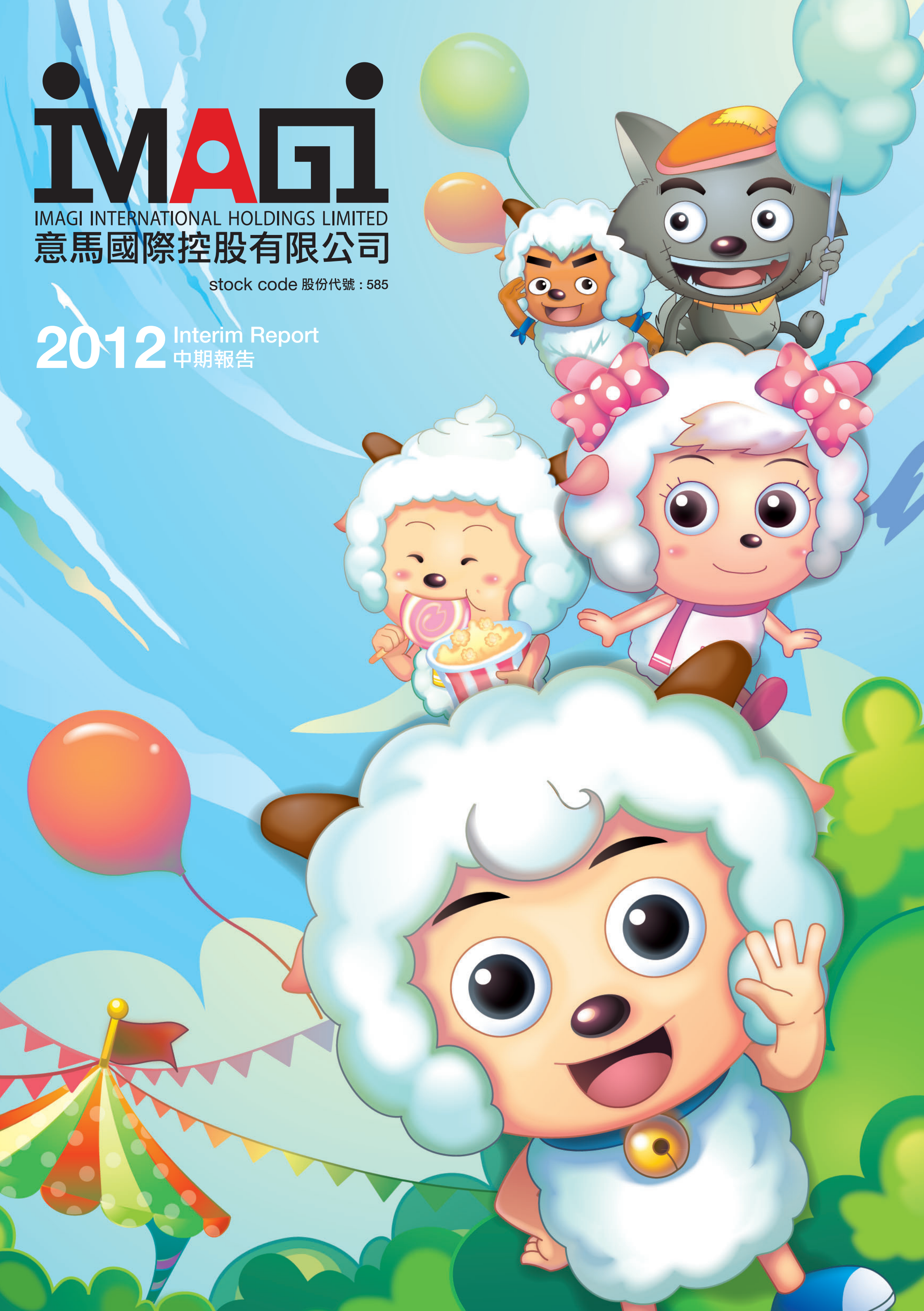
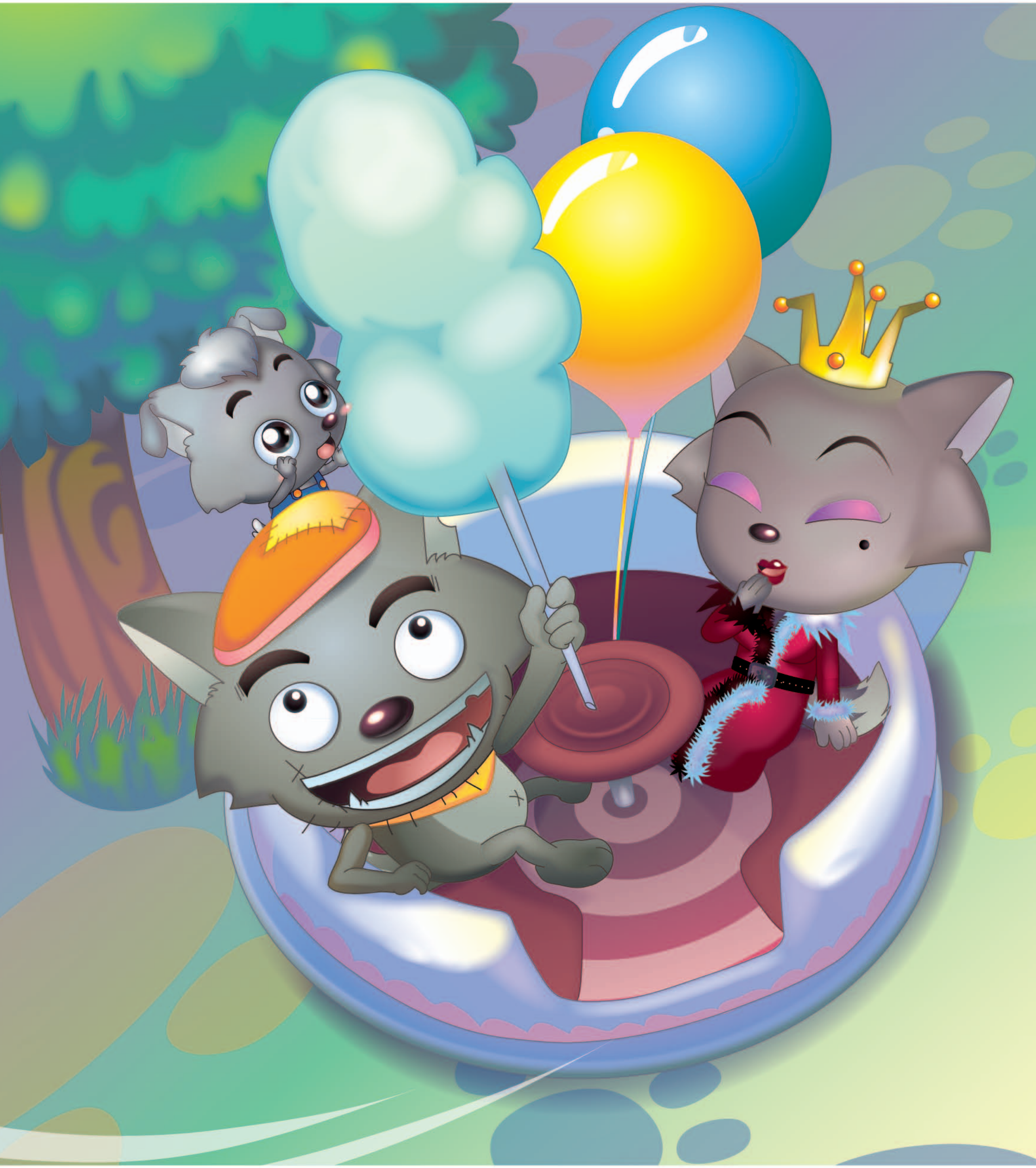
IMAGI

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

stock code 股份代號：585

2012 Interim Report
中期報告





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CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman and Non-executive Director

Mr. Leung Pak To

Executive Director

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

Non-executive Directors

Ms. Ma Wai Man, Catherine
Mr. Yang Fei
(Mr. Lian Meng as his alternate)

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

COMPANY SECRETARY

Ms. Lau Siu Mui

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL BANKER

The Bank of East Asia, Limited

PRINCIPAL SHARE REGISTRAR

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

BRANCH SHARE REGISTRAR IN HONG KONG

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

STOCK CODE

HKEx 585

WEBSITE

www.imagi.com.hk

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATIONAL REVIEW

Imagi International Holdings Limited (the "Company") and its subsidiaries (the "Group") have been under new management since the appointment of Mr. Steven Yung as the deputy chairman and chief executive officer of the Company became effective on 1 April 2012. We aim to build a world class media and entertainment company by unlocking significant values of the Number 1 cartoon characters in China, namely the ***Pleasant Goat and Big Big Wolf***, through the provision of innovative products and quality services relating to these iconic cultural assets.

