan of up to US\$1,600,000, at an interest rate of 10% annualised and maturing on 31 March 2009, from Asia CGI Investments Limited to the Company (“Asia CGI Loan Agreement”);
- (xx) the bridge loan arrangement between the Company and Evertop Capital Limited (the “Evertop Bridge Loan Arrangement”) comprising:
 - (a) the loan agreement dated 13 February 2009 entered into among the Company, Trophy Fund, Trophy LV Master Fund and Evertop Capital Limited (“Evertop”) in respect of a principal loan of up to US\$10,000,000, at an interest rate of 2% per month flat on the average daily outstanding balance of the loan and maturing on 30 June 2009, with conversion rights as set out therein (the “13 Feb Loan Agreement”);
 - (b) the letter agreement dated 20 February 2009 entered into by the Company, Imagi Crystal Limited (“Imagi Crystal”) and Evertop to amend and restate the 13 Feb Loan Agreement (the “20 Feb Letter Agreement”); and
 - (c) the novation agreement dated 20 February 2009 entered into by the Company, Trophy Fund, Trophy LV Master Fund, Evertop and Imagi Crystal in respect of the novation of the 13 Feb Loan Agreement resulting in Evertop becoming the lender and Imagi Crystal becoming the borrower thereunder;
- (xxi) the security documents in relation to the Evertop Bridge Loan Arrangement comprising:
 - (a) the security deed dated 13 February 2009 executed by the Company in favour of Trophy LV Master Fund, Trophy Fund and Evertop in respect of the 13 Feb Loan Agreement whereby the Company created security

interests over certain of its assets to secure the Liabilities (as defined therein) of the Company;

- (b) the guarantee dated 20 February 2009 entered into by the Company in favour of Evertop in respect of the 20 Feb Letter Agreement (the “20 Feb Guarantee”) whereby the Company guaranteed the due and punctual performance of each and all of the Liabilities (as defined therein) of Imagi Crystal;
- (c) the security deed dated 11 March 2009 entered into by the Company in favour of Evertop in respect of the 20 Feb Letter Agreement (the “11 March Security Deed”) whereby the Company created security interests over certain of its assets to secure the Liabilities (as defined therein) of Imagi Crystal;
- (d) the security deed dated 11 March 2009 entered into by Imagi Crystal in favour of Evertop in respect of the 20 Feb Letter Agreement (the “Imagi Crystal Security Deed”) whereby Imagi Crystal created security interests over certain of its assets to secure the Liabilities (as defined therein) of Imagi Crystal;
- (e) the guarantee dated 23 March 2009 entered into by Imagi Global Distribution Inc. in favour of Evertop in respect of the 20 Feb Letter Agreement (the “IGDI Guarantee”) whereby Imagi Global Distribution Inc guaranteed the due and punctual performance of each and all of the Liabilities (as defined therein) of Imagi Crystal;
- (f) the security deed dated 23 March 2009 entered into by Imagi Global Distribution Inc. in favour of Evertop in respect of the 20 Feb Letter Agreement (the “IGDI Security Deed”) whereby Imagi Global Distribution Inc. created security interests over certain of its assets to secure the Liabilities (as defined therein) of Imagi Crystal;
- (g) the guarantee dated 1 April 2009 entered into by Imagi Character Licensing B.V. in favour of Evertop in respect of the 20 Feb Letter Agreement (the “Imagi Character Guarantee”) whereby Imagi Character Licensing B.V. created security interests over certain of its assets to secure the liabilities (as defined therein) of Imagi Crystal;
- (h) the security deed dated 1 April 2009 entered into by Imagi Character Licensing B.V. in favour of Evertop in respect of the 20 Feb Letter Agreement (the “Imagi Character Security Deed”) whereby Imagi Character Licensing B.V. created security interests over certain of its assets to secure the Liabilities (as defined therein) of Imagi Crystal;
- (i) the supplemental guarantee in respect of the 20 Feb Guarantee dated 3 July 2009 entered into by the Company in favour of Evertop, whereby the Company, among other things, guaranteed the due and punctual

- performance of the Relevant Indebtedness (as defined therein) of Imagi Crystal to the extent that the 20 Feb Guarantee does not cover the Relevant Indebtedness;
- (j) the supplemental security deed in respect of the 11 March Security Deed dated 3 July 2009 entered into by the Company in favour of Evertop, whereby the Company created a security interest over certain of its assets to secure the Relevant Indebtedness (as defined therein) of the Company;
 - (k) the supplemental security deed in respect of the Imagi Crystal Security Deed dated 3 July 2009 entered into by Imagi Crystal in favour of Evertop, whereby Imagi Crystal created a security interest over certain of its assets to secure the Relevant Indebtedness (as defined therein) of Imagi Crystal;
 - (l) the supplemental guarantee in respect of the IGDI Guarantee dated 3 July 2009 entered into by Imagi Global Distribution Inc. in favour of Evertop, whereby Imagi Global Distribution Inc., among other things, guaranteed the due and punctual payment of the Relevant Indebtedness (as defined therein) by Imagi Crystal to the extent that the IGDI Guarantee does not cover the Relevant Indebtedness;
 - (m) the supplemental security deed in respect of the IGDI Security Deed dated 3 July 2009 entered into by Imagi Global Distribution Inc. in favour of Evertop, whereby Imagi Global Distribution Inc. created a security interest over certain of its assets to secure the Relevant Indebtedness (as defined therein) of Imagi Global Distribution Inc.;
 - (n) the supplemental guarantee in respect of the Imagi Character Guarantee dated 3 July 2009 entered into by Imagi Character Licensing B.V. in favour of Evertop, whereby Imagi Character Licensing B.V., among other things, guaranteed the due and punctual payment of the Relevant Indebtedness (as defined therein) by Imagi Crystal to the extent that the Imagi Character Guarantee does not cover the Relevant Indebtedness; and
 - (o) the supplemental security deed in respect of the Imagi Character Security Deed dated 3 July 2009 entered into by Imagi Character Licensing B.V. in favour of Evertop, whereby Imagi Character Licensing B.V. created a security interest over certain of its assets to secure the Relevant Indebtedness (as defined therein) of Imagi Character Licensing B.V.;
- (xxii) the letter agreement dated 2 March 2009 entered into among the Company, Evertop and Imagi Crystal to extend the availability period of the working capital loan from 28 February 2009 to 30 April 2009;

