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

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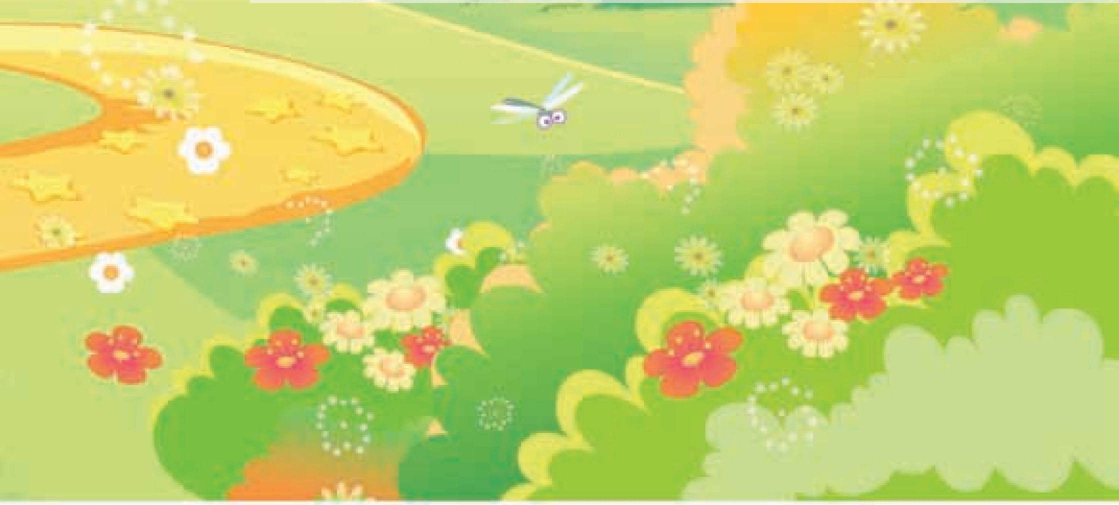
2011 Interim Report 中期報告

Content



CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman and Non-executive Director
Mr. Leung Pak To

Executive Director
Mr. Soh Szu Wei

Non-executive Directors
Ms. Ma Wai Man, Catherine
Mr. Yang Fei

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

AUDIT COMMITTEE

Mr. Cheng Yuk Wo (Chairman)
Mr. Chan Yuk Sang
Dr. Lam Lee G.

REMUNERATION COMMITTEE

Mr. Soh Szu Wei (Chairman)
Mr. Chan Yuk Sang
Mr. Cheng Yuk Wo
Dr. Lam Lee G.
Ms. Ma Wai Man, Catherine

COMPANY SECRETARY

Ms. Lau Siu Mui

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AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL BANKER

The Bank of East Asia, Limited

PRINCIPAL SHARE REGISTRAR

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BUSINESS AND OPERATIONAL REVIEW

Imagi International Holdings Limited (the "Company" or "Imagi", together with its subsidiaries, the "Group") completed the acquisition of Infoport Management Limited and its operating subsidiaries including Toon Express International Limited ("Toon Express", together the "TE Group") on 13 April 2011. In the past six months, TE Group has been actively integrating and synergizing its operations. To date, the integration between Imagi and TE Group has proceeded smoothly. TE Group continues to work closely with its strategic partner, Creative Power Entertaining Limited Liability Company ("CPE"), and its master licensee, Disney Enterprises Inc. ("Disney" or "Master Licensee"), and other Disney affiliates.

Consumer Products Licensing

Disney became the Master Licensee on 1 January 2011 for all existing Toon Express' brands for the following product categories: consumer products, publishing, internet and mobile downloads (excluding video streaming) and home entertainment products. The relationship with Disney has been productive in TE Group's point of view. Since 1 January 2011, the following were achieved with Disney:

- The cameo appearance of Disney's "*Kungfu Dragon*" character in our forthcoming sequel of the *Pleasant Goat and Big Big Wolf* annual movie. The inclusion of Disney's *Kungfu Dragon* is to celebrate the Year of the Dragon in 2012 and also to make the *Pleasant Goat and Big Big Wolf* movie 4 storyline more exciting. In terms of economic benefits, Disney will share with TE Group the licensing income generated from the sales of *Kungfu Dragon's* consumer products over the next three years.

  On 5 July, CPE appointed Buena Vista International ("BVI") (a Disney company) to be its distributor for the *Pleasant Goat and Big Big Wolf* Movie 4 in cinematic channels on a global basis (excluding China and certain selected territories and distribution channels). The arrangement will enable Movie 4 to achieve a global distribution through cinemas, and all traditional as well as new home entertainment modes.

- As part of the continuing partnership with Disney, *Pleasant Goat and Big Big Wolf's* consumer products in the market have started to carry "Disney Licensed Merchandise" label on the packaging. This aims to promote greater confidence amongst consumers. In addition, the inclusion of the "Disney Licensed Merchandise" label allows for increased and concerted efforts by TE Group and our licensees to enforce anti-counterfeit initiatives.

- A major development this year is the improvement of the product quality and designs. Our licensees have been encouraged to upgrade the design and quality of the licensed products. In the short term, there will be an impact on the licensing revenue for the nine-month financial period ending 31 December 2011 ("Financial Period 2011") as TE Group migrates to more capable and higher quality licensees. However, TE Group believes that this transition to improved product quality and designs is essential and indispensible for strengthening consumer appeal and brand equity in the long term.

- In the area of new media, the Group has managed to convert and reposition our content through different internet platforms and portals for the *Pleasant Goat and Big Big Wolf* brand to reach out to our consumers and fans. Together with our various partners, the Group has signed on with various major internet content providers and portals such as www.tiancity.com, 4399.com, China Mobile, Nokia's ovi, sohu.com, tencent.com, renren.com, PCCW, etc., to create *Pleasant Goat and Big Big Wolf* online/mobile games and video on demand, wallpaper, e-commerce, eBooks, flashcard, etc.

- As at 1 January 2011, 174 licensees were transferred to the Master Licensee under the Consumer Product Agreement. In the nine months ended 30 September 2011, the Master Licensee has achieved the following:

    - 38 new licensees
    - 16 renewal contracts
    - 1,197 new product designs
    - HK$90.6 million of minimum guaranteed licensing fees arising from new and renewal contracts over the next 2-3 years.

- In Taiwan, our *Pleasant Goat and Big Big Wolf* characters, pops and music appeared in 2 episodes of the "Watcha' Playing" live show of the Disney Channel and achieved a positive TV ratings.

- Under the Broadcast Agreement with Disney signed on 15 October 2010, Disney has started broadcasting the *Joys of Seasons* in Taiwan, Hong Kong and the Indian Sub-Continent (in three local Indian dialects) through Disney Channel. The broadcast has built brand awareness of *Pleasant Goat and Big Big Wolf* beyond Mainland China to pave way for the introduction of consumer product licensing opportunities and diversify its economic dependency from Mainland China.

- On 29 August 2011, TE Group acquired HK$36.4 million shares or 20.63% in Sino Light Enterprise Limited ("SLE"), which entered into a licensing agreement with Disney on 21 December 2010 to manufacture and distribute children's apparel for kids from 0–14 years old for 3 years in China under the *Pleasant Goat and Big Big Wolf* brand through an establishment of chain stores. Disney has also granted SLE the right to formulate an e-Commerce strategy for *Pleasant Goat and Big Big Wolf*, and entered into a licensing deal with SLE on the apparel merchandise of *Pleasant Goat and Big Big Wolf* for Movie 4. Through establishing various types of sales outlets (flagship stores, shop-in-shops, franchised outlets, etc.), SLE plans to build a nationwide retail network of over 1,100 *Pleasant Goat and Big Big Wolf* points of sale in 3 years. There are also plans to build themed flagship stores in Shanghai, Beijing and Guangzhou where customers can experience a one-stop service, immersing in the animated world while shopping for quality merchandise of the *Pleasant Goat and Big Big Wolf* brand. Inside the *Pleasant Goat and Big Big Wolf* flagship stores, children can interact with the mascot characters, play, learn and shop at the same time. The first 2 stores were opened on 1 October 2011 in Zhuhai.

- TE Group commissioned The Nielsen Company to conduct a *Pleasant Goat and Big Big Wolf* Licensee Survey in the third quarter of 2011 to gauge licensees' satisfaction level towards TE Group and Disney. 102 licensees responded. Statistically, this is a high 48% response rate. 79% of the licensees responded that the *Pleasant Goat and Big Big Wolf* brand continues to be popular. Disney and Toon Express, on the other hand, are perceived to be highly professional in licensee management, financial arrangements, creativity, leading in the market and responsive to licensee enquiries. Resources like styleguides provided by the TE Group and different supporting systems are considered to be helpful and effective for licensees to do product development and submission of product design and promotional materials for approval. However, according to licensees' feedback, marketing information communications and the protection of intellectual property rights of *Pleasant Goat and Big Big Wolf* are areas where significantly more efforts have to be provided.

TE Group has stepped up efforts in protecting intellectual property rights of *Pleasant Goat and Big Big Wolf*. The adoption of the anti-counterfeit holograms by our sub licensees on our licensee products was kicked off together with a TV campaign commencing on 1

November 2011. Proactive raiding of *Pleasant Goat and Big Big Wolf* counterfeit products will follow suit. Currently, the Group is working on 543 legal cases, which have violated our intellectual property rights.