Given that China is the most important market for the Group, the new management has streamlined our operations and moved our key business functions to mainland China. This strategic move has brought our team much closer to our key partners and target consumers. This integration effort has created a more efficient organization and developed a stronger corporate culture.

Under the Joint Brand Management Agreement ("JBMA") entered into with our strategic partner, Creative Power Entertaining Limited Liability Company ("CPE"), we have worked closely with CPE to extend the reach of the ***Pleasant Goat and Big Big Wolf*** brand by offering a range of products and services via CPE's multimedia platform including movies, TV episodes, live shows, mobile carnivals and new media contents. We are pleased to report that ***Pleasant Goat and Big Big Wolf*** Movie 4 has recorded a breaking box office success of RMB168 million (equivalent to HK$207 million). In addition, we have been involved in the production of two additional movies based on animation brands owned by the Group, namely ***I Love Wolffy***, which was launched on 10 August 2012, and ***Happy Family: Snowball the Memory Gobbler***, which will be shown in the last quarter of 2012. This is a major leap for the Group to be involved in three movie productions in a year.

Since 1 January 2011, the Group has worked closely with its global master licensee, Disney Enterprises, Inc ("Disney"), under the Consumer Products and Related Use Agreement ("CPA") to upgrade the quality of our sub-licensees with a view to attracting and retaining those who are passionate with our brands and commit resources to growing our brands. 2012 is a year of transition for the Group's consumer product licensing business. During the six months ended 30 June 2012, 47 sub-licensees were terminated, 17 were renewed and 7 new sub-licensees were added. This is in line with Disney's policy to get reliable and reputable sub-licensees, so as to ensure the consumer products using the Group's brands are of high quality. On 5 June 2012, Disney held a National Licensees Conference exclusively for the ***Pleasant Goat and Big Big Wolf*** brand and brought together all our existing sub-licensees and potential sub-licensees with a view to rallying and mobilizing them and sharing our vision for the ***Pleasant Goat and Big Big Wolf*** brand. New and innovative growth ideas were also shared with the participants. This conference was the first of its kind for the ***Pleasant Goat and Big Big Wolf*** brand.

In the second quarter of 2012, the Group closed down the operation for production services on CGI animation pictures in Hong Kong and relocated the brand management team to Guangzhou, resulting in an one-off cost of HK$10.5 million incurred in the Period under Review. As a result of this restructuring exercise, we expect to achieve significant cost savings in the second half of 2012 and beyond.

FINANCIAL REVIEW

Review of Results

As the financial year of the Group was changed from 31 March to 31 December effectively after the year ended 31 March 2011, the current interim reporting period covers the six months ended 30 June 2012 (the "Period under Review"), whereas for the purposes of this report the comparative period is the last interim period for the six months ended 30 September 2011 (the "Last Comparative Period").

During the Period under Review, Toon Express International Limited, its intermediate holding company (namely Infoport Management Limited) and its subsidiaries (together "TE Group") accounted for most of the Group's revenue, the components of which were licensing income based on the CPA signed with Disney on 30 August 2010, income arising from the JBMA entered into between TE Group and CPE on commercial exploitation of cartoon characters, and other revenue from brand related activities, being HK$27.6 million, HK$44.3 million and HK$2.4 million respectively for the Period under Review. The aggregate of these components, amounting to HK$74.3 million, represents 94.5% of the total revenue of the Group in the Period under Review, compared with HK$66.6 million or 94.1% of the total revenue of the Last Comparative Period. Total revenue of the Group for the Period under Review amounted to HK$78.6 million, representing an increase of HK$7.8 million or 11.0% compared with the Last Comparative Period. The increment was primarily attributed to the increased revenue of HK$4.9 million derived from the consumer product licensing business and HK$2.8 million under the JBMA.

In 2012, revenue per episode of the ***Pleasant Goat and Big Big Wolf*** TV series remains steady compared with the rates prevailing in 2011, whereas in Taiwan and Singapore, the respective average rates were higher than that prevailing in 2011. In mainland China, the rates represent a significant premium over the average rate of our competitors' contents. In 2012, the box office revenue derived from ***Pleasant Goat and Big Big Wolf*** Movie 4 also set a record among domestically produced animation films, reaching RMB168 million in mainland China. Comparatively, the box office revenues for Movies 2 and 3 were RMB128 million and RMB143 million respectively.

The cost of sales increased by HK$9.9 million or 36.4%, when compared with the Last Comparative Period. The increase in cost of sales is mainly attributed to the impairment loss on the remaining carrying value of a CGI animation picture in progress, namely ***Cat Tale***, of HK$5.2 million and the recognition of the production costs of HK$9.5 million relating to the ***Pleasant Goat and Big Big Wolf*** Movie 4 in the Period under Review under the JBMA, but offset in part by the decrease in the share of royalties by Disney of HK$4.3 million. The gross profit margin (before the amortization of intangible assets) has therefore decreased from 61.6% to 52.7%. After the acquisition of TE Group by the Company in April 2011, the directors of the Company (the "Directors") have decided to focus on the Greater China market and, in particular, to allocate most of the Group's resources to support the growth of TE Group's business. Thus, the Directors have decided to terminate the production of CGI animation pictures in Hong Kong commenced before the change in control of the Company which occurred in May 2010. As at 30 June 2012, the CGI animation pictures in progress had no more carrying value in the Group's book of accounts. The decrease in the share of royalties by Disney is due to a change in the accounting treatment for the share of royalties arising from the new licensing contracts (the "New Licensing Contracts") entered into by Disney with the sub-licensees since it became the global master licensee of TE Group's brands on 1 January 2011. For the old licensing contracts which had been entered into between TE Group and the sub-licensees prior to 1 January 2011, TE Group has been responsible for the collection of the licensing royalties directly from the sub-licensees and paid Disney a share of the royalties which has been recorded in the Group's accounts as cost of sales, whereas for the New Licensing Contracts, Disney has been responsible for the collection of the licensing royalties from the sub-licensees and paid TE Group its share of the royalties. Thus, for the New Licensing Contracts, only TE Group's portion of the royalties received from Disney has been recorded in the Group's accounts, without any cost of sales. In the Last Comparative Period, there was no corresponding recognition of the production costs relating to the ***Pleasant Goat and Big Big Wolf*** Movie 3 and only a small portion of the related revenue was recognized because such costs and a majority of the related revenue were recognized prior to the Last Comparative Period, which commenced from 1 April 2011.

Other income increased by HK$5.7 million when compared with the Last Comparative Period. This is due to the timing of the receipt of government grant. In 2011, the government grant was received in the fourth quarter, while in 2012 the grant was received in the second quarter.

During May 2012, an exercise was conducted to streamline the Group's operation which resulted in the closure of its Chai Wan office. This led to a loss of HK$2.4 million from disposal of property, plant and equipment. During the Period under Review, RMB appreciated steadily against HK$, resulting in an exchange loss of HK$0.4 million. Other losses, comprising the loss on disposal of property, plant and equipment and exchange effect, amounted to HK$2.8 million in the Period under Review. In the Last Comparative Period, there was an exchange gain amounting to HK$2.0 million.

The streamlining exercise also incurred retrenchment costs and office reinstatement cost amounting to HK$7.5 million, which were included in administrative expenses. However, the increase in administrative expenses was offset in part by the reversal of share option expenses due to staff departure, a reduction in bad debt provisions and the reclassification of certain service fees as selling expenses in the Period under Review. These have resulted in a decrease in overall administrative expenses of HK$0.9 million when compared to the Last Comparative Period.