- (xxiii) the security documents in relation to the HK\$132 million convertible note dated 30 January 2008 issued by the Company pursuant to a subscription agreement dated 4 December 2007 between the Company and Winnington Capital in relation to the subscription and issue of such convertible note comprising:
- (a) the guarantee dated 11 March 2009 entered into by Imagi Crystal in favour of Colour Max Limited, whereby Imagi Crystal, among other things, guaranteed the due and punctual performance of each and all the Liabilities (as defined therein) of the Company;
 - (b) the security deed dated 11 March 2009 entered into by the Company in favour of Colour Max Limited whereby the Company created a security interest over certain of its assets to secure the Liabilities (as defined therein) of the Company;
 - (c) the security deed dated 11 March 2009 entered into by Imagi Crystal in favour of Colour Max Limited whereby Imagi Crystal created a security interest over certain of its assets to secure the Liabilities (as defined therein) of the Company;
 - (d) the guarantee dated 23 March 2009 entered into by Imagi Global Distribution Inc. in favour of Colour Max Limited, whereby Global Distribution Inc. guaranteed the due and punctual performance of the obligations of the Company;
 - (e) the security deed dated 23 March 2009 entered into by Imagi Global Distribution Inc. in favour of Colour Max Limited whereby Imagi Global Distribution Inc. created a security interest over certain of its assets to secure the Liabilities (as defined therein) of the Company;
 - (f) the guarantee dated 1 April 2009 entered into by Imagi Character Licensing B.V. in favour of Colour Max Limited, whereby Imagi Character Licensing B.V., among other things, guaranteed the due and punctual performance of the obligations of the Company; and
 - (g) the security deed dated 1 April 2009 entered into by Imagi Character Licensing B.V. in favour of Colour Max Limited, whereby Imagi Character Licensing B.V. created a security interest over certain of its assets to secure the Liabilities (as defined therein) of the Company;
- (xxiv) the supplemental loan agreement dated 13 March 2009 (“Asia CGI Supplemental Loan Agreement”) entered into among the Company, Imagi Crystal and Asia CGI Investments Limited to, among other things, amend and restate the Asia CGI Loan Agreement and to increase the principal loan amount up to US\$6,500,000 with conversion rights as set out therein;

- (xxv) a novation agreement dated 18 March 2009 entered into among the Company, Imagi Crystal and Asia CGI Investments Limited whereby Imagi Crystal assumed the obligations of the Company in respect of the Asia CGI Loan Agreement (as amended by the Asia CGI Supplemental Loan Agreement);
- (xxvi) the security documents in relation to the Asia CGI Loan Agreement (as amended by the Asia CGI Supplemental Loan Agreement) comprising:
- (a) the guarantee dated 18 March 2009 entered into by the Company in favour of Asia CGI Investments Limited, whereby the Company, amongst other things, guaranteed the due and punctual performance of the obligations of Imagi Crystal;
 - (b) the guarantee dated 18 March 2009 entered into by Imagi Global Distribution Inc. in favour of Asia CGI Investments Limited, whereby Imagi Global Distribution Inc., among other things, guaranteed the due and punctual performance of the obligations of Imagi Crystal;
 - (c) the security deed dated 18 March 2009 entered by Imagi Crystal in favour of Asia CGI Investments Limited, whereby Imagi Crystal created a security interest over certain of its assets to secure the Liabilities (as defined therein) of Imagi Crystal;
 - (d) the security deed dated 18 March 2009 entered by Imagi Global Distribution Inc. in favour of Asia CGI Investments Limited, whereby Imagi Global Distribution Inc. created a security interest over certain of its assets to secure the Liabilities (as defined therein) of Imagi Crystal;
 - (e) the guarantee dated 18 March 2009 entered into by Imagi Character Licensing B.V. in favour of Asia CGI Investments Limited, whereby Imagi Character Licensing B.V., amongst other things, guaranteed the due and punctual performance of the obligations of Imagi Crystal arising under or in connection with the Asia CGI Supplemental Loan Agreement;
 - (f) the security deed dated 18 March 2009 entered by Imagi Character Licensing B.V. in favour of Asia CGI Investments Limited, whereby Imagi Character Licensing B.V. created a security interest over certain of its assets to secure the Liabilities (as defined therein) of Imagi Crystal; and
 - (g) the security deed dated 18 March 2009 entered by the Company in favour of Asia CGI Investments Limited, whereby the Company created a security interest over certain of its assets to secure the Liabilities (as defined therein) of Imagi Crystal;