"PINK CATEGORY"

As the trademark owner, TE Group continues to innovate and explore new ways of expanding its core franchise. TE Group recently rolled out "*Baby Pleasant Goat and Big Big Wolf*" ("Baby") and "*Avant Garde Pleasant Goat and Big Big Wolf*" ("Avant Garde"). The Baby range will allow our licensees to broaden their product offerings to include baby products and expand target consumer group to include new mothers. In addition, the Baby range will also cover the "Pink" category. The "Pink" products are a major product category which targets female kids, teenagers and young adults who go for brands with "cute and feminine" images and generally pink colour. The Avant Garde range will target both male and female teens and young adults who are 15 years old or above and have grown up with *Pleasant Goat and Big Big Wolf* but with a residual disposition towards the brand. This line extension has images of a more mature and playful *Pleasant Goat and Big Big Wolf*. Together with the Baby, Avant Garde and the classic *Pleasant Goat and Big Big Wolf* series, the Group will be able to extend the brand reach to consumer target group from 8–14 to 0-35 years old and beyond.

Strategic Alliance with Creative Power Entertaining

Movie 4 is currently in production by CPE and is slated for release in early 2012. The production of Movie 4 is on track and within budget. Movie 3: *Moon Castle — The Space Adventure*, which was released in January 2011, generated a gross box office of RMB143 million in Mainland China. At the close of the cinematic release, Movie 3 was the highest grossing animation movie in Mainland China's history (for both internationally and domestically produced animation). TE Group and CPE are now working on the storyline for Movie 5.

CPE continues to build the strongest pipeline of media content in Greater China. For 2011, a total of 162 television episodes have been produced, of which, *Pleasant Goat and Big Big Wolf* will have two new seasons *Smart Dodging and Happy Happy Bang Bang* with 60 and 100 episodes respectively. To date, more than 60 television stations have entered into broadcast agreements with *Pleasant Goat and Big Big Wolf*, allowing the brand to reach 93% of national television coverage in Mainland China of children aged 4–14 years.


"BABIES"

In terms of broadcast performance in China, *Pleasant Goat and Big Big Wolf* achieved the following for the 3rd quarter of 2011:

- Airtime increased by 10.7% from the 2nd quarter with breakdown as follows:

  (1) National stations: increased in broadcast airtime by 86% from the 2nd quarter
  (2) Provincial and provincial satellite stations: as compared to our commitments made to Disney, it exceeded the target by 144%
  (3) City stations: increased in broadcast airtime by 13.6% from the 2nd quarter.

- *Pleasant Goat and Big Big Wolf's* 3+ Reach ratings grew from 75% in the 2nd quarter to 86% in the 3rd quarter. 3+ reach means three (3) or more minutes of continuous viewing by audiences aged between four and fourteen years, with a frequency of three or more times per month.

  - In terms of *Pleasant Goat and Big Big Wolf's* audience profile, core 4–14 age group accounts for 46.6% of the total viewership.

In Taiwan, momo Kids Channel, one of the leading cable televisions for children's programming, has signed *Smart Dodging* and *Happy Happy Bang Bang* for a period of 3 years. Classic TV series of *Pleasant Goat and Big Big Wolf* and *Joys of Seasons* have constituted 7.5 million seconds of momo's total broadcast time since October 2008. Lately, due to its increasing appeal to kids, momo has been showing the *Pleasant Goat and Big Big Wolf* cartoons for 3 hours with 12 episodes every day.


"SIMPLE LIFE"

Stage shows and carnivals continue to be important platforms to drive brand awareness and generate revenue for TE Group. The plan for 2011 is to organize 104 *Pleasant Goat and Big Big Wolf* stage shows in China and prepare for the launch of the 3rd sequel of *Pleasant Goat and Big Big Wolf* stage show in the 2nd quarter of 2012 to sustain interest level. In Taiwan, Jinho Dissemination Co, Ltd has been signed on to run 26 *Pleasant Goat and Big Big Wolf* stage shows in 2012. Such a move will certainly 'hike' up consumer interest towards the brand. CPE, on the other hand, is working with Mactus Pte Ltd, an experienced event organizer in Asia who was signed up for organizing *Pleasant Goat and Big Big Wolf* carnivals in China. Three trial events in July and August were organized to test the ticketing and token sales system to prepare for the full launch of 99 *Pleasant Goat and Big Big Wolf* carnivals in 8 cities of China, which will commence in the 2nd quarter of 2012 for a period of 3 years.

For publications, there will be increased focus on new content development and marketing the contents online to expand the target consumer base. Ten baby styleguides have been developed and at the same time, we are geared towards the e-publishing world at China Mobile. With Movie 4 coming up, our plan is to launch 52 titles with a sales target of over one million copies.

Overseas Activities

TE Group is also expanding its brand activities beyond Mainland China. In March 2011, TE Group opened its Taipei branch office in recognition of the strong brand awareness of *Pleasant Goat and Big Big Wolf* in Taiwan and the market potentials for *Pleasant Goat and Big Big Wolf* consumer products. The activities in Taiwan will further entrench *Pleasant Goat and Big Big Wolf* as a dominant animation brand that will complement the growth of the consumer products licensing opportunities.

TE Group has also registered an office in Singapore. *Pleasant Goat and Big Big Wolf* was broadcasted in Singapore under Nickelodeon in 2009 and currently under Mediacorp's Channel 8 since November 2010. With the strong interest of Singaporeans to learn Mandarin, *Pleasant Goat and Big Big Wolf* is well received by parents as a good and fun way for their children to be exposed to Chinese culture and language. TE Group is building on this foundation. In October, the Group worked with Nanyang Primary

"HAPPY PLAY"

School, a top school to promote the use of Mandarin for their students. With the mounting response, TE Group aims to work more intensively with schools in Singapore on this initiative. The growing dominance of China as the world's second largest economy has brought about a strong interest internationally to learn Mandarin and *Pleasant Goat and Big Big Wolf* is well positioned to capitalize on this growing opportunity.

INCOME RECOGNITION

With the acquisition of TE Group, the Group's income is primarily derived from licensing fees generated primarily under the Consumer Products and Related Use Agreement ("CPA") entered into with Disney, and income arising from the Joint Brand Management Agreement ("JBMA") with CPE.

With effect from 1 January 2011, licensing royalty fee income (other than lump sum fee based contracts) is recognized as follows:

a. A sub licensee enters into a contract with the Master Licensee whereby the Master Licensee is entitled to receive a licensing royalty fee based on a percentage of the sale revenue of the licensed product, subject normally to a minimum guarantee ("Sub-licensee MG") for a period of 2 to 3 years.

b. TE Group charges the Master Licensee royalties according to the kinds of products in addition to a minimum guarantee ("Disney MG"), which is adjusted periodically.

c. TE Group recognizes the licensing royalty fee income monthly based on the accrued Sub-licensee MGs attributable to TE Group for each contract year.

d. If the sub licensee's actual performance is higher than the Sub-licensee MG, the additional income will be recognized at the contract anniversary, the end of the contract period or other period as agreed between the licensor and licensee.

e. There is also a cap on the level of bad debts and the Master Licensee guarantees the Group that bad debt does not exceed 4% of the aggregate royalties payable.

"GO MY WAY"

The Disney MG is above TE Group's ordinary operating expenses and provides a safety net to TE Group in times of an economic downturn, subject to TE Group achieving certain key brand performance indicators.

TE Group is in the process of assisting our sub licensees to upgrade their design, product quality, marketing and promotion, and distribution practices. In the short run, there will be a negative financial impact due to migration of sub licensees to higher design standards, product quality and possible changes of distribution practices as compared to the previous year. However, TE Group believes that this is best in the medium and long-term interest of the *Pleasant Goat and Big Big Wolf* brand. It will reposition the brand from a local brand into one that is able to compete internationally as competition becomes more intense.

As a result of this transition to facilitate the migration of sub licensees to higher design standards and product quality, it is expected that for the nine-month financial period ending 31 December 2011, the minimum guarantee portion of the licensing royalty fee income recognized will not be able to show significant growth compared to that of the corresponding period in 2010. The total licensing royalty fee income will be determined at the end of the nine-month financial period based on the actual sales reports to be submitted by the sub licensees.

Nevertheless, the indicative pipeline of projects received from our licensees and potential licensees (subject to the successful conclusion of the agreements) for the next few two to three years is encouraging and indicates a compound annual growth rate of about 20%.

FINANCIAL REVIEW

Review of Results

The Group

The Group has achieved a tremendous turnaround and is now on track for future growth. The loss incurred in the previous six months ended 30 September 2010 of HK$520.6 million was narrowed to HK$46.7 million for the six months ended 30 September 2011 ("Period under Review"). The historical difficulties associated with the Group's previous business model have been totally revamped. The Group now focuses on its own brands. The Group's recently acquired *Pleasant Goat and Big Big Wolf* brand continues to be China's No 1 locally developed animation brand.