Selling expenses rose by HK$7.9 million to HK$10.2 million due to increased marketing and promotion activities to support the brand extension program of ***Pleasant Goat and Big Big Wolf*** and the rejuvenation of the ***Happy Family*** brand, the reclassification of service fees mentioned above and higher marketing expenses to raise awareness of our existing brands in the Greater China area.

The loss before interest, tax, depreciation and amortization for the Period under Review amounted to HK$7.7 million, compared with HK$2.3 million for the Last Comparative Period. After taking into account, among others, the amortization of intangible assets and the related reversal of the deferred tax liabilities of HK$37.4 million (2011: HK$37.8 million), loss for the Period under Review amounted to HK$52.8 million, compared with HK$46.7 million for the Last Comparative Period.

During the Period under Review, the Group decided to change its functional currency from HK$ to RMB to provide a more reliable and relevant financial information about the Group companies. There was a strong appreciation of RMB against HK$ in Last Comparative Period resulting in an exchange gain of HK$12.9 million arising on translation of non-monetary items which are denominated in RMB, before the change of functional currency was adopted. However, during the Period under Review, as RMB has become relatively stable and less sensitive to the effect of translation, therefore an exchange loss arising on translation of HK$1.3 million was resulted.

Disposal of an Associate

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

Liquidity and Financial Resources

The liquidity and financial position of the Group as at 30 June 2012 remained healthy and strong, with bank balance amounting to HK$263.1 million and a current ratio of 10.8.

As at 30 June 2012, the Group had no bank or other borrowings and therefore a zero gearing (expressed as a percentage of total borrowings over total capital).

Capital Structure

As at 30 June 2012, the Company had in issue 10,020,180,720 shares of HK$0.001 each ("Shares") and an outstanding option to subscribe for 50,000,000 Shares at an exercise price of HK$0.35 per Share which will expire on 31 December 2013. Details of the share options granted under the share option schemes of the Company are set out under the heading "Share Options" in the section headed "General Information" of this report.

Charges of Assets

As at 30 June 2012, 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 June 2012 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 States dollar. Presently, the Group does not have any currency hedging policy and has not entered into any hedging or other instrument to reduce currency risks. However, the management will closely monitor the Group's exposure to the fluctuation of exchange rates and take appropriate measures to minimize any adverse impact that may be caused by such fluctuation.

Contingent Liabilities

On 14 September 2011, the Company and its wholly-owned subsidiary, Imagi Diamond Limited ("IDL"), received a summons (the "Summons") served by Tatsunoko Production Co., Ltd ("Tatsunoko"). Tatsunoko asserted numerous causes of action and seeking an unspecified amount of damages and a declaration that the Gatchaman CGI Feature Film Agreement (the "Gatchaman Production Agreement") has been terminated. On 7 June 2006, IDL entered into the Gatchaman Production Agreement with Tatsunoko in relation to the development of a CGI animated motion picture based on the Gatchaman animated television series owned by Tatsunoko (the "Picture"). Under the Gatchaman Production Agreement, the Company guaranteed the performance of IDL. Between 7 June 2006 and 31 March 2011, the Group invested a total of HK$457.9 million in this project, inclusive of the payment of rights fee to Tatsunoko which was paid in June 2006 and October 2009. On 21 June 2011, the Company announced that it would focus its efforts on the business of its newly acquired TE Group and stopped investing further money in the production of the Picture. As a result, the Group has made a provision of impairment loss amounting to HK$457.9 million for its investment in the production of the Picture. The parties to the action have agreed to the principal terms of a settlement agreement pursuant to which, among others, they will acknowledge that the Gatchaman Production Agreement has been terminated and the parties' respective rights in the Gatchaman materials created by the Group pursuant to the Gatchaman Production Agreement will be specified. The settlement agreement is in the process of being finalized.

As at 30 June 2012, the Group had no significant contingent liabilities.

PROSPECTS

The Group's vision is to become a world class media and entertainment company engaged in the provision of innovative products and services to unlock significant values attaching to its iconic cultural assets indigenous to China.

Our business model integrates three critical success factors as follows:

(1) Partnering with CPE, we bring out the best of our market leading cartoon characters via CPE's multimedia platform including movies, TV episodes, live shows, mobile carnivals and new media contents.

To leverage the consecutive success of ***Pleasant Goat and Big Big Wolf*** movies during the last four Chinese New Years, a new movie ***I Love Wolffy***, which was produced by Mr. Cartoon Pictures Industry Co. Ltd. ("Mr. Cartoon") under license from CPE, was launched on 10 August 2012. Based on the information provided by Mr. Cartoon, as of 26 August, box office revenue of ***I Love Wolffy*** has already exceeded RMB70 million. This is the first summer movie based on an animation character (namely the ***Big Big Wolf 灰太狼***) from the ***Pleasant Goat and Big Big Wolf*** brand. It demonstrates the power of our brand in the highly competitive summer season. In addition to the economic benefit attributable to CPE under the licensing agreement entered into with Mr. Cartoon, the increased awareness of ***Big Big Wolf 灰太狼*** will further solidify the popularity of the ***Pleasant Goat and Big Big Wolf*** brand. In this year, an additional movie based on another animation brand owned by CPE, ***Happy Family***, will be launched in October, being another high box office period of the year in China. This movie, together with the launch of a new ***Happy Family*** TV series in the last quarter of this year, is expected to rejuvenate the brand. These efforts are part of the Group's strategy to become a multi-brand entertainment group.

With the support from leading national, regional and local television networks, one new TV series of ***Pleasant Goat and Big Big Wolf*** was launched in June and another series is expected to be launched in the last quarter of this year in order to extend the positive momentum of the ***Pleasant Goat and Big Big Wolf*** brand.

(2) Partnering with our master licensee for consumer products, Disney, we continue to upgrade the quality of our sub-licensees with a focus on those who are passionate about our franchise and have the necessary resources to grow with us. Disney has assisted TE Group to upgrade the quality of its sub-licensees by reviewing their credit worthiness, reputation and quality of their products. These processes have taken longer time than TE Group originally expected and most of the new or renewed licensing contracts only came into effect in 2012. However, we believe that this partnership will have positive impact on our brands' value and bring increased economic benefit in the future.

Core growth categories include apparels, toys, food, health and beauty products. Key consumer segments are kids and families, teens and young adults.

(3) Partnering with our movie partners and Disney, we work closely with leading cinema chains, supermarket chains and toys retail chains via trade marketing campaigns to capitalize on the strength of the ***Pleasant Goat and Big Big Wolf*** brand and to increase consumer traffic for participating retailers and cinema chains.

Given the continued success of the ***Pleasant Goat and Big Big Wolf*** brand, the multi-channel distribution platform of our strategic partner, CPE, the creativity of the CPE's indigenous production team and Disney's global resources and merchandising expertise, we are well positioned to benefit from the rapidly growing consumer market in China. The efforts made pursuant to the three-pronged strategy mentioned above, together with the streamlining exercise conducted during the Period under Review, have placed the Group squarely on the path to operational profitability before the annual amortization of intangible assets (and the reversal of the corresponding deferred tax liabilities).

HUMAN RESOURCES

The Group currently employs a total number of 77 employees in China, Taiwan and Hong Kong. Emolument policy is reviewed regularly to ensure compliance of the latest labour laws and market norms where the Group has operations.

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

CORPORATE GOVERNANCE PRACTICES

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

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

The Company has complied with the code provisions of the Former CG Code during the period from 1 January 2012 to 31 March 2012 except for the deviation from Code A.4.1 of the Former CG Code that none of the non-executive Directors was appointed for a specific term. However, on 30 March 2012, each of the non-executive Directors has entered into an appointment letter with the Company for a term of two years commencing from 1 April 2012.

During the period from 1 April 2012 to 30 June 2012, the Company has complied with the code provisions of the Revised CG Code except for the deviations described below.