- (xxvii) the agreement dated 27 March 2009 entered into among the Company, Imagi Crystal and Evertop to increase the maximum aggregate of the working capital loan amount under the Evertop Bridge Loan Arrangement to US\$15,000,000;
- (xxviii) the agreement dated 7 May 2009 entered into among the Company, Imagi Crystal Limited and Asia CGI Investments Limited in relation to the waiver of default interest payment obligation under the Asia CGI Loan Agreement (as amended by the Asia CGI Supplemental Loan Agreement);
- (xxix) the agreement dated 7 May 2009 entered into among the Company, Imagi Crystal and Evertop to amend the interest calculation method of working capital loan and waive Imagi Crystal's default interest payment obligation under the 20 Feb Letter Agreement;
- (xxx) the agreement dated on 15 May 2009 entered into among the Company, Imagi Crystal and Evertop to increase the maximum aggregate of the bridge loan amount to US\$25,000,000 and extend the availability period under the 20 Feb Letter Agreement;
- (xxxi) the bridge loan conversion agreement dated 15 May 2009 between the Mehta-Imagi LLC, Asia CGI Investment Limited, Evertop, Winnington Capital and the Company, relating to the conversion of all outstanding bridge loans under the Mehta Loan Agreement, the Asia CGI Loan Agreement and the 13 Feb Loan Agreement;
- (xxxii) the agreement for the subscription of the Winnington Convertible Note between the Company and Winnington Capital dated 15 May 2009;
- (xxxiii) the underwriting agreement dated 20 May 2009 entered into between the Company and Guotai Junan Securities (Hong Kong) Limited in relation to the Company's rights issue;
- (xxxiv) the supplemental agreement to the underwriting agreement dated 10 July 2009 entered into between the Company and Guotai Junan Securities (Hong Kong) Limited in relation to the underwriting agreement dated 20 May 2009;
- (xxxv) the placing agreement dated 15 June 2009 entered into between Guotai Junan Securities (Hong Kong) Limited and the Company in respect of the placing of 230,000,000 new Shares for a placing price of HK\$0.441 per Share (amounting to a total consideration of approximately HK\$101.43 million) (the "Placing");
- (xxxvi) the supplemental Agreement dated 16 June 2009 entered into between the Company and Guotai Junan Securities (Hong Kong) Limited in respect of the Placing;

- (xxxvii) the fee letter dated 9 September 2009 issued by the Company to Fortunate City Investment Limited (“FCI”) pursuant to which the Company agreed to pay to FCI a fixed fee of US\$1.5 million and certain bonus payments which FCI would be entitled to and which would be determined by, among other things, the box office performance of *Astro Boy*;
- (xxxviii) the indemnity letter dated 9 September 2009 provided by the Company in favour of FCI pursuant to which the Company agreed to indemnify FCI against losses and claims in relation to the provision of the cash collateral of US\$10 million by FCI in favour of Standard Chartered Bank (Hong Kong) Limited in connection with a letter of credit;
- (xxxix) the security deed dated 9 September 2009 entered into between the Company and FCI pursuant to which Imagi Crystal charged all exploitation rights, distribution agreement and receipts from the exploitation of *Astro Boy* in China and Hong Kong in favour of FCI;
- (xl) the security deed dated 9 September 2009 entered into between Imagi Crystal and FCI pursuant to which Imagi Crystal charged all exploitation rights, distribution agreement and receipts from the exploitation of *Astro Boy* in Japan in favour of FCI;
- (xli) the facility letter dated 2 February 2010 entered into between Trophy Fund and the Company pursuant to which Trophy Fund advanced the Trophy Advance to the Company;
- (xlii) the Exclusivity Agreement;
- (xliii) the Bridge Loan Agreement;
- (xliv) the Share Subscription Agreement;
- (xlv) the Intercreditors’ Agreement;
- (xlvi) the Option Agreements;
- (xlvii) the Underwriting Agreement;

Save as disclosed above, none of the members of the Group has entered into any contracts (not being contracts entered into in the ordinary course of business) within the two years preceding the date of the Joint Announcement up to the Latest Practicable Date that are or may be material.