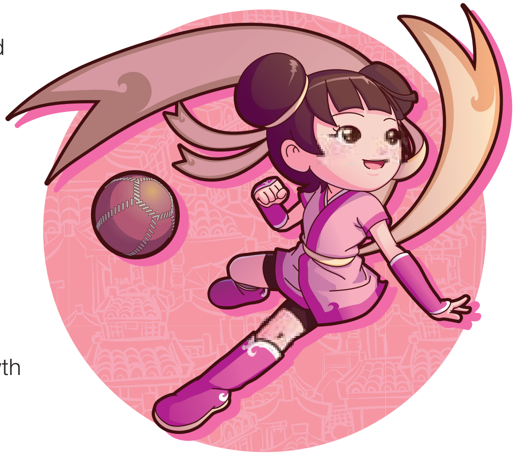
After the completion of the acquisition of TE Group in April 2011, the Group has had new revenue streams, namely licensing income and income arising from JBMA on commercial exploitation of cartoon characters, which together accounted for HK$66.6 million or 94.1% of the total revenue of the Group in the Period under Review. Compared with the corresponding period of last year, revenue of the Group for the six months ended 30 September 2011 surged by HK$66.4 million or 14.9 times. Cost of sales has correspondingly increased but at a lower rate by HK$23.8 million or 7 times when compared with the corresponding period of last year. The gross profit margin (before the amortization of intangible assets) hence improved from 24.1% to 61.6%.

Upon the completion of the acquisition of TE Group, certain commercial contracts entered into by TE Group (mainly CPA and JBMA) and the trademarks owned by TE Group have to be recognized as intangible assets, which are subject to amortization under the accounting policies adopted by the Group. During the Period under Review, the amortization of intangible assets charged to the income statement amounted to HK$50.3 million.

The administrative expenses, which mainly comprise of salaries, office rental and other office expenses, increased by HK$28.8 million when compared with the corresponding period of last year because of the newly acquired business of the Group.

However, the accounting loss amounting to HK$501.4 million and recorded in the corresponding period of last year on the redemption of bridge loan, prints and advertising loan and convertible notes, which were part of the restructuring program to revive the Group in May 2010, no longer recurred.

TE Group



TE Group's operating expenses for the Period under Review increased by 64% compared with the corresponding period of last year due to the increase in overall headcounts (including new functional departments), setting up of overseas units in Taiwan and Singapore, renovation costs of the office, and higher marketing expenses to build brand awareness in the Greater China area and for developing new brand extensions, which are now rolling out and will form the new foundation for future growth opportunities.

The consumer product licensing business continues to grow. Due to the commencement of the Consumer Product Agreement with Disney on 1 January 2011, there is a revenue share with Disney as the Master Licensee. The appointment of Disney allows TE Group to focus on brand development.

Contribution from the Joint Brand Management Agreement with Creative Power Entertaining

The JBMA between CPE and TE Group commenced in April 2010. The media business is expected to continue to grow due to the strong ratings of the brand.

In 2011, revenue per episode from the new *Pleasant Goat and Big Big Wolf* TV Series: *Happy Happy Bang Bang* hit a record high, significantly in multiple excess over the average price of our competitors' contents in Mainland China.

In 2011, Movie 3 of *Pleasant Goat and Big Big Wolf*'s box office revenue also saw a record, reaching RMB143 million in China. Comparatively, the box office revenues for Movies 1 and 2 were RMB80 million and RMB128 million respectively.

With respect to CPE's other revenue generators, CPE also achieved better monetary results from stage shows, carnivals, and mascots' Meet & Greets, etc., in 2011 versus previous years. The increase in other revenue was driven mainly by an increase in licensing fees, a reflection of the increase in brand value of *Pleasant Goat and Big Big Wolf*.

The major expenditure of CPE in 2011 is the renovation of its offices to improve the working conditions, staff retention and employee creativity. Headcount has also increased from about 200 staff as at the end of 2010 to approximately 300 as at the end of the Period under Review, which is in line with an increase in TV content delivery and improvement in animation quality. Finally, CPE has also upgraded all of its computer hardware and software.

The directors of the Company ("Directors") would like to thank our strategic partner, CPE, for the sterling performance towards the growth of the *Pleasant Goat and Big Big Wolf* brand.

Material Acquisition of Subsidiaries and an Associated Company

The acquisition of TE Group (the "Acquisition") was approved by the shareholders of the Company on 12 April 2011 and was completed on 13 April 2011. Being the initial consideration of the Acquisition, cash consideration of HK$330 million was paid and 1,382,857,143 new shares of HK$0.001 each of the Company (the "Shares") were issued upon the completion. Depending on the financial performance of TE Group in the two financial years ending 31 December 2011 and 2012, a further amount of up to HK$232.5 million may be payable in October 2013 as earn-out payment. Further details of the Acquisition and the determination of the earn-out payment were set out in the circular of the Company dated 23 March 2011.

The shares issued as part of the consideration of the Acquisition were valued at HK$423.5 million for accounting purpose. Together with the cash consideration of HK$330 million, an amount of HK$753.5 million was recorded as the initial consideration of the Acquisition paid on 13 April 2011. In exchange of this HK$753.5 million, the Group recognized (i), based on the completion account of TE Group, the fair value of the assets and liabilities of TE Group as at 13 April 2011 amounting to HK$17.6 million; (ii) the aggregate fair value of three intangible assets identified in the Acquisition, namely the trademarks and copyrights owned by TE Group, the CPA with Disney and the underlying assets of the JBMA with CPE amounting to HK$979.8 million; and (iii) the associated deferred tax liabilities of the three intangible assets with an amount of HK$243.9 million. According to the prevailing accounting policies adopted by the Group, the three intangible assets are subject to amortization based on their respective contract lives and estimated economic lives ranging from 6 to 12 years.

During the six months ended 30 September 2011, the amortization of these three intangible assets charged to the income statement as cost of sales and the corresponding deferred tax liabilities credited amounted to approximately HK$50.3 million and HK$12.5 million respectively.

On 13 July 2011, Toon Express International Limited, a member of TE Group, entered into an agreement to subscribe for a 20.63% equity interest in Sino Light Enterprise Limited ("SLE") at an aggregate consideration of HK$36.4 million, of which HK$9.1 million was satisfied by cash and HK$27.3 million was satisfied by way of provision of certain business support services procured by TE Group. SLE is principally engaged in the design, manufacture, sales and distribution through its retail network of children's apparel under the *Pleasant Goat and Big Big Wolf* brand. The transaction was completed on 29 August 2011 and SLE became an associated company of the Group.

Liquidity and Financial Resources

During the Period under Review, the Company raised approximately HK$483 million in aggregate from the placing of 1,282,816,000 new Shares at a consideration of HK$0.28 per Share on 13 April 2011 and the issue of 1,629,600,000 new Shares pursuant to the exercise of the options granted in May 2010 at an adjusted exercise price of HK$0.076 per Share. The funds so raised were applied to settle the cash consideration of HK$330 million under the Acquisition and as the working capital of the Group. Surplus cash with no immediate use has been placed on short-term deposits with licensed banks to earn interest income.

The liquidity and financial position of the Group as at 30 September 2011 remained healthy and strong, with bank balance amounting to HK$290.6 million and a current ratio of 4.9.

As at 30 September 2011, the Group had no bank or other borrowings and therefore had a zero gearing (expressed as a percentage of total borrowings over total capital).

Capital Structure

As at 30 September 2011, the Company had in issue 10,020,180,720 Shares and an outstanding option to subscribe for 50,000,000 Shares at an exercise price of HK$0.35 per Share which will expire on 31 December 2013. Details of the share options granted under the share option scheme of the Company are set out under the heading "Share Options" in the section headed "General Information" of this report.

Charges on Assets

As at 30 September 2011, the Group's entire rights in its second feature film, *Astro Boy*, (except for the exploitation rights throughout the territories of China, Hong Kong and Japan) were pledged as collateral to secure a loan granted to a former subsidiary of the Company in the United States for funding the launch of *Astro Boy* in October 2009. This former subsidiary is currently under a procedure called Assignment for the Benefit of Creditor, which is a recognized form of voluntary liquidation in California. The carrying value of *Astro Boy* in the book of accounts of the Group as at 30 September 2011 was nil.

Exposure to Exchange Rates

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

Contingent Liabilities

As at 30 September 2011, the Group had no significant contingent liabilities.

On 14 September 2011, the Company and its wholly-owned subsidiary, Imagi Diamond Limited ("IDL"), received a summons (the "Summons") served by Tatsunoko Production Co., Ltd. ("Tasunoko"). It is alleged in the Summons that, among others, (i) because of its failing to complete the production of an animated motion picture based on the *Gatchaman* animated television series (the "Picture") before the stipulated deadline, IDL breached an agreement entered into on 7 June 2006 with Tatsunoko; and (ii) the Company and IDL have made unfair and false representations and advertising material regarding their rights on the Picture. The Summons has not specified the amount of claims.

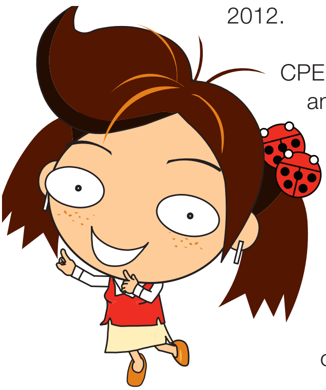
After the completion of the acquisition of TE Group in April 2011, the Company focuses its efforts in the business of TE Group and stopped investing further money in the production of the Picture and the carrying value of the Picture in the book of the Group has been fully impaired. Therefore, the management considers that the claim from Tasunoko will not have material impact on the business, operations and/or financial position of the Group.