- The Company did not have a nomination committee as set out in Code A.5 of the Revised CG Code during the period from 1 April 2012 to 30 June 2012 as more time was required to finalise the composition. However, the nomination committee of the Company (the "Nomination Committee") has been established with effect from 1 July 2012 with the primarily responsibilities of reviewing the structure, size and composition of the Board, identifying and recommending individuals nominated for directorships. The members of the Nomination Committee comprise one non-executive Director, namely Mr. Leung Pak To who serves as the chairman of the committee, and two independent non-executive Directors, namely Dr. Lam Lee G. and Ms. Wei Wei. Specific written terms of reference which deal clearly with the authority and duties of the Nomination Committee has also been established and published on the websites of the Stock Exchange and the Company.

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

CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as its own code of conduct regarding the Directors' securities transactions. In response to the specific enquiry made by the Company, all the Directors confirmed that they fully complied with the Model Code throughout the six months ended 30 June 2012.

CHANGES IN INFORMATION OF DIRECTORS

The changes in Directors' information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below.

- Ms. Wei Wei was appointed as the general manager, Asia of Christie's Hong Kong Limited with effect from 3 May 2012.

- On 30 May 2012, Dr. Lam Lee G. retired as an independent non-executive director of Mingyuan Medicare Development Company Limited, the shares of which are listed on the Stock Exchange.

- On 1 July 2012, Mr. Chan Yuk Sang resigned as an independent non-executive director of Opes Asia Development Limited, the shares of which are listed on the Stock Exchange.

- Each of the non-executive Directors and the independent non-executive Directors, namely, Mr. Leung Pak To, Ms. Ma Wai Man, Catherine, Mr. Yang Fei, Mr. Chan Yuk Sang, Mr. Cheng Yuk Wo, Dr. Lam Lee G., Mr. Lim Chin Leong and Ms. Wei Wei, have entered into an appointment letter with the Company for a term of two years commencing from 1 April 2012.

Save for the above, there is no other change in Directors' information since 29 March 2012, the date of the annual report of the Company for the nine months ended 31 December 2011 which are 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 June 2012.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2012, the interests and short positions of the Directors and chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations were as follows:

Long positions in the shares of the Company

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

Notes:

1. It was based on 10,020,180,720 Shares in issue as at 30 June 2012.

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

Long positions in the share options of the Company

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

Save as disclosed above, as at 30 June 2012, none of the Directors or chief executive of the Company or any of their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2012, the interests and short positions of those person (other than the Directors and chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company were as follows:

Long positions in the shares of the Company

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

Notes:

1. It was based on 10,020,180,720 Shares in issue as at 30 June 2012.

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

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

Save as disclosed above, as at 30 June 2012, so far as was known to the Directors, no other persons (other than the Directors or chief executive of the Company) had any interests or short positions in the shares or underlying shares of the Company representing five percent or more in the issued share capital of the Company and as recorded in the register required to be kept under Section 336 of the SFO.

SHARE OPTIONS

The Company adopted a share option scheme on 16 August 2002 (the "2002 Scheme") which would otherwise expire on 15 August 2012. Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 11 June 2012, the Company terminated the 2002 Scheme and adopted a new share option scheme (the "2012 Scheme"), the purpose of which is to reward eligible participants who have contributed or are expected to contribute to the Group and to encourage the participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. Details of the 2012 Scheme were set out in the circular of the Company dated 26 April 2012. No further option shall be granted under the 2002 Scheme but the options granted under the 2002 Scheme prior to its termination shall remain valid and exercisable in accordance with the terms of the respective grants.

During the six months ended 30 June 2012, no share option has been granted under the 2012 Scheme and the movements of the share options granted under the 2002 Scheme were as follows:

	Date of grant	Vesting period	Exercise period	Exercise price per Share HK$	Number of share options As at 1 January 2012	Granted during the period *(note)*	Exercised during the period	Cancelled during the period	Forfeited during the period	As at 30 June 2012
Directors										
Soh Szu Wei	13 April 2011	3 to 5 years	3 years	0.368	50,000,000	–	–	(50,000,000)	–	–
Ma Wai Man, Catherine	13 April 2011	3 to 5 years	3 years	0.368	2,000,000	–	–	–	–	2,000,000
Yung Tse Kwong, Steven	2 April 2012	1 to 3 years	3 years	0.173	–	80,000,000	–	–	–	80,000,000
					52,000,000	80,000,000	–	(50,000,000)	–	82,000,000
Former employee	21 August 2009	1 to 3 years	5 years	0.755	417,160	–	–	–	–	417,160
Employees	13 April 2011	3 to 5 years	3 years	0.368	10,680,000	–	–	(3,760,000)	–	6,920,000
					11,097,160	–	–	(3,760,000)	–	7,337,160
					63,097,160	80,000,000	–	(53,760,000)	–	89,337,160

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2012, 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 condensed consolidated financial statements of the Group for the six months ended 30 June 2012.

On behalf of the Board
Yung Tse Kwong, Steven
Executive Director

Hong Kong, 29 August 2012

Deloitte.
德勤

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

Introduction

We have reviewed the condensed consolidated financial statements of Imagi International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 18 to 52, which comprise the condensed consolidated statement of financial position as of 30 June 2012 and the related condensed consolidated income statement, 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 of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements 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 these condensed consolidated financial statements 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 condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 29 August 2012

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2012

	NOTES	From 1 January 2012 to 30 June 2012 HK$'000 (unaudited)	From 1 April 2011 to 30 September 2011 HK$'000 (unaudited)
Revenue	4	**78,608**	70,839
Cost of sales before amortisation of intangible assets		**(37,152)**	(27,209)
Gross profit before amortisation of intangible assets		**41,456**	43,630
Amortisation of intangible assets		**(49,801)**	(50,327)
Gross loss after amortisation of intangible assets		**(8,345)**	(6,697)
Other income	5	**8,454**	2,770
Other (losses) gains		**(2,759)**	2,053
Selling expenses		**(10,193)**	(2,293)
Administrative expenses		**(45,842)**	(46,753)
Share of loss of an associate		**(5,553)**	(701)
Gain on disposal of interests in an associate and cancellation of related options and liabilities	14	**7,687**	—
Finance costs		**—**	(79)
Loss before tax	6A	**(56,551)**	(51,700)
Income tax credit	7	**3,750**	4,991
Loss for the period		**(52,801)**	(46,709)
Loss per share	9		
Basic and diluted		**(HK$0.005)**	(HK$0.005)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	From 1 January 2012 to 30 June 2012 HK$'000 (unaudited)	From 1 April 2011 to 30 September 2011 HK$'000 (unaudited)
Loss for the period	**(52,801)**	(46,709)
Exchange differences arising on translation	**(1,352)**	12,950
Total comprehensive expense for the period	**(54,153)**	(33,759)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012

	NOTES	At 30 June 2012 HK$'000 (unaudited)	At 31 December 2011 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	10	**4,752**	7,691
Intangible assets	11	**875,117**	932,133
Interest in an associate	12	**—**	27,086
Derivative financial instrument	13	**—**	6,798
Deferred tax assets	18	**966**	2,359
		880,835	976,067
Current assets			
Inventories		**40**	797
Trade and other receivables, deposits and prepayments	15	**80,170**	76,701
Bank balances and cash		**263,101**	281,341
		343,311	358,839
Current liabilities			
Trade, other payables and liabilities	16	**14,225**	35,133
Unearned revenue		**4,116**	12,770
Tax payable		**13,521**	9,532
		31,862	57,435
Net current assets		**311,449**	301,404
Total assets less current liabilities		**1,192,284**	1,277,471
Non-current liabilities			
Other liabilities	17	**—**	17,972
Deferred tax liabilities	18	**220,534**	232,678
		220,534	250,650
Net assets		**971,750**	1,026,821
Capital and reserves			
Share capital	19	**10,020**	10,020
Reserves		**961,730**	1,016,801
Total equity attributable to owners of the Company		**971,750**	1,026,821