13. CORPORATE INFORMATION**Board of Directors***Executive Director*

Mr. Phoon Chiong Kit
 Apartment 3002, 30th Floor
 Bamboo Grove
 74 Kennedy Road
 Wanchai
 Hong Kong

Independent Non-executive Director

Mr. Ng See Yuen
 Room B, 23th Floor
 Begonia Court
 Worldwide Garden
 Shatin, Hong Kong

Company Secretary

Mr. Ng Kar Yin, Frederick

Registered Office

Rosebank Centre
 11 Bermudiana Road
 Pembroke
 Bermuda

Principal Place of Business in Hong Kong

22nd Floor
 8 Commercial Tower
 8 Sun Yip Street
 Chai Wan
 Hong Kong

Branch Share Registrar and Transfer Office in Hong Kong

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

Principal Bankers

The Hongkong and Shanghai
 Banking Corporation Limited
 Level 10, HSBC Main Building
 1 Queen's Road Central
 Hong Kong

Standard Chartered Bank (HK)
 Limited
 10th Floor
 Standard Chartered Bank Building
 4-4A Des Voeux Road
 Central
 Hong Kong

Authorised Representatives

Mr. Phoon Chiong Kit
22nd Floor
8 Commercial Tower
8 Sun Yip Street
Chai Wan
Hong Kong

Homepage

<http://www.imagi.com.hk>

Stock Code

585

Mr. Ng Kar Yin, Frederick
22nd Floor
8 Commercial Tower
8 Sun Yip Street
Chai Wan
Hong Kong

14. PARTIES INVOLVED IN THE RIGHTS ISSUE**Financial adviser to
the Company**

Access Capital Limited
Suite 606, 6th Floor
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

Underwriter

Get Nice Securities Limited
10th Floor Cosco Tower
Grand Millennium Plaza
183 Queen's Road Central
Central
Hong Kong

**Legal advisers to the
Company**

As to Hong Kong Law:
Morrison & Foerster
33rd Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to Bermuda Law:
Conyers Dill & Pearman
2901 One Exchange Square
8 Connaught Place
Central
Hong Kong

Reporting accountants	Deloitte Touche Tohmatsu 35th Floor, One Pacific Place 88 Queensway Hong Kong
Share registrar and transfer office in Hong Kong	Tricor Secretaries Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong

15. PROFILES OF DIRECTORS

Executive Directors

Mr. PHOON Chiong Kit, aged 57, is the deputy chairman of the Company, chief executive officer and an executive Director. Mr. Phoon graduated from the University of Singapore and holds a Degree in Business Administration. He is presently Executive Director of, and the Head of Private Equity Investments at, Winnington Capital.

Mr. Phoon is a specialist investment banker and has a record in reorganizing and turning around companies in Hong Kong and South East Asia, including most recently, Golden Harvest Entertainment Holdings Ltd., a leading Chinese film entertainment group in Asia. He was Managing Director at Golden Harvest Entertainment Holdings Ltd. until December 2007.

Mr. Phoon was a banking director at Singapore International Merchant Bankers Ltd., now known as Schroders Singapore Ltd. Other notable transactions include the restructuring of Associated Hotels Ltd. in 1986; and the recovery of the Ka Wah Bank loan portfolio on behalf of the HK Monetary Affairs Board as member of the Special Asset Section in 1989.

Save as disclosed above, Mr. Phoon did not hold any other directorships in the three years immediately preceding the Latest Practicable Date in public companies, the securities of which are listed on any securities market in Hong Kong or overseas.

Independent Non-executive Directors

Mr. NG See Yuen, aged 66, is an Independent Non-executive Director. Mr. Ng joined the Board in 2004 and is a filmmaker with over 37 years of experience in the film industry. Mr. Ng is the founder of Seasonal Film Corporation. Over the years, Mr. Ng has produced numerous films locally, in the United States and in the PRC. Mr. Ng is the Honorary Permanent President of Hong Kong Film Directors' Guild and the Chairman of Federation of Hong Kong Film Workers. Mr. Ng was awarded with a "Bronze Bauhinia Star" in 1998 and was appointed a Justice of the Peace in 2001.

Save as disclosed above, Mr. Ng did not hold any other directorships in the three years immediately preceding the Latest Practicable Date in public companies, the securities of which are listed on any securities market in Hong Kong or overseas.

Senior Management

Mr. NG Kar Yin, Frederick, aged 50, is the Interim Chief Financial Officer and Company Secretary. He has over 25 years of experience in corporate advisory work, banking and financial management, in a variety of industries. He is a Fellow of the Institute of Chartered Accountants in England and Wales and a Fellow of the Hong Kong Institute of Certified Public Accountants. Mr. Ng specialises in financial and operational turnarounds and is a founding member of the Institute for Turnaround, a leading UK professional turnaround body. He has been involved in European restructurings and a number of restructurings during the Asian financial crisis in the late 90s. Mr. Ng holds a Masters degree in Business Administration from Henley Business School, England, and is a visiting lecturer on turnarounds at the Manchester Business School, England. Mr. Ng was formerly Chief Financial Officer of Hampton Trust PLC, a company listed on the London Stock Exchange. He has also held a variety of senior advisory and financial roles in Hong Kong, Singapore and London. Mr. Ng joined the Company in March 2009 and is responsible for overseeing the financial management matters of the Group.

Mr. Ken TSUMURA, aged 48, is the Executive Vice President of Production. Mr. Tsumura joined the Group in 2007 and is responsible for all production and studio operations in Hong Kong. He was formerly Senior Vice President of Production & Technology at Canada's Mainframe Entertainment, and his production credits include *"Curious George"* (executive producer), *"Father of the Pride"* (producer) and Adam Sandler's *"Eight Crazy Nights"* (executive producer). During the past 25 years, Mr. Tsumura has worked on projects at companies such as DreamWorks Animation, Walt Disney Animation, Universal Pictures and Columbia Pictures.