PROSPECTS

The Group's prospects remain good with the continued strong popularity of *Pleasant Goat and Big Big Wolf* brand. However, in the interest of long term growth and brand health, there is a need for our sub licensees to migrate to more sophisticated designs and higher quality consumer products. Sub licensees are being encouraged to utilize the newer style guides which are more sophisticated and modern, and can allow the *Pleasant Goat and Big Big Wolf* brand to reach consumers beyond the core 4 to 8 years old. Product quality is also elevated in line with Disney becoming the Master Licensee and consumer products carrying the "Disney Licensed Merchandise" label. The initiative to migrate to higher quality licensees will have a negative impact on the financial performance of TE Group this year. In light of the short-term disruption caused by the joint initiative of TE Group and the Master Licensee to migrate to higher quality licensees and based on the performance of TE Group in the nine months ended 30 September 2011, the Directors believe that the profit target for the year ending 31 December 2011 of HK$85 million (after tax) stipulated as a condition, among others, for the earn-out payment in the form of the Promissory Note in connection with the acquisition of the TE Group is unlikely to be achieved. In addition, revenue sharing arrangement with Disney has commenced since 1 January this year. Notwithstanding this short-term disruption, the pipeline of licensing deals that are currently being negotiated is promising and the Directors are confident with the long-term growth prospects of the consumer products licensing business of TE Group.

In addition to the strong pipeline of licensing projects in Mainland China, TE Group's Taiwan branch is expected to generate new income in 2012 from service licensing, advertising income, video streaming with local mobile telecommunication companies, etc.

In terms of media products, our strategic partner, CPE, has just completed the production of the 4th *Pleasant Goat and Big Big Wolf* full feature movie, which will be released in January 2012. Production for 2012's television episodes will also start soon. CPE plans to produce 120 *Pleasant Goat and Big Big Wolf* television episodes for release in 2012.



CPE will also soon commence production for the live action and animation *Pleasant Goat and Big Big Wolf* full feature movie targeted at teenagers and young adults for release in late 2012 or 2013.

As an effort to diversify the portfolio, CPE will be producing a full feature movie for *Happy Family*. 100 television episodes will also be produced to build brand awareness prior to the launch of the movie. Both the movie and television episodes will be released in late 2012 or 2013.

"DISCOVER JOURNEY TO THE FOREST"

The Directors expect that the contribution from the JBMA continue to show steady increase. CPE is expected to generate steady income from the sale of TV episodes, movies, stage shows and carnivals. In 2012, CPE will focus more on other revenue generators such as sale of airtime, advertisement production, sale of TV episodes to cable TV operators, publications, and in-door carnivals, etc.

As the Group rolls out the new *Pleasant Goat and Big Big Wolf* brand extensions, revenue is expected to grow. In addition, the Group is moving significantly in the Internet and mobile environment (in addition to traditional channels which our brands already have gained a significant presence through TE Group and the Master Licensee). The Group has successfully transformed itself from an animation company to a brand management company based on the Group's own intellectual property rights. This is significantly different from the past when the Group obtained licensing rights from external brand owners. The Group now channels its resources to developing its own brands.

Our products are very suitable for Internet and mobile platforms. Our existing entire database of more than 700 television episodes, movies and publications can all be digitized and commercialized in the Internet and mobile environment. In addition, the Group is exploring with major partners on other aspects of its e-strategy. The Group has started a mobile game app department in its Chai Wan production studio to launch new brands and to support existing brands. With the rapidly emergence of Stereo 3D devices in the marketplace, the Stereo 3D capability of the Chai Wan production studio will be able to capitalize on this rapidly growing trend as more consumer devices are launched.

Going forward, the Group expects to achieve operational profitability, before the annual amortization of intangible assets (and the reversal of the corresponding deferred tax liabilities) of approximately HK$73 million related to its acquisition of TE Group. This is an accounting treatment and will not affect the Group's future cash flow and liquidity.

HUMAN RESOURCES

The Group employs 130 employees in Hong Kong, Guangzhou, Shanghai, Singapore and Taipei for its businesses at the interim period end date. Emolument policy is reviewed regularly to ensure compliance of the latest labour laws and market norms where the Group has operations. In addition to basic salaries, incentives in the form of bonus and share options may also be offered to eligible employees on the basis of individual performance and the Group's business results. Also, in order to maximize synergy and promote team spirit across the Group, a 2-Day team building exercise facilitated by an external consultant was organized and conducted in Shenzhen on 28 and 29 July 2011.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 September 2011, the Company was in compliance with the applicable code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the deviation from Code A.4.1 of the CG Code that none of the non-executive Directors is appointed for a specific term. However, in accordance with the bye-laws of the Company, one-third of the Directors for the time being shall retire from office by rotation and every Director shall be subject to retirement by rotation at least once every three years. The Board considers that sufficient measures have been in place to ensure the corporate governance practices adopted by the Company are no less exacting than the CG Code.

CODE FOR SECURITIES TRANSACTIONS

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as its own code of conduct regarding the Directors' securities transactions. In response to the specific enquiry made by the Company, all the Directors confirmed that they fully complied with the Model Code throughout the six months ended 30 September 2011.

CHANGES IN INFORMATION OF DIRECTORS

With effect from 1 July 2011, Ms. Ma Wai Man, Catherine, who was previously appointed as an executive director, was re-designated as a non-executive director of the Company. Since then, Ms. Ma ceased to receive any salary from the Company but is entitled to receive a director fee of HK$200,000 per annum.

On 16 October 2011, Dr. Lam Lee G. resigned as an independent director of CDC Software Corporation, the shares of which are listed on NASDAQ.

Save for the above, there is no other change in Directors' information since 21 June 2011, the date of the annual report of the Company for the year ended 31 March 2011, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

INTERIM DIVIDEND

The Directors have not recommended the payment of any interim dividend for the six months ended 30 September 2011.

DIRECTORS' INTEREST IN SECURITIES

As at 30 September 2011, the interests and short positions of the Directors and chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations were as follows:

- **Long positions in the shares of the Company**

Name of Director	**Capacity**	**Number of Shares**	**% of the issued share capital** (note 1)
Leung Pak To	Interest of controlled corporation	2,700,000,000 (note 2)	26.95%
Soh Szu Wei	Interest of controlled corporation	32,580,000 (note 3)	0.33%

Notes:

1. It was based on 10,020,180,720 Shares in issue as at 30 September 2011.

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

3. The Shares were held by Kolela Limited, a company wholly and beneficially owned by Mr. Soh Szu Wei.

- **Long positions in the share options of the Company**

Name of Director	**Capacity**	**Number of options held**	**Number of underlying shares**
Soh Szu Wei	Beneficial owner	50,000,000	50,000,000
Ma Wai Man, Catherine	Beneficial owner	2,000,000	2,000,000

Save as disclosed above, as at 30 September 2011, none of the Directors or chief executive of the Company or any of their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTEREST

As at 30 September 2011, the interests and short positions of those persons (other than the Directors and chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company were as follows:

- **Long positions in the shares of the Company**

Name	**Capacity**	**Number of Shares**	**% of the issued share capital** (note 1)
Idea Talent Limited	Beneficial owner	2,700,000,000	26.95%
Grandwin Enterprises Limited	Interest in controlled corporation	2,700,000,000 (note 2)	26.95%
Better Lead Limited	Interest in controlled corporation	2,700,000,000 (note 2)	26.95%
Chung Cho Yee, Mico	Interest in controlled corporation	2,700,000,000 (note 2)	26.95%
Sure Wealth Holdings Limited	Beneficial owner	657,039,810	6.56%
So Wing Lok, Jonathan	Interest in controlled corporation	657,039,810 (note 3)	6.56%
FIL Limited	Investment manager	561,392,000	5.60%

Name	Capacity	Number of Shares	% of the issued share capital (note 1)
Winnington Capital Limited	Beneficial owner	38,920,000	0.39%
	Investment manager	464,320,000	4.63%
Hung Kam Biu	Beneficial owner	1,414,194	0.02%
	Interest in controlled corporation	503,240,000 (note 4)	5.02%
Chu Jocelyn	Interest of spouse	1,414,194 (note 5)	0.02%
	Interest in controlled corporation	503,240,000 (note 4)	5.02%

Notes:

1. It was based on 10,020,180,720 Shares in issue as at 30 September 2011.

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

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

4. To the Directors' best knowledge, the Shares were deemed to be interested by Winnington Capital Limited, a company which is 50% owned by each of Mr. Hung Kam Biu and Ms. Chu Jocelyn.

5. The Shares were held by Mr. Hung Kam Biu, the spouse of Ms. Chu Jocelyn.

Save as disclosed above, as at 30 September 2011, so far as was known to the Directors, no other persons (other than the Directors and chief executive of the Company) had any interests or short positions in the shares or underlying shares of the Company representing five percent or more in the issued share capital of the Company and as recorded in the register required to be kept under Section 336 of the SFO.