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000 (note i)	Merger reserve HK$'000 (note ii)	Translation reserve HK$'000	Share option reserve HK$'000	Option shares reserve HK$'000	Deemed contribution reserve HK$'000 (note iii)	PRC statutory reserve HK$'000 (note iv)	Accumulated losses HK$'000	Total HK$'000
At 1 April 2011 (audited)	5,725	892,924	–	909	3,167	708	63,581	22,650	–	(821,106)	168,558
Exchange differences arising on translation	–	–	–	–	12,950	–	–	–	–	–	12,950
Loss for the period	–	–	–	–	–	–	–	–	–	(46,709)	(46,709)
Total loss and comprehensive expense for the period	–	–	–	–	12,950	–	–	–	–	(46,709)	(33,759)
Issue of consideration shares (Note 21(i)(b))	1,383	422,071	–	–	–	–	–	–	–	–	423,454
Share subscription (Note 19(i))	1,283	357,906	–	–	–	–	–	–	–	–	359,189
Exercise of option shares	1,629	185,801	–	–	–	–	(63,581)	–	–	–	123,849
Share issue expenses (Note 20(i))	–	(6,060)	–	–	–	–	6,060	–	–	–	–
Share options forfeited for the period	–	–	–	–	–	(459)	–	–	–	459	–
Recognition of equity-settled share-based payments (Note 20(ii)(c))	–	–	–	–	–	1,319	–	–	–	–	1,319
Transfer (note i)	–	(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
Exchange differences arising on translation	–	–	–	–	4,124	–	–	–	–	–	4,124
Loss for the period	–	–	–	–	–	–	–	–	–	(20,646)	(20,646)
Total loss and comprehensive expense for the period	–	–	–	–	4,124	–	–	–	–	(20,646)	(16,522)
Recognition of equity-settled share-based payments	–	–	–	–	–	733	–	–	–	–	733
Transfer to statutory reserve	–	–	–	–	–	–	–	–	2,429	(2,429)	–
At 31 December 2011 (audited)	10,020	–	1,037,593	909	20,241	2,301	6,060	–	2,429	(52,732)	1,026,821
Exchange differences arising on translation	–	–	–	–	(1,352)	–	–	–	–	–	(1,352)
Loss for the period	–	–	–	–	–	–	–	–	–	(52,801)	(52,801)
Total loss and comprehensive expense for the period	–	–	–	–	(1,352)	–	–	–	–	(52,801)	(54,153)
Reversal of equity-settled share-based payments (Note 20(ii)(c))	–	–	–	–	–	(918)	–	–	–	–	(918)
At 30 June 2012 (unaudited)	**10,020**	**–**	**1,037,593**	**909**	**18,889**	**1,383**	**6,060**	**–**	**2,429**	**(105,533)**	**971,750**

notes:

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

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

(iii) 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 (i) above.

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	NOTES	From 1 January 2012 to 30 June 2012 HK$'000 (unaudited)	From 1 April 2011 to 30 September 2011 HK$'000 (unaudited)
OPERATING ACTIVITIES			
Operating cash flow before movement in working capital		**(3,193)**	2,155
Increase in trade and other receivables, deposits and prepayments		**(3,746)**	(32,431)
(Decrease) increase in trade, other payables and liabilities		**(12,128)**	4,520
(Decrease) increase in unearned revenue		**(8,366)**	507
Other operating activities		**303**	—
Cash used in operations		**(27,130)**	(25,249)
PRC income tax paid		**(2,484)**	(3,961)
Net cash used in operating activities		**(29,614)**	(29,210)
INVESTING ACTIVITIES			
Acquisition of subsidiaries	21	**–**	(317,774)
Acquisition of an associate		**–**	(9,100)
Proceeds from disposal of interests in an associate and cancellation of related options and liabilities	14	**9,100**	—
Purchase of property, plant and equipment	10	**(467)**	(4,556)
Withdrawal of pledged deposit		**–**	11,674
Other investing activities		**2,215**	(326)
Net cash from (used in) investing activities		**10,848**	(320,082)
FINANCING ACTIVITIES			
Proceeds from equity subscription		**–**	359,189
Proceeds from exercise of share options		**–**	123,849
Repayment of bank loans		**–**	(10,529)
Other financing activities		**–**	(79)
Net cash from financing activities		**–**	472,430
Net (decrease) increase in cash and cash equivalents		**(18,766)**	123,138
Cash and cash equivalents at beginning of the period		**281,341**	167,161
Effect of foreign exchange rate changes		**526**	279
Cash and cash equivalents at end of the period, represented by bank balances and cash		**263,101**	290,578

1. BASIS OF PREPARATION

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

On 13 April 2011, the Group acquired the entire equity interest in Infoport Management Limited ("Infoport"), a company incorporated in the British Virgin Islands ("BVI") from PGBBW Limited, a company also incorporated in the BVI and unrelated to the Group (the "Acquisition"), further details of which are set out in Note 21. Given the significance of the Acquisition to the Group, the directors of the Company have henceforth reconsidered the Group's financial reporting procedures and have determined that the reporting period of the Group be changed from 31 March to 31 December in order to bring the annual reporting period end date of the Group in line with that of its major operating subsidiaries which operate in the PRC. Accordingly, the condensed consolidated financial statements for the current period cover a six month period from 1 January 2012 to 30 June 2012. The corresponding comparative amounts shown for the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and related notes cover a six month period from 1 April 2011 to 30 September 2011 and therefore may not be comparable with amounts shown for the current period.

During the current interim period, the directors of the Group has decided to scale down its operation in Hong Kong and shifted its operation focus to the PRC in order to achieve a better cost control over its operation. The directors reassessed the functional currency of the Company and certain subsidiaries during the current interim period and changed the functional currency of the Company and the relevant subsidiaries from Hong Kong Dollars ("HK$") to Renminbi ("RMB") as RMB better reflects the underlying transactions, events and conditions that are relevant to the Company and the relevant subsidiaries, which is the currency of the primary economic environment in which the Group's major operating subsidiaries and the relevant subsidiaries operate. The change of functional currency is applied prospectively from the date of change in accordance with HKAS 21 *The Effect of Changes in Foreign Exchange Rates*. At the date of the change, all items were translated into the new functional currency using the prevailing exchange rate at that date and the resulting translated amounts for non-monetary items are treated as historical cost. Exchange differences arising from the translation from functional currency to presentation currency of the group's entities were recognised in comprehensive income. During the six months ended 30 June 2012, the Group recognised exchange losses of HK$1,352,000 arising from the translation directly in comprehensive expense.

1. BASIS OF PREPARATION (continued)

In the opinion of the directors of the Company, the presentation currency remained unchanged as HK$ to present more relevant information as the shares of the Company have been listed and traded on the Main Board of the Stock Exchange and the majority of the investors of the Company are in Hong Kong and to provide investors a better comparison with the Group's business competitors.

During the current interim period, the directors of the Company have decided to present an income statement and a statement of comprehensive income separately rather than presenting in a single statement. The Group's condensed consolidated income statement is presented immediately precede the condensed consolidated statement of comprehensive income.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group's annual financial statements for the period from 1 April 2011 to 31 December 2011.

In addition, the Group has applied the following accounting policy for change in functional currency during the current interim period:

Change in functional currency

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

2. PRINCIPAL ACCOUNTING POLICIES (continued)

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 amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA:

- amendments to HKFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*; and
- amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets*.

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. KEY SOURCE OF ESTIMATION UNCERTAINTY

The following is the key assumption concerning the future, and key source of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period.

Estimated impairment of intangible assets

Determining whether intangible assets are impaired requires an estimation of the value in use of the cash generating unit ("CGU") to which intangible assets have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 30 June 2012, the carrying amount of intangible assets is HK$875,117,000 (net of accumulated amortisation and impairment loss of HK$916,205,000) (31 December 2011: carrying amount of HK$932,133,000, net of accumulated amortisation and impairment loss of HK$873,492,000).