Mr. MAK, Chee Hang, Johnny, aged 35, is the Head of Technical Operations. Mr. Mak joined the Company in 2003 and is responsible for establishing and designing the production pipeline. Currently, he is responsible for the Company's overall technology agenda. He leads the IT, R&D and Production Engineer team and manages the overall proprietary tools development and the Company's IT assets as well as its key operational processes. Mr. Mak has over 10 years of experience in computer games production and computer graphic technology. He holds a bachelor's Degree in Computer Science from Macquarie University, Australia and a Master of Technology from the University of New South Wales, Australia.

Ms. Ivy GUO, aged 43, is Head of PRC Marketing. She has over 10 years experience in marketing and corporate management. She joined the Golden Harvest group in 2000 and was responsible for developing the Southern China market. During that time, she managed the release of more than 10 Golden Harvest films and imported titles. The cinema management team she led achieved the highest box office from a single multiplex theatre in the PRC when she was the General Manager of Golden Harvest Studios' Shenzhen flagship theatre. Ms. Guo served as the Vice President of Golden Harvest Group in 2008, being in charge of the expansion of cinemas in mainland China. Ms. Guo graduated from the School of Economics and Management, Beijing University. Ms. Guo joined the Company in July 2009, in charge of the Company's PRC marketing, distribution and business development activities.

Mr. CHAN, Kin Wah, Desmond, aged 33, is Supervising Technical Director & Associate Producer. Mr. Chan holds a Masters Degree in Computer Animation from Teesside University, England. Prior to joining the Company in 2005, he held a broad range of positions with a number of studios in Hong Kong. Mr. Chan is skilled in project management, programme and other animation technical issues. He is responsible for designing and managing the production pipeline and has played a key role in ensuring the completion of “*Teenage Mutant Ninja Turtles*” and “*Astro Boy*” on schedule.

Mr. CHOW, Chung Kwok, Jacky, aged 31, is CG Supervisor and Head of Creative. He graduated from the Polytechnic University, Hong Kong with Multimedia Design and Technology Higher Diploma, majoring in 3D animation. He joined the Group in 2001 and has gained experience in various roles including, production designer and assistant art director of production on the Company’s first animated TV series “*Zentrix*”. He was the lighting department supervisor of the TV series “*Father of the Pride*”, and the latest feature film “*Astro Boy*”. Currently he is working as the development team supervisor for new project developments.

16. GENERAL

(a) As at the Latest Practicable Date and save for the Sub-underwriting Letter, there was no agreement, arrangement or understanding between the Underwriter and any other persons whereby the Shares to be acquired under the Rights Issue will be transferred, charged or pledged to any other persons.

(b) The names of the corporate directors of the Investor are Grandwin Enterprises Limited and Better Lead Limited.

(c) The address of Grandwin Enterprises Limited are as follows:

<i>Registered office:</i>	<i>Correspondence address:</i>
Morgan & Morgan Building	c/o Room 1902-03
Pases Estate	Bank of America Tower
Road Town	12 Harcourt Road
Tortola	Central
British Virgin Islands	Hong Kong

The addresses of Idea Talent Limited and Better Lead Limited are as follows:

<i>Registered office:</i>	<i>Principal place of business</i>
P.O. Box 957	<i>in Hong Kong:</i>
Offshore Incorporations Centre	c/o Room 1902-03
Road Town	Bank of America Tower
Tortola	12 Harcourt Road
British Virgin Islands	Central
	Hong Kong

(d) The English text of this circular shall prevail over the Chinese text.

17. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at (i) the principal place of business of the Company in Hong Kong at 22nd Floor, 8 Commercial Tower, 8 Sun Yip Street, Chai Wan, Hong Kong during normal business hours between 9:00 a.m. to 6:00 p.m. on any Business Day from the date of this circular up to and including the date of the SGM; (ii) on the websites of the SFC (www.sfc.hk); and (iii) on the Company's website (www.imagi.com.hk) until the Latest Time for Acceptance:

- (a) the memorandum of association of the Company and the bye-laws;
- (b) the memorandum of association of articles of association of the Investor;
- (c) the letter from the Board, the text of which is set out on pages 12 to 52 of this circular;
- (d) the letter from the Independent Board Committee, the text of which is set out on pages 52 to 53 of this circular;
- (e) the letter from Veda Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 54 to 80 of this circular;
- (f) the letter from Deloitte Touche Tohmatsu, the reporting accountants, in respect of the unaudited pro forma statement of the adjusted consolidated net tangible assets of the Group, the text of which is set out on pages II-1 to II-4 of this circular;
- (g) the Share Subscription Agreement;
- (h) the Option Agreements;
- (i) the Bridge Loan Agreement;
- (j) the Intercreditors' Agreement;
- (k) the Underwriting Agreement;
- (l) the Sub-underwriting Letter;
- (m) the Undertaking Letter;
- (n) the material contracts referred to in the section headed "Material contracts" in this appendix;
- (o) the written consents of the experts referred to in the section headed "Experts and consents" in this appendix;

- (p) the annual reports of the Company for the two years ended 31 March 2008 and 2009;
- (q) the interim report of the Company for the six months ended 30 September 2009;
- (r) a copy of the Companies Act;
- (s) the circular dated 14 July 2009 in relation to the (i) proposed rights issue on the basis of one rights share for every four shares held on the record date at HK\$0.25 per rights share; (ii) issue of shares upon conversion of bridge loans involving a connected transaction; (iii) connected transaction involving the issue of a new convertible note; (iv) connected transaction involving the Evertop bridge loan arrangements; (v) proposed increase in authorised share capital; (vi) proposed refreshment of the issue mandate; and (vii) proposed refreshment of scheme mandate limit;
- (t) the circular dated 30 October 2009 in relation to the (i) refreshment of existing scheme mandate limit under the Share Option Scheme; (ii) conditional grant of new options; and (iii) connected transaction involving share grants to Directors; and
- (u) the circular dated 30 November 2009 in relation to a connected transaction involving financial assistance by a connected person.