SHARE OPTIONS

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

	Date of grant	Vesting period	Exercise period	Exercise price per Share HK$	Number of share options As at 1 April 2011	Granted during the period	Exercised during the period	Cancelled during the period	Forfeited during the period	As at 30 September 2011
Directors										
Soh Szu Wei	13.04.2011	3 to 5 years	3 years	0.368	–	50,000,000	–	–	–	50,000,000
Ma Wai Man, Catherine	13.04.2011	3 to 5 years	3 years	0.368	–	2,000,000	–	–	–	2,000,000
					–	52,000,000	–	–	–	52,000,000
Employees	21.08.2009	1 to 3 years	5 years	0.755	976,152	–	–	(223,598)	(335,394)	417,160
	17.11.2009	nil to 3 years	3 to 5 years	0.755	73,568	–	–	–	(73,568)	–
	13.04.2011	3 to 5 years	3 years	0.368	–	12,120,000	–	(440,000)	–	11,680,000
					1,049,720	12,120,000	–	(663,598)	(408,962)	12,097,160
					1,049,720	64,120,000	–	(663,598)	(408,962)	64,097,160

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 September 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

REVIEW OF INTERIM RESULTS

The audit committee of the Company has reviewed with the management and the independent auditor of the Company the interim results and the unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2011.

By order of the Board
Soh Szu Wei
Executive Director & Chief Executive Officer

Hong Kong, 29 November 2011

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF IMAGI INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 24 to 54, which comprises the condensed consolidated statement of financial position of Imagi International Holdings Limited and its subsidiaries as of 30 September 2011 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 29 November 2011

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2011

	NOTES	Six months ended 30 September 2011 HK$'000 (unaudited)	2010 HK$'000 (unaudited)
Revenue	4	**70,839**	4,459
Cost of sales before amortisation of intangible assets		**(27,209)**	(3,384)
Gross profit before amortisation of intangible assets		**43,630**	1,075
Amortisation of intangible assets	10	**(50,327)**	—
Gross (loss) profit after amortisation of intangible assets		**(6,697)**	1,075
Other income		**2,770**	496
Other gains (losses)		**2,053**	(1,588)
Distribution and selling expenses		**(2,293)**	—
Administrative expenses		**(46,753)**	(17,960)
Share of loss of an associate		**(701)**	—
Loss on redemption of bridge loan	16	**—**	(57,091)
Loss on redemption of prints and advertising loan	17	**—**	(187,078)
Loss on redemption of convertible loan notes	18	**—**	(257,269)
Loss on disposal of subsidiaries		**—**	(66)
Finance costs		**(79)**	(3,316)
Loss before tax	5	**(51,700)**	(522,797)
Income tax credit	6	**4,991**	2,203
Loss for the period		**(46,709)**	(520,594)
Other comprehensive income representing exchange differences arising on translation of foreign operations		**12,950**	357
Total comprehensive expenses for the period		**(33,759)**	(520,237)
Loss per share	8		
Basic and diluted		**(HK$0.005)**	(HK$0.112)

	NOTES	At 30 September 2011 HK$'000 (unaudited)	At 31 March 2011 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	9	**8,980**	3,261
Intangible assets	10	**956,446**	10,499
Interest in an associate	11	**28,901**	—
Derivative financial instruments	12	**6,798**	—
Deferred tax assets	19	**2,204**	—
		1,003,329	13,760
Current assets			
Inventories		**3,492**	966
Trade and other receivables, deposits and prepayments	13	**75,041**	2,986
Bank balances and cash		**290,578**	167,161
		369,111	171,113
Current liabilities			
Trade, other payables and liabilities	14	**46,468**	14,775
Unearned revenue		**19,457**	1,540
Tax payable		**8,926**	—
		74,851	16,315
Net current assets		**294,260**	154,798
Total assets less current liabilities		**1,297,589**	168,558
Non-current liabilities			
Other liabilities	15	**18,200**	—
Deferred tax liabilities	19	**236,779**	—
		254,979	—
Net assets		**1,042,610**	168,558
Capital and reserves			
Share capital	20	**10,020**	5,725
Reserves		**1,032,590**	162,833
Total equity attributable to owners of the Company		**1,042,610**	168,558

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2011

	Attributable to owners of the Company											
	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000 (note iii)	Merger reserve HK$'000 (note i)	Translation reserve HK$'000	Convertible loan notes equity reserve HK$'000	Share option reserve HK$'000	Share award reserve HK$'000	Option shares reserve HK$'000	Deemed contribution reserve HK$'000 (note ii)	Accumulated losses HK$'000	Total HK$'000
At 1 April 2010 (audited)	360,152	1,001,833	–	909	3,493	47,251	27,303	1,355	–	22,650	(1,629,789)	(164,843)
Exchange differences arising on translation of foreign operations	–	–	–	–	357	–	–	–	–	–	–	357
Loss for the period	–	–	–	–	–	–	–	–	–	–	(520,594)	(520,594)
Total comprehensive expenses for the period	–	–	–	–	357	–	–	–	–	–	(520,594)	(520,237)
Capital Reorganisation	(359,792)	(1,001,833)	–	–	–	–	–	–	–	–	1,361,625	–
Issue of conversion shares	790	441,610	–	–	–	–	–	–	–	–	–	442,400
Issue of share award	1	1,354	–	–	–	–	–	(1,355)	–	–	–	–
Recognition of fair value in respect of option shares arising from using equity to settle liabilities	–	–	–	–	–	–	–	–	196,240	–	–	196,240
Share subscription and top-up share subscription	2,863	197,547	–	–	–	–	–	–	–	–	–	200,410
Rights issue	1,441	99,402	–	–	–	–	–	–	–	–	–	100,843
Share issue expenses	–	(1,008)	–	–	–	–	–	–	–	–	–	(1,008)
Exercise of option shares	61	34,859	–	–	–	–	–	–	(30,025)	–	–	4,895
Recognition of equity-settled share-based payments	–	–	–	–	–	–	(8,723)	–	–	–	–	(8,723)
Share options forfeited for the period	–	–	–	–	–	–	(15,733)	–	–	–	15,733	–
Reversal of deferred tax liability on redemption of convertible loan notes	–	–	–	–	–	5,833	–	–	–	–	–	5,833
Redemption of convertible loan notes	–	–	–	–	–	(53,084)	–	–	–	–	53,084	–
At 30 September 2010 (unaudited)	5,516	773,764	–	909	3,850	–	2,847	–	166,215	22,650	(719,941)	255,810
Exchange differences arising on translation of foreign operations	–	–	–	–	(683)	–	–	–	–	–	–	(683)
Loss for the period	–	–	–	–	–	–	–	–	–	–	(103,030)	(103,030)
Total comprehensive expenses for the period	–	–	–	–	(683)	–	–	–	–	–	(103,030)	(103,713)
Exercise of option shares	209	119,160	–	–	–	–	–	–	(102,634)	–	–	16,735
Recognition of equity-settled share-based payments	–	–	–	–	–	–	(274)	–	–	–	–	(274)
Share options forfeited for the period	–	–	–	–	–	–	(1,865)	–	–	–	1,865	–
At 31 March 2011 (audited)	5,725	892,924	–	909	3,167	–	708	–	63,581	22,650	(821,106)	168,558

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2011

	Attributable to owners of the Company											
	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000 (note iii)	Merger reserve HK$'000 (note i)	Translation reserve HK$'000	Convertible loan notes equity reserve HK$'000	Share option reserve HK$'000	Share award reserve HK$'000	Option shares reserve HK$'000	Deemed contribution reserve HK$'000 (note ii)	Accumulated losses HK$'000	Total HK$'000
At 31 March 2011 (audited)	5,725	892,924	–	909	3,167	–	708	–	63,581	22,650	(821,106)	168,558
Exchange differences arising on translation of foreign operations	–	–	–	–	12,950	–	–	–	–	–	–	12,950
Loss for the period	–	–	–	–	–	–	–	–	–	–	(46,709)	(46,709)
Total comprehensive expenses for the period	–	–	–	–	12,950	–	–	–	–	–	(46,709)	(33,759)
Issue of consideration shares (Note 2(i)(b))	1,383	422,071	–	–	–	–	–	–	–	–	–	423,454
Share subscription (Note 20(i))	1,283	357,906	–	–	–	–	–	–	–	–	–	359,189
Exercise of option shares (Note 21(i) & (ii))	1,629	185,801	–	–	–	–	–	–	(63,581)	–	–	123,849
Share issue expenses (Note 21(iii))	–	(6,060)	–	–	–	–	–	–	6,060	–	–	–
Share options forfeited for the period (Note 21(iv)(c))	–	–	–	–	–	–	(459)	–	–	–	459	–
Recognition of equity-settled share-based payments (Note 21(iv)(d))	–	–	–	–	–	–	1,319	–	–	–	–	1,319
Transfer (note iii)	–	(1,852,642)	1,037,593	–	–	–	–	–	–	(22,650)	837,699	–
At 30 September 2011 (unaudited)	**10,020**	**–**	**1,037,593**	**909**	**16,117**	**–**	**1,568**	**–**	**6,060**	**–**	**(29,657)**	**1,042,610**

notes:

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

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

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2011

	NOTES	Six months ended 30 September 2011 HK$'000 (unaudited)	2010 HK$'000 (unaudited)
Net cash used in operating activities			
Increase in trade and other receivables, deposits and prepayment		**(32,431)**	(393)
Increase (decrease) in trade and other payables		**4,520**	(17,745)
Increase in unearned revenue		**507**	266
Other operating activities		**(1,806)**	(23,353)
		(29,210)	(41,225)
Net cash used in investing activities			
Acquisition of subsidiaries	2	**(317,774)**	—
Investment in an associate and a related option	11	**(9,100)**	—
Purchase of property, plant and equipment		**(4,556)**	(3,247)
Decrease in pledged bank deposits		**11,674**	—
Cost incurred in computer graphic imaging ("CGI") animation pictures		**—**	(5,641)
Other investing activities		**(326)**	(2,568)
		(320,082)	(11,456)
Net cash from financing activities			
Proceeds from equity subscriptions	20(i)	**359,189**	200,410
Proceeds from exercise of share options		**123,849**	4,895
Repayment of bank loans		**(10,529)**	—
Proceeds from rights issue		**—**	100,843
New bridge loan drawdown		**—**	7,000
Repayment of convertible loan notes		**—**	(34,403)
Repayment of bridge loans		**—**	(29,812)
Repayment of prints and advertising loan		**—**	(29,035)
Share issue expenses		**—**	(1,008)
Other financing activities		**(79)**	(447)
		472,430	218,443
Net increase in cash and cash equivalents		**123,138**	165,762
Cash and cash equivalents at beginning of the period		**167,161**	2,368
Effect of foreign exchange rate changes		**279**	351
Cash and cash equivalents at end of the period, represented by bank balances and cash		**290,578**	168,481

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 *Interim Financial Reporting* ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. SIGNIFICANT TRANSACTIONS DURING THE PERIOD

On 17 February 2011, the Group entered into a sale and purchase agreement with PGBBW Limited, a company incorporated in the British Virgin Islands (the "BVI") and unrelated to the Group, to acquire the entire equity interest in Infoport Management Limited ("Infoport"), a company also incorporated in the BVI (the "Acquisition"), which was completed on 13 April 2011.

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

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

2. SIGNIFICANT TRANSACTIONS DURING THE PERIOD (continued)

notes:

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

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

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

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

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

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

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

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

Based on a review of the financial projection of TE Group, in the opinion of the directors, the Earn-out Payment is unlikely to be payable and accordingly, its fair value as at the date of acquisition is determined at nil value.

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

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

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

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

2. SIGNIFICANT TRANSACTIONS DURING THE PERIOD (continued)

notes: (continued)

(ii) (continued)

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

(iii) The receivables acquired with a fair value of HK$44,424,000 have gross contractual amounts of HK$44,424,000, all of which were expected to be collectible at the acquisition date.

(iv) The deposits were pledged to banks for the bank loans extended to TE Group. Subsequent to the Acquisition, the bank loans were repaid and the pledged deposits were released during the period ended 30 September 2011.

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

(vi) Included in the revenue and loss for the period is approximately HK$66,647,000 and HK$34,613,000 respectively attributable to the additional business generated by TE Group. Had the Acquisition been completed on 1 April 2011, total group revenue and loss for the period would approximate the revenue and loss for the period as presented in the condensed consolidated statement of comprehensive income.

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

(vii) The initial accounting for the acquisition of TE Group involves identifying and then determining the fair values to be assigned to the identified assets, liabilities and contingent liabilities and the cost of the business combination, which has been determined provisionally for the purpose of this interim financial information, awaiting the finalisation of the valuation of intangible assets.

3. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2011 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2011. In addition, as a result of the acquisition of TE Group and investment in an associate (detailed in Note 11), the Group has applied the following significant accounting policies during the current interim period.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Business combinations

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

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

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

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

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

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Business combinations (continued)

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

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

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Investments in an associate

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

The results and assets and liabilities of associates are incorporated in these condensed consolidated financial statements using the equity method of accounting. Under the equity method, investments in an associate are initially recognised in the condensed consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

Jointly controlled operations

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

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Revenue recognition

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

Adoption of new and revised HKFRSs effective in the current period

In the current interim period, the Group has applied, for the first time, the following new or revised standards and interpretations ("new or revised HKFRSs") issued by the HKICPA:

HKAS 24 (Revised 2009)	Related Party Disclosures
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HK(IFRIC)-Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the above new or revised HKFRSs has had no material effect on the amounts in these condensed consolidated financial statements and disclosures set out in these condensed consolidated financial statements.

New and revised HKFRSs that are not yet effective

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

The following new or revised standards have been issued after the date the consolidated financial statements for the year ended 31 March 2011 were authorised for issuance and are not yet effective:

HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosures of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[2]
HKAS 19 (Revised)	Employee Benefits[1]
HKAS 27 (Revised)	Separate Financial Statements[1]
HKAS 28 (Revised)	Investments in Associates and Joint Ventures[1]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

[1] Effective for annual periods beginning on or after 1 January 2013
[2] Effective for annual periods beginning on or after 1 July 2012

3. PRINCIPAL ACCOUNTING POLICIES (continued)

New and revised HKFRSs that are not yet effective (continued)

The five new or revised standards on consolidation, joint arrangements and disclosures, including HKAS 27 (Revised), HKAS 28 (Revised), HKFRS 10, HKFRS 11 and HKFRS 12, were issued by the HKICPA in June 2011 and are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five new or revised standards are applied early at the same time.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall, the application of HKFRS 10 requires extensive judgment.

HKFRS 11 replaces the parts of HKAS 31 *Interests in Joint Ventures*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, there are two types of joint arrangements: joint ventures and joint operations. The classification in HKFRS 11 is based on parties' rights and obligations under the arrangements. In the contrast, under HKAS 31, there are three different types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

The Group is still in the progress of assessing the impact for the Group's investees upon the application of the HKFRS 10 and HKFRS 11.

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

4. REVENUE AND SEGMENT INFORMATION

In the prior period, the Group had only one operating segment which is the CGI animation pictures. A business carried out by TE Group was newly acquired by the Group in April 2011. For the purpose of performance assessment and resources allocation, the executive director of the Company, being the chief operating decision maker, regularly reviews the revenue and results of the following two segments:

Segment A: Production, broadcasting and licensing of CGI animation pictures not developed by TE Group; and

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

For the period ended 30 September 2011

	Segment A HK$'000	Segment B HK$'000	Consolidated HK$'000
Revenue	**4,192**	**66,647**	**70,839**
Segment results	**(7,311)**	**(38,824)**	**(46,135)**
Reconciling items:			
Unallocated administrative expenses			**(4,785)**
Finance costs			**(79)**
Share of loss of an associate			**(701)**
Loss before tax			**(51,700)**

For the period ended 30 September 2010

	Segment A Consolidated HK$'000
Revenue	4,459
Segment results	(10,183)
Reconciling items:	
Unallocated administrative expenses	(7,794)
Loss on redemption of bridge loan	(57,091)
Loss on redemption of prints and advertising loan	(187,078)
Loss on redemption of convertible loan notes	(257,269)
Loss on disposal of subsidiaries	(66)
Finance costs	(3,316)
Loss before tax	(522,797)

4. REVENUE AND SEGMENT INFORMATION (continued)

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment results represent loss attributable to each segment without allocation of certain administrative expenses, finance costs, share of loss of an associate, loss on redemption of bridge loan, loss on redemption of prints and advertising loan, loss on redemption of convertible loan notes, loss on disposal of subsidiaries. This is the measure reported to the Group's operating decision maker for the purposes of resource allocation and assessment of segment performance. The basis of segment revenue and segment results for the period ended 30 September 2010 is presented in consistence with that of the period ended 30 September 2011.

5. LOSS BEFORE TAX

	Six months ended 30 September	
	2011	2010
	HK$'000	HK$'000
Loss before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	**789**	373
Less: amounts capitalised in inventories/ CGI animation pictures	**(166)**	(202)
	623	171
Impairment loss recognised in respect of trade receivables	**2,441**	—

6. INCOME TAX CREDIT

	Six months ended 30 September	
	2011	2010
	HK$'000	HK$'000
Current tax:		
Enterprise Income Tax ("EIT") in the PRC (including PRC withholding tax of HK$1,400,000 (six months ended 30 September 2010: Nil))	**9,084**	—
Overprovision in prior years in other jurisdictions	**—**	(1,766)
	9,084	(1,766)
Deferred tax (Note 19)	**(14,075)**	(437)
	(4,991)	(2,203)

6. INCOME TAX CREDIT (continued)

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

EIT in the PRC is calculated based on the statutory rate of 25% of the assessable profit for those subsidiaries established in the PRC, as determined in accordance with the relevant income tax rules and regulations in the PRC.

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

7. DIVIDENDS

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

8. LOSS PER SHARE

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

	Six months ended 30 September	
	2011	2010
Loss for the period attributable to owners of the Company	**(HK$46,709,000)**	(HK$520,594,000)
Number of shares:		
Weighted average number of ordinary shares for the purposes of calculating basic and diluted loss per share	**9,720,411,990**	4,632,424,530

The computation of diluted loss per share does not assume the exercise of IDG Option (Note 21(iii)) and options granted under the incentive share option scheme (Note 21(iv)) (six months ended 30 September 2010: Investor Option (Note 21(i)), Core Creditor Options (Note 21(ii)), and options granted under the incentive share option scheme) since their exercise would result in a decrease in loss per share for both periods. Therefore the basic and diluted loss per share is the same.