4. REVENUE AND SEGMENT INFORMATION

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

Segment A: Production, broadcasting and licensing of the Group's computer graphic imaging ("CGI") animation pictures not developed by TE Group (defined in Note 21); and

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

From 1 January 2012 to 30 June 2012

	Segment A HK$'000 (unaudited)	Segment B HK$'000 (unaudited)	Total HK$'000 (unaudited)
Revenue			
External sales	4,318	74,290	78,608
Segment results	(17,292)	(36,683)	(53,975)
Reconciling items:			
Unallocated administrative expenses			(4,710)
Share of loss of an associate			(5,553)
Gain on disposal of interests in an associate and cancellation of related options and liabilities			7,687
Loss before tax			(56,551)
Amounts included in the measure of segment profit or loss:			
Impairment loss on intangible assets	5,249	—	5,249
Amortisation of intangible assets	—	49,801	49,801
Depreciation of property, plant and equipment	299	606	905

4. REVENUE AND SEGMENT INFORMATION (continued)

From 1 April 2011 to 30 September 2011

	Segment A HK$'000 (unaudited)	Segment B HK$'000 (unaudited)	Total HK$'000 (unaudited)
Revenue			
External sales	4,192	66,647	70,839
Segment results	(7,311)	(38,824)	(46,135)
Reconciling items:			
Unallocated administrative expenses			(4,785)
Share of loss of an associate			(701)
Finance costs			(79)
Loss before tax			(51,700)
Amounts included in the measure of segment profit or loss:			
Amortisation of intangible assets	—	50,327	50,327
Depreciation of property, plant and equipment (net of amounts capitalised)	248	375	623

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 and gain on disposal of interests in an associate and cancellation of related options and liabilities. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance. The basis of segment revenue and segment results has been consistently applied for the period presented.

5. OTHER INCOME

	From 1 January 2012 to 30 June 2012 HK$'000 (unaudited)	From 1 April 2011 to 30 September 2011 HK$'000 (unaudited)
Interest income	**1,856**	1,646
Government award/subsidies *(note)*	**4,676**	—
Compensation received on settlements of legal cases	**1,276**	1,124
Others	**646**	—
	8,454	2,770

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

6A. LOSS BEFORE TAX

	From 1 January 2012 to 30 June 2012 HK$'000 (unaudited)	From 1 April 2011 to 30 September 2011 HK$'000 (unaudited)
Loss before tax has been arrived at after charging and (crediting):		
Depreciation of property, plant and equipment	**905**	789
Less: amounts capitalised in inventories	**—**	(166)
	905	623
Amortisation of intangible assets (Note 11)	**49,801**	50,327
Total depreciation and amortisation	**50,706**	50,950
Impairment loss (reversed) recognised in respect of trade receivables	**(607)**	2,441
Allowance recognised in respect of inventories	**490**	—

6B. LOSS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION

The calculation of the loss before interest, tax, depreciation and amortisation ("LBITDA") for the period is based on the following data:

	From 1 January 2012 to 30 June 2012 HK$'000 (unaudited)	From 1 April 2011 to 30 September 2011 HK$'000 (unaudited)
LBITDA		
Loss before tax	**(56,551)**	(51,700)
Adjusted for:		
Interest income	**(1,856)**	(1,656)
Finance costs	**—**	79
Depreciation and amortisation	**50,706**	50,950
	(7,701)	(2,327)

7. INCOME TAX CREDIT

	From 1 January 2012 to 30 June 2012 HK$'000 (unaudited)	From 1 April 2011 to 30 September 2011 HK$'000 (unaudited)
Current tax:		
PRC Enterprise Income Tax ("EIT")	**6,304**	7,684
Withholding tax paid upon dividend received from a subsidiary	**—**	1,400
	6,304	9,084
Underprovision in prior years	**169**	—
	6,473	9,084
Deferred tax (Note 18):		
Current period	**(10,223)**	(12,675)
Reversal upon tax paid	**—**	(1,400)
	(10,223)	(14,075)
	(3,750)	(4,991)

7. INCOME TAX CREDIT (continued)

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

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

8. DIVIDENDS

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

9. 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:

	From 1 January 2012 to 30 June 2012 (unaudited)	From 1 April 2011 to 30 September 2011 (unaudited)
Loss for the purposes of basic and diluted loss per share	**HK$52,801,000**	HK$46,709,000
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**10,020,180,720**	9,720,411,990

The computation of diluted loss per share does not assume the exercise of the IDG Option (Note 20(i)) and options granted under the incentive share option scheme (Note 20(ii)) since their exercise would result in a decrease in loss per share for both periods. Therefore, the basic and diluted loss per share are the same.

10. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group (i) incurred approximately HK$467,000 (from 1 April 2011 to 30 September 2011: HK$4,556,000) for the acquisition of property, plant and equipment, and (ii) disposed property, plant and equipment with carrying value of approximately HK$2,506,000.

11. INTANGIBLE ASSETS

	Consumer Products Agreement HK$'000 *(note (i))*	TE Trademarks and Copyrights HK$'000 *(note (ii))*	JBM Agreement HK$'000 *(note (ii))*	CGI animation pictures HK$'000 *(note (iii))*	Total HK$'000
COST					
At 1 January 2012 (audited)	129,448	227,019	645,204	803,954	1,805,625
Eliminated on dissolution of a subsidiary (Note 22)	–	–	–	(11,912)	(11,912)
Exchange realignment	(1,042)	(1,652)	303	–	(2,391)
At 30 June 2012 (unaudited)	**128,406**	**225,367**	**645,507**	**792,042**	**1,791,322**
AMORTISATION AND IMPAIRMENT					
At 1 January 2012 (audited)	9,958	17,292	47,537	798,705	873,492
Impairment loss recognised in the period	–	–	–	5,249	5,249
Charge for the period	6,617	11,322	31,862	–	49,801
Eliminated on dissolution of a subsidiary (Note 22)	–	–	–	(11,912)	(11,912)
Exchange realignment	(113)	(177)	(135)	–	(425)
At 30 June 2012 (unaudited)	**16,462**	**28,437**	**79,264**	**792,042**	**916,205**
CARRYING VALUE					
At 30 June 2012 (unaudited)	**111,944**	**196,930**	**566,243**	**–**	**875,117**
At 31 December 2011 (audited)	119,490	209,727	597,667	5,249	932,133

notes:

(i) Consumer Products Agreement (as defined in Note 21) 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.

11. INTANGIBLE ASSETS (continued)

notes: (continued)

(ii) TE Trademarks and Copyrights (as defined in Note 21) generally have finite legal lives of 10 years but are renewable at minimal cost.

The JBM Agreement (as defined in Note 21) can only be terminated by a party when the other party commits a default which is not remedied within a specified period.

Pursuant to the JBM Agreement, TE Group participates in the co-ordination of the commercial exploitation of the animation for television episodes and movies and related characters owned by CPE (as defined in Note 21) and TE Group. The Group's results include the revenue derived from the JBM Agreement and the amortisation thereof and other related expenses.

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

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

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

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

The Group has decided to scale down its operation of the production, broadcasting and licensing of CGI animation pictures during the current interim period, in the opinion of the directors, the future cash flow is less than the aggregate recoverable amount of the CGI animation pictures, an impairment loss of approximately HK$5,249,000 was recognised on the remaining carrying value of CGI animation pictures.

11. INTANGIBLE ASSETS (continued)

notes: (continued)

(iv) For the purpose of impairment testing, the Consumer Products Agreement, TE Trademarks and Copyrights and JBM Agreement are allocated to two separate CGU relating to Segment B (Note 4).

The basis of the recoverable amounts of Consumer Products Agreement and TE Trademarks and Copyrights (unit A) and JBM Agreement (unit B) have been determined on the basis of value in use calculations. Their recoverable amounts are based on certain similar key assumptions. Their value in use were calculated using cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 18% for unit A and of 16% to 20% for unit B (31 December 2011: of 18% for unit A and of 16% to 20% for unit B). The sets of cash flows beyond the five-year period are extrapolated using a growth rate of 3% for both units (31 December 2011: 3%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted revenue, such estimation is based on the management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of unit A and B to exceed the aggregate recoverable amount.

In the opinion of the directors, taking into account of the estimation of future cash flows in relation to the Consumer Products Agreement, TE Trademarks and Copyrights and JBM Agreement, no impairment loss was recognised during the period.