IMAGI INTERNATIONAL HOLDINGS LIMITED

意馬國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00585)

NOTICE IS HEREBY GIVEN that the special general meeting of Imagi International Holdings Limited (the "**Company**") will be held at 22nd Floor, 8 Commercial Tower, 8 Sun Yip Street, Chai Wan, Hong Kong on Friday, 16 April 2010 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions, with or without amendments, as special/ordinary resolutions of the Company:

SPECIAL RESOLUTION

1. **"THAT** subject to and conditional upon the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Adjusted Shares (as defined below) and compliance with the relevant laws of Bermuda, including publication of a notice in relation to the Capital Reduction (as defined below) in Bermuda, the ordinary shares of HK\$0.10 each in the capital of the Company (the "**Shares**") be reorganised in the following manner and to take effect from 9:30 a.m. on Monday, 19 April 2010 (Hong Kong time):
 - (i) every 10 issued and unissued Shares in the capital of the Company be consolidated into one (1) consolidated ordinary share of HK\$1.00 each in the capital of the Company (each a "**Consolidated Share**"), and that such Consolidated Shares shall rank pari passu in all respects with each other and have the rights and privileges and be subject to the restrictions in respect of ordinary shares contained in the bye-laws of the Company (the "**Consolidation**");
 - (ii) all fractional Consolidated Shares shall be disregarded and not be issued to the shareholders of the Company and any fractional entitlements to the issued Consolidated Shares will be aggregated and, if possible, sold and the net proceeds shall be retained for the benefit of the Company by an agent appointed by the Company's board of directors for that purpose;
 - (iii) subject to and forthwith upon the Consolidation taking effect, the issued share capital of the Company be reduced by cancelling the paid-up capital to the extent of HK\$0.999 on each Consolidated Share in issue so that each Consolidated Share shall be treated as one (1) fully-paid up ordinary share of HK\$0.001 each in the capital of the Company (each an "**Adjusted Share**") and any liability of the holders of Adjusted Shares to make any further contribution to the capital of the Company on each Adjusted Share shall be treated as satisfied (the "**Capital Reduction**");

* For identification only

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- (iv) subject to and forthwith upon the Capital Reduction taking effect, all the authorised but unissued share capital of the Company (which shall include the authorised but unissued share capital arising from the Capital Reduction) be cancelled and forthwith upon such cancellation, the authorised share capital of the Company be increased to HK\$1,000,000,000 by the creation of such number of additional Adjusted Shares as shall be sufficient to increase the authorised share capital to HK\$1,000,000,000 divided into 1,000,000,000,000 Adjusted Shares in the Company (the “**Diminution and Increase**”);
- (v) subject to and forthwith upon the Capital Reduction taking effect, the credit arising from the Capital Reduction be applied to the contributed surplus of the Company where it may be utilized by the directors of the Company in accordance with the bye-laws of the Company and all applicable laws, including to set off accumulated losses of the Company (“**Application of Credit**”); and
- (vi) any one director of the Company be and is authorised to approve, sign and execute such documents and take any and all steps, and to do and/or procure to be done any and all acts and things which in his opinion may be necessary, desirable or expedient to implement and carry into effect the Consolidation, the Capital Reduction, the Diminution and Increase and the Application of Credit (collectively, “**Capital Reorganisation**”).”

ORDINARY RESOLUTIONS

- 2. “**THAT** the loan agreement dated 10 February 2010 (the “**Bridge Loan Agreement**”) entered into between the Company and Idea Talent Limited (the “**Investor**”) in relation to the bridge loan facility of up to HK\$20,000,000 provided to the Company by the Investor (a copy of which is produced to the meeting marked “A” and initialed by the Chairman of the meeting for the purpose of identification), and the transactions contemplated thereunder be and are hereby approved, confirmed and/or ratified; and that the Directors be and are hereby authorised, for and on behalf of the Company, to do all such acts and things and to sign, seal, execute and deliver all such documents and take all such steps which they may in their discretion consider necessary desirable or expedient to implement and carry into effect this resolution.”
- 3. “**THAT**
 - (i) the intercreditors’ agreement dated 10 February 2010 (the “**Intercreditors’ Agreement**”) (a copy of which is produced to the meeting marked “B” and initialed by the Chairman of the meeting for the purpose of identification) entered into among the Company and the Core Creditors (as defined in the circular of the Company dated 24 March 2010 (the “**Circular**”)) and the Investor in relation to the