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately HK$4,556,000 (six months ended 30 September 2010: HK$3,247,000) on the acquisition of property, plant and equipment mainly for the purpose of improving and expanding the Group's production capability.

10. INTANGIBLE ASSETS

	CGI animation pictures HK$'000 (note (iii))	Consumer Products Agreement HK$'000 (note (i))	TE Trademarks and Copyrights HK$'000 (note (ii))	JBM Agreement HK$'000 (note (ii))	Total HK$'000
COST					
At 1 April 2011	837,946	–	–	–	837,946
Acquisition of subsidiaries (Note 2)	–	129,448	227,019	623,300	979,767
Exchange adjustments	–	–	–	16,507	16,507
At 30 September 2011	**837,946**	**129,448**	**227,019**	**639,807**	**1,834,220**
AMORTISATION AND IMPAIRMENT					
At 1 April 2011	827,447	–	–	–	827,447
Provided for the period	–	6,638	11,725	31,964	50,327
At 30 September 2011	**827,447**	**6,638**	**11,725**	**31,964**	**877,774**
CARRYING VALUES					
At 30 September 2011	**10,499**	**122,810**	**215,294**	**607,843**	**956,446**
At 31 March 2011	10,499	–	–	–	10,499

notes:

(i) The Consumer Products Agreement has a term of 10 years but is renewable subject to negotiation by the parties concerned. Accordingly, it is being amortised over the contractual life of the Consumer Products Agreement.

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

The JBM Agreement can only be terminated by a party when the other party commits a default which is not remedied within a specified period.

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

10. INTANGIBLE ASSETS (continued)

notes: (continued)

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

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

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

For the purpose of impairment testing, CGI animation pictures in progress are allocated to the Group's cash generating unit of production, broadcasting and licensing of CGI animation pictures not developed by TE Group.

In the opinion of the directors, taking into account of the acquisition and the integration with TE Group, no impairment loss needs to be recognised for the CGI animation pictures for the period.

11. INTEREST IN AN ASSOCIATE

	30 September 2011 HK$'000	31 March 2011 HK$'000
Cost of investment in an associate		
— unlisted *	**29,602**	—
Share of loss	**(701)**	—
	28,901	—

* The assets of the associate include an intangible asset, represented by a license right, the fair value of which as of the date of acquisition of the associate by the Group is awaiting finalisation.

As at 30 September 2011, the Group had interest in the following associate:

Name of entity	Form of business structure	Place of establishment/ principal place of operation	Class of share held	Proportion of nominal value of issued capital held by the Group 2011	2010	Principal activities
Sino Light Enterprise Limited ("Sino Light")	Limited company	Hong Kong	Ordinary	**20.63%**	–	Retailing and wholesaling of children's apparel

11. INTEREST IN AN ASSOCIATE (continued)

In August 2011, TE Group subscribed for 20.63% equity interest in Sino Light (the "Sino Light Acquisition") and a related option ("Sino Light Subscription Option"), to be satisfied by TE Group with a cash payment of HK$9.1 million and the provision of certain management services to Sino Light, the fair value of which has been determined to be HK$27.3 million (the "Sino Light Consideration").

Sino Light Subscription Option entitles TE Group to subscribe a further 11.3% equity interest in Sino Light as enlarged by the exercise of Sino Light Subscription Option.

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

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

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

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

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

Further details of the above three options are set out in Note 12.

12. DERIVATIVE FINANCIAL INSTRUMENTS

	30 September 2011 HK$'000	31 March 2011 HK$'000
Sino Light Subscription Option (note i)	**6,798**	—

notes:

(i) Sino Light Subscription Option

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

At initial recognition, the fair value of the Sino Light Subscription Option was determined to be HK$6,798,000 by Greater China using the Binominal Option Pricing Model. The following assumptions were used to calculate the fair value of the option.

Exercise price	HK$14,000 per share
Expected life	3.01 year
Expected volatility	47.366%
Expected dividend yield	0%
Risk free interest rate	0.64%
Exercise period	From 29 August 2011 to 31 August 2014

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

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

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

13. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30 September 2011 HK$'000	31 March 2011 HK$'000
Trade receivables (note i)	**6,780**	1,194
Amount due from CPE (note ii)	**60,808**	—
Other receivables, deposits and prepayment	**7,453**	1,792
	75,041	2,986

notes:

(i) The Group allows its trade customers a credit period in accordance with the terms specified in the contracts, normally ranging from 0 day to 90 days. The trade receivables at 30 September 2011 were aged less than 30 days based on invoice dates.

(ii) The amount due from CPE mainly arose from the JBM Agreement and is unsecured, non-interest bearing and repayable within one year.

14. TRADE, OTHER PAYABLES AND LIABILITIES

	30 September 2011 HK$'000	31 March 2011 HK$'000
Trade payables (note i)	**8,844**	—
Amount due to PGBBW Limited (note ii)	**3,978**	—
Other liabilities (note iii)	**9,100**	—
Other payables and accruals	**24,546**	14,775
	46,468	14,775

notes:

(i) Trade payables are aged less than 3 months based on the invoice dates.

(ii) The amount is unsecured, interest free, and repayable on demand.

(iii) Amount represents the current portion of the other liabilities (Note 15) as at the end of the reporting period.

15. OTHER LIABILITIES

As set out in Note 11, as part of the consideration for the Sino Light Acquisition, the Group is to provide certain management services to Sino Light for a period of three years. The fair value of such management services, as determined at HK$27.3 million, has been recognised as other liabilities, of which approximately HK$18.2 million is non-current.

16. BRIDGE LOAN

During the year ended 31 March 2010, the Company was granted an United States dollars ("US$") bridge loan ("US Bridge Loan") having a principal amount of US$2.5 million (equivalent to HK$19,500,000) and carrying an interest rate of 10% per annum.

The US Bridge Loan, together with the P&A Loan (as defined and detailed in Note 17) and CN Aug 2009 (as defined and detailed in Note 18) (collectively the "Relevant Debts"), were redeemed under a debt restructuring exercise completed in May 2010, pursuant to which the Relevant Debts were settled through a combination of (i) cash; (ii) conversion shares; and (iii) share options ("Core Creditor Options").

The US Bridge Loan including accrued interest at date of redemption amounted to approximately HK$20,605,000.

The fair value of the consideration to settle the US Bridge Loan together with the additional accrued interest was approximately HK$77,696,000, comprising cash of HK$6,312,033, 71,491,000 conversion shares of approximately HK$40,035,000 based on the closing price of the Company's shares on 11 May 2010 of HK$0.56 per share, and 63,900,000 Core Creditor Options of approximately HK$31,349,000 based on the fair value of the share options granted on 11 May 2010 of HK$0.4906 per share option. The fair value was determined by Greater China, using the Binominal Option Pricing Model. The following assumptions were used to calculate the fair values of these share options.

	Share options granted on 11 May 2010
Grant date share price	HK$0.56
Exercise price	HK$0.08
Expected life	1 year
Expected volatility	144.27%
Expected dividend yield	0%
Risk free interest rate	0.19%
Exercise period	From 11 May 2010 to 10 May 2011

16. BRIDGE LOAN (continued)

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

17. PRINTS AND ADVERTISING LOAN

During the year ended 31 March 2010, a bank granted the Group a credit facility of US$10 million (equivalent to HK$78 million) for the specific purpose of funding the promotion expenses to be incurred in connection with the launch of *Astro Boy* (the "P&A Facility"). The P&A Facility was secured by a cash collateral provided to the bank by Fortunate City Investment Limited ("FCI"), a company in which a then substantial shareholder, who then had significant influence, of the Company was interested.

The P&A Facility was fully drawn down by the Group and the Group agreed to keep FCI indemnified against all liabilities arising from the cash collateral. Accordingly, the draw-down of the P&A Facility effected a contemporaneous incurrence of liability to FCI by the Group (the "P&A Loan").

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

The P&A Loan including the fixed arrangement fee at date of redemption amounted to approximately HK$89,700,000.

The fair value of the consideration to settle the P&A Loan including the fixed arrangement fee was approximately HK$276,778,000, comprising cash of HK$29,035,351, 328,859,200 conversion shares of approximately HK$184,161,000 based on the closing price of the Company's shares on 11 May 2010 of HK$0.56 per share, and 129,600,000 Core Creditor Options of approximately HK$63,582,000 based on the fair value of the share option granted on 11 May 2010 of HK$0.4906 per share option. The fair value was determined by Greater China, using the Binominal Option Pricing Model as per the assumptions in Note 16.

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

18. CONVERTIBLE LOAN NOTES

During the year ended 31 March 2010, the Company issued convertible loan notes with an aggregate principal amount of HK$132 million ("CN Aug 2009"). CN Aug 2009 was denominated in Hong Kong dollars with zero coupon rate.

The fair value of the consideration to settle CN Aug 2009 was approximately HK$353,916,000, comprising cash of HK$34,402,615, a total of 389,649,700 conversion shares of approximately HK$218,204,000 based on the closing price of the Company's shares on 11 May 2010 of HK$0.56 per share, and 206,500,000 Core Creditor Options of HK$101,309,000 based on the fair value of the share options granted on 11 May 2010 of HK$0.4906 per share option. The fair value of the share options was determined by Greater China, using the Binomial Option Pricing Model as per the assumptions in Note 16.