12. INTEREST IN AN ASSOCIATE

	30 June 2012 HK$'000 (unaudited)	31 December 2011 HK$'000 (audited)
Cost of investment in an associate — unlisted	**29,602**	29,602
Share of accumulated losses	**(8,069)**	(2,516)
Disposal (Note 14)	**(21,533)**	—
	—	27,086

12. INTEREST IN AN ASSOCIATE (continued)

The Group had interest in the following associate at the end of each of the reporting periods:

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 and voting power held by the Group		Principal activities
				30 June 2012	31 December 2011	
Sino Light Enterprise Limited ("Sino Light")	Limited company	Hong Kong	Ordinary	–	20.63%	Retailing and wholesaling of children's apparel

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

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

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

Upon completion of the subscription, the total consideration of HK$36.4 million is allocated to (i) cost of investment in an associate of HK$29,602,000; and (ii) the Sino Light Subscription Option of HK$6,798,000 (Note 13).

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

12. INTEREST IN AN ASSOCIATE (continued)

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

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

Further details of the above three options are set out in Note 13.

During the six months ended 30 June 2012, the Group's entire interest in Sino Light was disposed and the related options and liabilities were cancelled. Details of which are set out in Note 14.

13. DERIVATIVE FINANCIAL INSTRUMENT

	note	**30 June 2012 HK$'000 (unaudited)**	31 December 2011 HK$'000 (audited)
Sino Light Subscription Option	*(i)*	**–**	6,798

13. DERIVATIVE FINANCIAL INSTRUMENT (continued)

notes:

(i) Sino Light Subscription Option

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

At initial recognition, the fair value of the Sino Light Subscription Option was determined to be HK$6,798,000 by Greater China (as defined in Note 21) using the Binomial Option Pricing Model. The following assumptions were used to calculate the fair value of the option.

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

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

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

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

Sino Light Subscription Option, TE Put Options and Other Shareholders' Call Options were cancelled (as detailed in Note 14) in March 2012.

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

On 2 March 2012, the Group entered into deeds and agreements with various parties which involved (i) the transfer of its entire interest in Sino Light to one of the Sino Light Original Shareholders; (ii) the cancellation of the Sino Light Subscription Option with carrying value of HK$6,798,000, TE Put Options, Other Shareholders' Call Options and (iii) the cancellation of Business Support Agreement (as detailed in Note 12) with carrying value of approximately HK$26.9 million as a result of which all relevant parties were released of their rights and obligations arising therefrom. The Group received a net consideration of HK$9.1 million in relation to the aforesaid arrangement. The disposal was completed on 14 March 2012.

This transaction has resulted in the Group recognising a gain of HK$7,687,000 in profit or loss, calculated as follows:

	HK$'000 (unaudited)
Cash proceeds	**9,100**
Less: carrying amount of the 20.63% investment on the date of loss of influence over Sino Light (Note 12)	**(21,533)**
carrying amount of Sino Light Subscription Option (Note 13)	**(6,798)**
Add: carrying amount of management services obligations under the Business Support Agreement	**26,918**
Gain recognised in profit or loss	**7,687**

15. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30 June 2012 HK$'000 (unaudited)	31 December 2011 HK$'000 (audited)
Trade receivables *(note i)*	**36,332**	29,291
Less: allowance for doubtful debts	**(4,310)**	(4,917)
	32,022	24,374
Amount due from CPE *(note ii)*	**45,545**	45,385
Other receivables, deposits and prepayments	**2,603**	6,942
	80,170	76,701

15. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (continued)

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 June 2012 were aged less than 60 days based on invoice dates.

(ii) Amount due from CPE included approximately HK$44,942,000 (31 December 2011: HK$43,983,000) related to the JBM Agreement and approximately HK$603,000 (31 December 2011: HK$1,402,000) related to non-trade nature transactions. At the end of the reporting period, both amounts were aged less than one year and were unsecured, non-interest bearing and repayable on demand.

16. TRADE, OTHER PAYABLES AND LIABILITIES

	30 June 2012 HK$'000 (unaudited)	31 December 2011 HK$'000 (audited)
Trade payables *(note i)*	**4,930**	7,830
Other liabilities *(note ii)*	**—**	9,100
Other payables and accruals	**9,295**	18,203
	14,225	35,133

notes:

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

(ii) The amount represents the current portion of the other liabilities (Note 17) as at the end of the reporting period.

17. OTHER LIABILITIES

As set out in Note 12, as part of the consideration for the Sino Light Acquisition, the Group was to provide certain management services to Sino Light for a period of three years. The fair value of such management services, as determined to be approximately HK$27.1 million in August 2011, was recognised as other liabilities. Such management services arrangement was terminated during the current interim period ended 30 June 2012 (see Note 14).

18. DEFERRED TAX (ASSETS) LIABILITIES

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

	30 June 2012 HK$'000 (unaudited)	31 December 2011 HK$'000 (audited)
Deferred tax assets	**966**	2,359
Deferred tax liabilities	**(220,534)**	(232,678)
	(219,568)	(230,319)

The followings are the major deferred tax (assets) liabilities recognised and movements thereon during both periods:

	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 (audited)	–	–	–	–
Acquired on acquisition of subsidiaries	243,911	1,949	(1,337)	244,523
(Credit) charge to profit or loss (Note 7)	(12,508)	700	(867)	(12,675)
Exchange realignment	4,127	–	–	4,127
Reversal upon tax paid (Note 7)	–	(1,400)	–	(1,400)
At 30 September 2011 (unaudited)	235,530	1,249	(2,204)	234,575
(Credit) charge to profit or loss	(5,780)	598	(102)	(5,284)
Exchange realignment	1,086	–	(53)	1,033
Reversal upon tax paid	–	(5)	–	(5)
At 1 January 2012 (audited)	230,836	1,842	(2,359)	230,319
(Credit) charge to profit or loss (Note 7)	(12,398)	781	1,394	(10,223)
Exchange realignment	(527)	–	(1)	(528)
At 30 June 2012 (unaudited)	**217,911**	**2,623**	**(966)**	**219,568**

19. SHARE CAPITAL

	Number of shares '000	Share capital HK$'000
Ordinary share of HK$0.001 each		
Authorised:		
At 1 January 2012 and 30 June 2012	**1,000,000,000**	**1,000,000**
Issued and fully paid:		
At 1 April 2011, at HK$0.001 each	5,724,907	5,725
Issue of consideration shares (Note 21(i)(b))	1,382,857	1,383
2011 Share Subscription *(note i)*	1,282,816	1,283
Exercise of share options *(note ii)*	1,629,600	1,629
At 31 December 2011 and 30 June 2012	**10,020,180**	**10,020**

notes:

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

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

(ii) During the period from 1 April 2011 to 30 September 2011, (a) Idea Talent Limited, a beneficial owner to the Group, exercised its option to subscribe for 1,500,000,000 shares in the Company at an adjusted exercise price of HK$0.076 per share; and (b) a core creditor of the Group, Fortunate City Investment Limited, exercised its options to subscribe for 129,600,000 shares in the Company at an adjusted exercise price of HK$0.076 per share.

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

20. SHARE—BASED PAYMENT TRANSACTIONS/OTHER OPTIONS

During the current and last interim periods, the Company had outstanding several share option arrangements as follows:

(i) IDG Option

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

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

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

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

At 30 June 2012, the IDG Option remained unexercised and outstanding.

20. SHARE—BASED PAYMENT TRANSACTIONS/OTHER OPTIONS (continued)

(ii) Incentive share option scheme

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

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

For the period from 1 January 2012 to 30 June 2012

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

20. SHARE—BASED PAYMENT TRANSACTIONS/OTHER OPTIONS (continued)

(ii) Incentive share option scheme (continued)

For the period from 1 April 2011 to 30 September 2011

	Grant date	Vesting period	Fair value of share option at grant date HK$	Outstanding at 1 April 2011	Granted during the period (note b)	Cancelled during the period (note c)	Forfeited during the period (note d)	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	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	0.164	–	6,060,000	(220,000)	–	5,840,000
		13/4/2011 to 12/4/2015	0.178	–	3,030,000	(110,000)	–	2,920,000
		13/4/2011 to 12/4/2016	0.191	–	3,030,000	(110,000)	–	2,920,000
				1,049,720	64,120,000	(663,598)	(408,962)	64,097,160

Exercise price for the share options are as follows:

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

20. SHARE—BASED PAYMENT TRANSACTIONS/OTHER OPTIONS (continued)

(ii) Incentive share option scheme (continued)

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

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

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

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

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

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

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

20. SHARE—BASED PAYMENT TRANSACTIONS/OTHER OPTIONS (continued)

(ii) Incentive share option scheme (continued)

(a) (continued)

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

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

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

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

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

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

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

20. SHARE—BASED PAYMENT TRANSACTIONS/OTHER OPTIONS (continued)

(ii) Incentive share option scheme (continued)

(b) (continued)

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

(c) During the current interim period, 50,000,000 and 3,760,000 share options were cancelled prior to the vesting of relevant share options as a result of the resignation of a director and employees respectively (30 September 2011: 663,598 share options were cancelled). The impact of the revision of the estimates during the vesting period was recognised in the profit and loss, with a corresponding adjustment to the share option reserve. The Group recognised a net reversal share-based payment of HK$918,000 (six months ended 30 September 2011: recognition of share-based payment of HK$1,319,000).