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standstill and compromise of the Relevant Debt (as defined in the Circular) and subject to and conditional upon the passing of the resolutions numbered 1, 4, 5, 6, 7 and 8 by way of (a) acceptance of an aggregate amount of approximately US\$9,000,000; (b) the allotment of 790,000,000 new Adjusted Shares ("**Conversion Shares**") at the issue price of HK\$0.07 per Conversion Share; (c) and the grant of Options (as defined below), the transactions contemplated thereunder be and are hereby approved, confirmed and/or ratified; and that the Directors be and are hereby authorised, for and on behalf of the Company, to do all such acts and things and to sign, seal, execute and deliver all such documents and take all such steps which they may in their discretion consider necessary desirable or expedient to implement and carry into effect this resolution; and

- (ii) subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the Conversion Shares, the allotment and issue of the Conversion Shares pursuant to the Intercreditors' Agreement upon the terms and subject to the conditions therein contained be and is hereby approved; and that the Directors be and are hereby authorized, for and on behalf of the Company, to do all such acts and things and to sign, seal and execute and deliver all such documents and take all such steps which they may in their discretion consider necessary, desirable or expedient for the implementation of and giving effect to the allotment and issue of the Conversion Shares in accordance with the terms of the Intercreditors' Agreement as they may in their discretion consider to be desirable and in the interests of the Company."

- 4. "THAT subject to and conditional upon the passing of the resolutions numbered 1, 3, 5, 6, 7 and 8 and conditional upon the fulfillment and/or waiver (in respect of certain conditions) of the conditions as set out in the underwriting agreement dated 10 February 2010, as amended (the "**Underwriting Agreement**") made between the Company and Get Nice Securities Limited (the "**Underwriter**") (a copy of which is produced to the meeting marked "C" and initialed by the Chairman of the meeting for the purpose of identification) and the Underwriting Agreement not being terminated by the Underwriter in accordance with the terms of the Underwriting Agreement:

- (i) the allotment and issue by way of rights (the "**Rights Issue**") of not less than 1,440,607,352 ordinary shares of HK\$0.001 each ("**Rights Shares**") in the share capital of the Company in both their nil paid and fully paid forms to the holders of Shares of the Company ("**Shareholders**") whose names appear on the register of members of the Company on 16 April 2010 (the "**Record Date**") in the proportion of four (4) Rights Shares for every one (1) Adjusted Share of the Company then held at the subscription price of HK\$0.07 per Rights Share and otherwise on the terms and conditions set out in the Circular be and is hereby approved;

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- (ii) the Directors be and are hereby authorised to allot and issue the Rights Shares pursuant to or in connection with the Rights Issue provided that in the case of Shareholders whose addresses as shown on the register of members of the Company on the Record Date are in any place outside Hong Kong and the Directors consider it necessary or expedient not to offer the Rights Shares to such Shareholders (“**Non-Qualifying Shareholders**”) on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place, the Rights Shares shall not be issued to the Non-Qualifying Shareholders but shall be aggregated and issued to a nominee to be named by the Company and such Rights Shares shall be sold in the market as soon as practicable after dealings in Rights Shares in their nil-paid form commence and the net proceeds of sale of such nil-paid Rights Shares which would have been provisionally allotted to Non-Qualifying Shareholders shall be distributed by the Company to such Non-Qualifying Shareholders pro rata to their shareholdings on the Record Date save that where the pro rata share of such net proceeds of any Non-Qualifying Shareholder shall be HK\$100 or less, such amount shall not be distributed but be retained by the Company for its benefit;
- (iii) the entering into the Underwriting Agreement by the Company be and is hereby approved, confirmed and ratified and the performance of the transactions contemplated thereunder by the Company (including but not limited to the arrangements for taking up of the underwritten Rights Shares, if any, by the Underwriter) be and are hereby approved; and
- (iv) any Director be and is hereby authorised to sign and execute such documents and do all such acts and things incidental to the Rights Issue as he considers necessary, desirable or expedient in connection with the implementation of or giving effect to the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder.”

5. “**THAT:**

- (i) the conditional subscription agreement (the “**Subscription Agreement**”) dated 10 February 2010 entered into among the Company and the Investor in relation to the subscription of 1,880,000,000 ordinary shares of HK\$0.001 each (the “**Subscription Shares**”) at the subscription price of HK\$0.07 per Subscription Share for a total amount of HK\$131,600,000 and an option to subscribe for further Adjusted Shares (“**Top-up Shares**”) at the subscription price of HK\$0.07 per Adjusted Share (the “**Top Up Subscription**”) (a copy of which is produced to the meeting marked “D” and initialed by the Chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and/or ratified; and that the Directors be and are hereby authorized, for and on behalf of the

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Company, to do all such acts and things and to sign, seal, execute and deliver all such documents and take all such steps which they may in their discretion consider necessary, desirable or expedient for the implementation of and giving effect to the Subscription Agreement and the transactions contemplated thereunder as they may in their discretion consider to be desirable and in the interests of the Company; and

- (ii) subject to and conditional upon the passing of the resolutions numbered 1, 3, 4, 6, 7 and 8 and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the Subscription Shares and the Top-Up Shares, the allotment and issue of the Subscription Shares and the Top-Up Shares pursuant to the Subscription Agreement upon the terms and subject to the conditions therein contained be and is hereby approved; and that the Directors be and are hereby authorised, for and on behalf of the Company, to do all such acts and things and to sign, seal and execute and deliver all such documents and take all such steps which they may in their discretion consider necessary, desirable or expedient for the implementation of and giving effect to the allotment and issue of the Subscription Shares and the Top-Up Shares in accordance with the terms of the Subscription Agreement as they may in their discretion consider to be desirable and in the interests of the Company.”