At the date of redemption, the fair value of the equity component of CN Aug 2009 was insignificant. The excess of the fair value of the consideration to settle CN Aug 2009 over the carrying value of the liability portion of CN Aug 2009 of HK$90,853,000 and an additional interest accrual of approximately HK$5,794,000, amounting to approximately HK$257,269,000, was recognised by the Group as a redemption loss of convertible loan notes and charged to the condensed consolidated statement of comprehensive income for the period ended 30 September 2010.

19. DEFERRED TAX (ASSETS) LIABILITIES

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

	30 September 2011 HK$'000	31 March 2011 HK$'000
Deferred tax assets	**(2,204)**	—
Deferred tax liabilities	**236,779**	—
	234,575	—

19. DEFERRED TAX (ASSETS) LIABILITIES (continued)

The deferred tax (assets) liabilities recognised by the Group and movements thereon are as follows:

	Fair value adjustments on the acquisition HK$'000	PRC dividend withholding tax HK$'000	Deferred royalty income HK$'000	Total HK$'000
At 1 April 2011	—	—	—	—
Acquisition of subsidiaries (Note 2)	243,911	1,949	(1,337)	244,523
Exchange adjustments	4,127	—	—	4,127
Credit to profit or loss	(12,508)	(700)	(867)	(14,075)
At 30 September 2011	**235,530**	**1,249**	**(2,204)**	**234,575**

20. SHARE CAPITAL

	Number of shares '000	Nominal value HK$'000
Ordinary share of HK$0.001 each		
Authorised:		
At 1 April 2011 and 30 September 2011	**1,000,000,000**	**1,000,000**
Issued and fully paid:		
At 1 April 2011	5,724,907	5,725
Issue of consideration shares (Note 2(i))	1,382,857	1,383
2011 Share Subscription (note i)	1,282,816	1,283
Exercise of option shares (note ii)	1,629,600	1,629
At 30 September 2011	**10,020,180**	**10,020**

notes:

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

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

(ii) During the period, (a) Idea Talent (as defined in Note 21(i)) exercised its Investor Option to subscribe for 1,500,000,000 shares in the Company at an adjusted exercise price of HK$0.076 per share; and (b) FCI exercised its Core Creditor Options to subscribe for 129,600,000 shares in the Company at an adjusted exercise price of HK$0.076 per share.

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

21. SHARE-BASED PAYMENT TRANSACTIONS

During the period, the Company had outstanding several share option arrangements as follows:

(i) Investor Option

On 11 May 2010, in conjunction with the debt restructuring (Note 16), the Company granted an option to Idea Talent Limited ("Idea Talent"), a then independent third party and creditor to the Group, to subscribe for a total of 1,500,000,000 shares at an exercise price of HK$0.08 per share (the "Investor Option") subject to adjustment. The Investor Option was exercisable for 12 months commencing from 11 May 2010 but in no event that the exercise of this option was to result in the public float of the Company's shares falling below 25%.

On 13 April 2011, Idea Talent exercised the Investor Option to subscribe for 1,500,000,000 shares at an adjusted exercise price of HK$0.076 per share (adjusted as a result of 2011 Share Subscription). The shares allotted and issued pursuant to the Investor Option represented approximately 15.17% of the issued share capital of the Company as enlarged by the exercise of the Investor Option. The gross proceeds of HK$114 million arising from the exercise of the Investor Option are being used as the Group's general working capital.

At 30 September 2011, no Investor Option was outstanding.

(ii) Core Creditor Options

On 11 May 2010, as part of the Group's debt restructuring, the Company granted a total of 400,000,000 Core Creditors Options to extinguish the Group's debts. The Core Creditors Options are exercisable for a period of 1 year at an initial exercise price of HK$0.08 per share, subject to adjustment.

On 27 April 2011, one of the Core Creditors, FCI, exercised its Core Creditor Options to subscribe for 129,600,000 shares in the Company at an adjusted exercise price of HK$0.076 per share (adjusted as a result of 2011 Share Subscription). The shares allotted and issued pursuant to the Core Creditor Options exercised by FCI represented approximately 1.29% of the issued share capital of the Company as enlarged by the exercise of the Core Creditor Options. The gross proceeds of approximately HK$9,849,000 arising from the exercise of the Core Creditor Options by FCI are being used as the Group's general working capital.

At 30 September 2011, no Core Creditor Option was outstanding.

21. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(iii) IDG Option

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

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

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

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

At 30 September 2011, the IDG Option remained unexercised and outstanding.

(iv) Incentive share option scheme

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

21. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(iv) Incentive share option scheme (continued)

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

	Grant date	Vesting period	Fair value of share option at grant date	Outstanding at 1 April 2011	Granted during the period (note a)	Forfeited prior to vesting during the period (note b)	Forfeited after vesting during the period (note c)	Outstanding at 30 September 2011
Directors	13 April 2011	13/4/2011 to 12/4/2014	0.164	–	26,000,000	–	–	**26,000,000**
		13/4/2011 to 12/4/2015	0.178	–	13,000,000	–	–	**13,000,000**
		13/4/2011 to 12/4/2016	0.191	–	13,000,000	–	–	**13,000,000**
Employees	17 November 2009 (note)	15/5/2007 to 14/1/2008	2.066	22,071	–	–	(22,071)	**–**
		15/5/2007 to 14/1/2009	2.520	22,071	–	–	(22,071)	**–**
		15/5/2007 to 14/1/2010	2.845	29,426	–	–	(29,426)	**–**
	21 August 2009	21/8/2009 to 30/9/2010	0.144	584,858	–	–	(167,698)	**417,160**
		21/8/2009 to 30/9/2011	0.178	167,696	–	–	(167,696)	**–**
		21/8/2009 to 30/9/2012	0.184	223,598	–	(223,598)	–	**–**
	13 April 2011	13/4/2011 to 12/4/2014	0.160	–	6,060,000	(220,000)	–	**5,840,000**
		13/4/2011 to 12/4/2015	0.175	–	3,030,000	(110,000)	–	**2,920,000**
		13/4/2011 to 12/4/2016	0.187	–	3,030,000	(110,000)	–	**2,920,000**
				1,049,720	64,120,000	(663,598)	(408,962)	**64,097,160**

note:

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

21. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(iv) Incentive share option scheme (continued)

Exercise price for the share options are as follows:

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

notes:

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

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

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

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

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

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

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

21. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(iv) Incentive share option scheme (continued)

notes: (continued)

(b) During the current reporting period, 663,598 share options were forfeited prior to the vesting of relevant share options as a result of the resignation of employees. The impact of revision of the estimates during the vesting period is recognised in profit or loss, with a corresponding adjustment to the share options reserve.

(c) 408,963 share options were forfeited after the vesting period due to the resignation of employees. When the share option are forfeited after the vesting date, the amount previously charged to profit or loss is credited to accumulated losses, with a corresponding adjustment to share options reserve. During the current reporting period, an adjustment of approximately HK$459,000 was credited to accumulated losses due to forfeiture of share options.

(d) During the period, the Group recognised a share-based payment expense of HK$1,319,000 (six months ended 30 September 2010: a reversal of share-based payment expense of HK$8,723,000).

22. PLEDGE OF ASSETS

As at 30 September 2011, all the Group's rights in *Astro Boy* (except for the exploitation rights throughout the territories of China, Hong Kong and Japan), a CGI animation picture, were pledged as collateral to secure a loan granted to a former subsidiary of the Company in the United States of America for funding the launch of *Astro Boy* in October 2009. The carrying value of *Astro Boy* as at 30 September 2011 was nil (31 March 2011: Nil).

23. MAJOR NON-CASH TRANSACTIONS

For the six months ended 30 September 2011

(a) Consideration shares were issued for the Acquisition as detailed in Note 2(i)(b).

(b) The Company recognised a share-based payment expense of approximately HK$1,319,000.

(c) The grant of IDG Option as detailed in Note 21(iii).

(d) The Group invested in Sino Light by way of service provision of HK$27.3 million as detailed in Note 11.

For the six months ended 30 September 2010

(a) The Company recognised a reversal of share-based payment expense of approximately HK$8,723,000.

(b) The redemption of US Bridge Loan, P&A Loan and CN Aug 2009 as set out in Notes 16, 17 and 18 respectively.

24. RELATED PARTY TRANSACTIONS

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

	For the six months ended 30 September	
	2011	2010
	HK$'000	HK$'000
Short-term benefits	**8,876**	2,433
Post-employment benefits	**78**	25
Recognition (reversal) of equity-settled share-based payment expenses	**1,320**	(677)
	10,274	1,781
Less: amounts capitalised in CGI animation pictures	**–**	(499)
	10,274	1,282

25. LITIGATION

As announced by the Company, on 14 September 2011 the Group received a summons served by a former business partner alleging the Group for a breach of contract and certain unfair and false representation. The summons has not specified the amount of the claim. The Company's management is seeking legal advice and, based on its preliminary assessment, is of opinion that the matter will not have material impact on the Group's operations and financial position.

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