(d) During the current interim period, no share option was forfeited after the vesting period due to the resignation of employees (30 September 2011: 408,962 share options were forfeited). When the share option are forfeited after the vesting date, the amount previously charged to profit or loss is credited to accumulated losses, with a corresponding adjustment to share option reserve. During the current reporting period, no adjustment was credited to accumulated losses due to forfeiture of share options (30 September 2011: HK$459,000).

21. ACQUISITION OF SUBSIDIARIES

As set out in Note 1, on 13 April 2011, the Group acquired the entire equity interest in Infoport.

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

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

21. ACQUISITION OF SUBSIDIARIES (continued)

notes:

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

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

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

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

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

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

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

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

Based on the facts and circumstances at the acquisition date and the review of the financial projection of TE Group as at the period ended 30 June 2012, 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 and as at the period ended 30 June 2012 are determined at nil value.

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

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

21. ACQUISITION OF SUBSIDIARIES (continued)

notes: (continued)

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

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

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

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

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

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

(vi) Included in the revenue and loss for the period from 1 April 2011 to 30 September 2011 of the Group is approximately HK$66,647,000 and a profit of HK$2,912,000 (before amortisation of respective intangible assets) respectively attributable to the acquired business generated by TE Group. The TE Group contributed a loss of approximately HK$38,824,000 to the Group for the period from 1 April 2011 to 30 September 2011 after amortisation of respective intangible assets. Had the Acquisition been completed on 1 April 2011, total group revenue and loss for the period from 1 April 2011 to 30 September 2011 would approximate the revenue and loss for that period as presented in the consolidated income statement.

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

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

22. DISSOLUTION OF SUBSIDIARIES

During the current interim period, the Group dissolved three subsidiaries, all of which had nil net asset value at the date of dissolution.

23. PLEDGE OF ASSETS

As at 30 June 2012, 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 against 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 June 2012 was nil (31 December 2011: Nil).

24. MAJOR NON-CASH TRANSACTIONS

From 1 January 2012 to 30 June 2012

The Company recognised a net reversal of share-based payment of approximately HK$918,000.

From 1 April 2011 to 30 September 2011

(a) Consideration shares were issued for the Acquisition as detailed in Note 21(i)(b).

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

(c) The grant of IDG Option as detailed in Note 20(i).

(d) The Group invested in Sino Light by way of provision of management services of HK$27.3 million as detailed in Note 12.

25. RELATED PARTY TRANSACTIONS

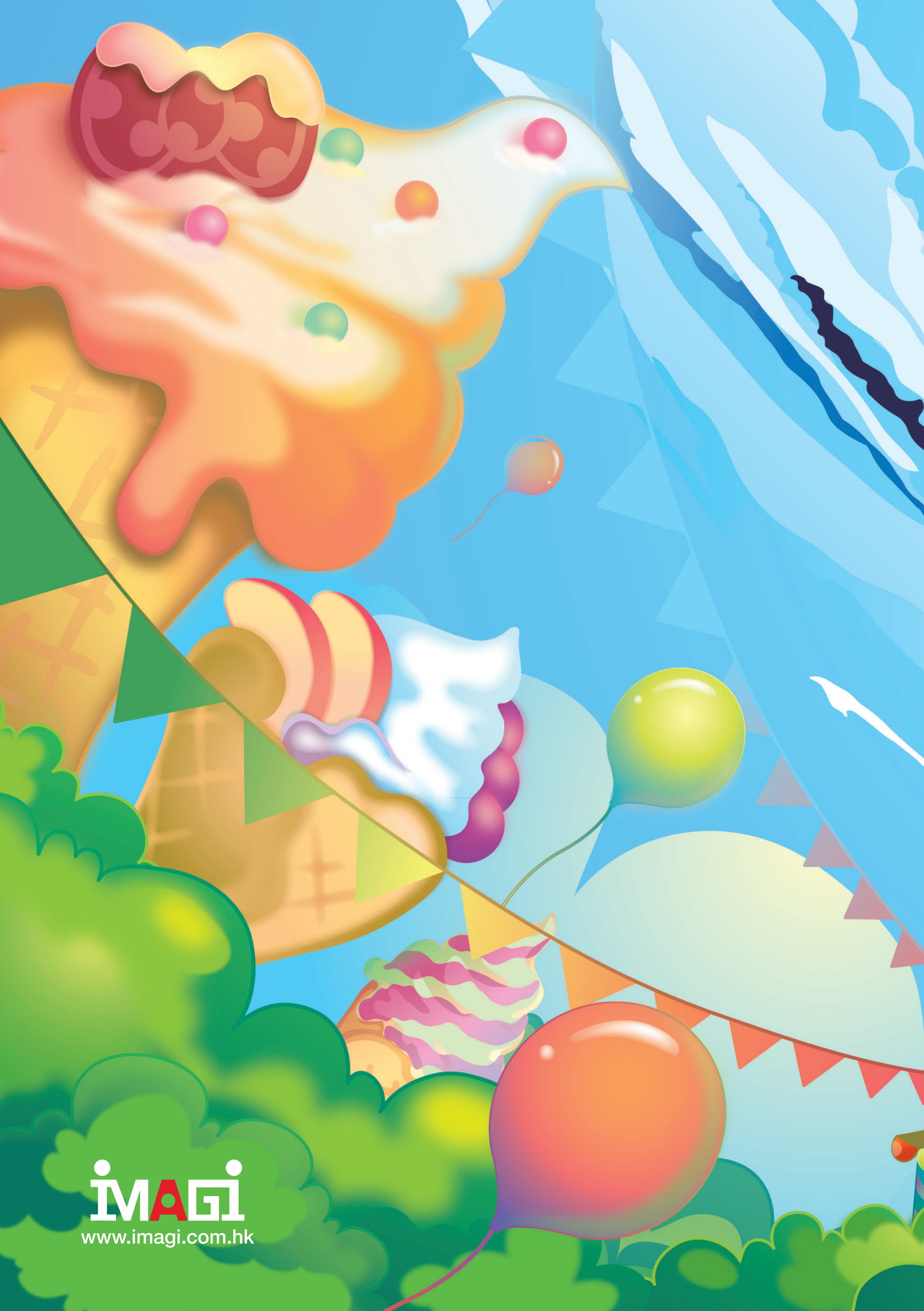
During the current interim period, the following compensations were paid to the directors of the Company and the Group's other key management personnel, having regard to the performance of individuals and market trends:

	From 1 January 2012 to 30 June 2012 HK$'000 (unaudited)	From 1 April 2011 to 30 September 2011 HK$'000 (unaudited)
Short-term benefits	**9,264**	8,876
Contributions to pension schemes	**66**	78
Compensation for loss of office *(note)*	**2,708**	—
(Reversal) recognition of equity-settled share-based payment, net	**(1,003)**	1,320
	11,035	10,274

note: Amounts belong to compensation paid to certain key management personnel being laid-off during the current interim period.

26. 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. During the current interim period, the parties are negotiating the principal terms of a settlement. As at the date that these condensed consolidated financial statements are approved by the directors, the settlement agreement is in the process of being finalised and the management do not anticipate that the matter will have material impact on the Group's operations and financial position.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