6. “**THAT:**

- (i) the option agreements dated 10 February 2010, as amended (the “**Option Agreements**”) entered into among the Company and each of the Core Creditors and the Investor pursuant to which the Company has agreed to grant the Investor and the Core Creditors options (“**Options**”) to subscribe for an additional 1,500,000,000 new Adjusted Shares and an aggregate of 400,000,000 new Adjusted Shares (together with the 1,500,000,000 new Adjusted Shares, the “**Option Shares**”), respectively, at the subscription price of HK\$0.08 per Adjusted Share (the copies of which are produced to the meeting marked “E” and initialed by the Chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and/or ratified; and that the Directors be and are hereby authorised, for and on behalf of the Company, to do all such acts and things and to sign, seal, execute and deliver all such documents and take all such steps which they may in their discretion consider necessary, desirable or expedient for the implementation of and giving effect to the Option Agreements and the transactions contemplated thereunder; and

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- (ii) subject to and conditional upon the passing of the resolutions numbered 1, 3, 4, 5, 7 and 8 and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the Option Shares, the Options to subscribe for 1,500,000,000 Adjusted Shares be granted to the Investor and the Options to subscribe for 400,000,000 Adjusted Shares be granted to the Core Creditors in accordance with the terms of the Option Agreements upon the terms and subject to the conditions therein contained and the allotment and issue of the Option Shares upon the exercise of subscription rights under the Options be and is hereby approved; and that the Directors be and are hereby authorised, for and on behalf of the Company, to do all such acts and things and to sign, seal and execute and deliver all such documents and take all such steps which they may in their discretion consider necessary, desirable or expedient for the implementation of and giving effect to the grant of the Options and the allotment and issue of the Option Shares in accordance with the terms of the Option Agreements as they may in their discretion consider to be desirable and in the interests of the Company.”
7. “**THAT** subject to the Executive granting to the Investor and parties acting in concert with it, the Whitewash Waiver and the satisfaction of any condition attached to the Whitewash Waiver imposed by the Executive, any obligations which may arise under Rule 26 of the Hong Kong Code on Takeovers and Mergers (the “Takeovers Code”) and which would require the Investor and parties acting in concert with it to make a mandatory general offer to the shareholders of the Company to acquire shares in the Company other than those already owned or agreed to be acquired by the Investor and parties acting in concert with it which would otherwise arise under Rule 26.1 of the Takeovers Code as a result of any issue and allotment of shares pursuant to application(s) made by the Investor, its associates and parties acting in concert with them under the Rights Issue, be and are hereby waived; and that the Directors be and are hereby authorised, for an on behalf of the Company, to do all such acts and things and to sign, seal, execute and deliver all such documents and take all such steps which they may in their discretion consider necessary, desirable or expedient to implement and/or give effect to any matters relating to or in connection with the waiver of such obligations as they may in their discretion consider to be desirable and in the interests of the Company.”

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8. “**THAT** each of (i) the settlement of the Relevant Debt in cash and the issue of the Adjusted Shares pursuant to the Intercreditors’ Agreement; (ii) the grant of the Options pursuant to the Option Agreements to each of Trophy LV Master Fund and Trophy Fund; and (iii) the use of the proceeds from the Rights Issue to repay in cash the full amount under the Trophy Advance, which would constitute a favourable condition not extended to all shareholders of the Company and therefore a special deal under Rule 25 of the Takeovers Code (the “**Special Deals**”), be and are hereby approved.”

By Order of the Board
IMAGI INTERNATIONAL HOLDINGS LIMITED
Mr. Phoon Chiong Kit
Deputy Chairman and Chief Executive Officer

Hong Kong, 24 March 2010

Registered office:
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

*Head office and principal place of business
in Hong Kong:*
22nd Floor
8 Commercial Tower
8 Sun Yip Street
Chai Wan
Hong Kong

Notes:

- (1) A member entitled to attend and vote at the special general meeting convened by the above notice is entitled to appoint one or, if he is holder of more than one share, more than one proxy to attend and to vote in his stead. A proxy need not be a member of the Company.
- (2) In order to be valid, a form of proxy, together with any power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, must be deposited at the Company’s branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, as soon as practicable but in any event not later than 48 hours before the time for holding of the special general meeting or any adjournment thereof (as the case may be).
- (3) Completion and delivery of the form of proxy will not preclude members from attending and voting at the special general meeting or any adjournment thereof (as the case may be) should they so wish and in such event, the form of proxy will be deemed to be revoked.
- (4) Where there are joint holders of any shares, any one of such holders may vote at the special general meeting either personally or by proxy in respect of such shares as if he/she was solely entitled thereto provided that if more than one of such joint holders be present at the special general meeting whether personally or by proxy, the person whose name stands first on the register of members of the Company in respect of such shares shall be accepted to the exclusion of the votes of the other joint holders.
- (5) All resolutions proposed at the special general meeting will be voted by way of a poll by the shareholders or independent shareholders of the Company.