IMAGI INTERNATIONAL HOLDINGS LIMITED

意馬國際控股有限公司

stock code 股份代號：585

2013 Interim Report 中期報告

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman and Non-executive Director
Mr. Leung Pak To

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

Non-executive Directors
Mr. Lian Meng
Ms. Ma Wai Man, Catherine

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

BOARD COMMITTEES

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

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

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

COMPANY SECRETARY
Ms. Lau Siu Mui

REGISTERED OFFICE
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2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Room 1105
K. Wah Centre
191 Java Road
North Point
Hong Kong

AUDITOR
Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL BANKER
The Bank of East Asia, Limited

PRINCIPAL SHARE REGISTRAR
Butterfield Fulcrum Group (Bermuda) Limited
26 Burnaby Street
Hamilton HM11
Bermuda

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

STOCK CODE
HKEx 585

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BUSINESS AND OPERATIONAL REVIEW

Imagi International Holdings Limited (the "Company" or "Imagi"), together with its subsidiaries (the "Group"), continued to partner with our strategic partner Creative Power Entertaining Limited Liability Company ("CPE") and our global master licensee Disney Enterprises, Inc. ("Disney" or "Master Licensee") and other Disney affiliates, to provide consumers the maximum interaction and memorable experiences in terms of contents across all lines of business and consumer products through merchandise licensing.

We work closely with our strategic partner, CPE, under the Joint Brand Management Agreement ("JBMA") to extend the reach of the *Pleasant Goat and Big Big Wolf* brand, which is the Number 1 cartoon brand in China, 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. The *Pleasant Goat and Big Big Wolf* movie V "The Mythical Ark: Adventures in Love & Happiness" (喜氣羊羊過蛇年) ("Movie V") was released on 24 January 2013, in the midst of a crowded period filled with blockbusters, and recorded box office of approximately HK$158 million (RMB125 million). Total accumulative box office income derived from *Pleasant Goat and Big Big Wolf* Movies I to V has surpassed HK$800 million (RMB650 million), which is unprecedented in China for locally produced animation movies based on one single brand franchise. Meanwhile, we are facing increased competition from both domestic and international producers of animation contents, and will continue to work together with CPE to improve the creative contents for movies, television episodes, stage shows and interactive media programs to maintain the leading position of *Pleasant Goat and Big Big Wolf* in the domestic animation industry in China.

Since 1 January 2011, the Group has worked closely with the Master Licensee under the Consumer Products and Related Use Agreement ("CPA") to upgrade the quality of our sub-licensees with a view to attracting and retaining those who are passionate with our brands, can meet our quality standards and commit resources to growing our brands. In the first half of 2013, 19 licensing contracts were terminated or expired and 26 licensing contracts were renewed or newly signed up by Disney with an aggregate minimum guaranteed licensing fee of HK$21.9 million spanning over two to three years.

FINANCIAL REVIEW

During the year ended 31 December 2012, the directors of the Company ("Directors") decided to discontinue its operation in its Chai Wan office which was primarily engaged in the production, broadcasting and licensing of the Group's computer graphic imaging ("CGI") animation pictures not developed by Toon Express Hong Kong Limited, its intermediate holding company and its subsidiaries (together "TE Group"), and moved its operation centre to the PRC in order to lower the cost base of the Group and improve the efficiency of the TE Group by its moving closer to CPE. As a result of this change, the Directors presented the previous CGI operation based in Hong Kong as a discontinued operation (the "Discontinued Operation") in the consolidated financial statements of the Group for the year ended 31 December 2012, while licensing and management of cartoon character trademarks and copyrights and all related activities managed by the TE Group were presented as continuing operations (the "Continuing Operations"). Accordingly, the comparative figures of the condensed consolidated statement of profit or loss for the six months ended 30 June 2013 (the "Period under Review") have been restated to reflect the presentation of the Discontinued Operation in the six months ended 30 June 2012 (the "Last Comparative Period").

The Group's revenue for Continuing Operations mainly includes income arising from the JBMA entered into between the TE Group and CPE on the commercial exploitation of cartoon characters, licensing income based on the CPA signed with Disney, and other revenue from brand related activities. Total revenue of the Period under Review amounted to HK$59.2 million, representing a decrease of HK$15.0 million or 20% compared with the Last Comparative Period, while cost of sales of the Period under Review decreased by HK$8.4 million or 33% compared with the Last Comparative Period, leading to a decrease of HK$6.6 million in the Group's gross profit before amortisation of intangible assets. The decrease in revenue mainly represented a decrease of HK$5.7 million in licensing income, which 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, and a decrease of HK$9.3 million in revenue derived from the JBMA, mainly because the box office of Movie V is lower than that of *Pleasant Goat and Big Big Wolf* Movie IV ("Movie IV") and the contractual arrangements of Movie V are different with that of Movie IV, resulting in a simultaneous reduction of HK$8.6 million in both the Group's revenue and cost of sales related to Movie V (with nil impact on the Group's gross profit).

Other income for the Period under Review mainly consisted of compensation of HK$3.5 million for infringement of our intellectual property rights and interest income of HK$0.8 million arising from cash and bank balances.

Selling expenses decreased by HK$3.1 million compared with the Last Comparative Period. This is mainly because this year's first new series of *Pleasant Goat and Big Big Wolf* TV episodes, Happy Formula (開心方程式), was released in late July 2013, one month later than the release of previous year's first series. Accordingly, certain marketing and promotion activities were delayed to, and the related costs will be booked in, the second half of 2013.

Administrative expenses decreased by HK$5.4 million compared with the Last Comparative Period. This is mainly because the Group incurred retrenchment costs and office reinstatement cost amounting to HK$7.5 million as a result of the closure of its Chai Wan office in the first half year of 2012, of which HK$6.0 million was included in administrative expenses of Continuing Operations.

The Group's acquisition of the TE Group in April 2011 resulted in certain commercial contracts entered into by the TE Group and the trademarks owned by it being recognised as intangible assets, which are subject to amortisation under the accounting policies adopted by the Group. For the Period under Review, amortisation of intangible assets charged to the condensed consolidated statement of profit or loss and the associated reversal of deferred tax amounted to HK$50.9 million and HK$12.7 million respectively, compared to HK$49.8 million and HK$12.5 million for the Last Comparative Period respectively.

Determining whether intangible assets are impaired requires an estimation of the recoverable amounts which are the higher of the value in use or the fair value less costs to sell of the 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. The cash flow projections prepared by the management of the TE Group at the time of the Acquisition included earnings expected to be derived from online platforms to be developed by the TE Group in conjunction with CPE for the distribution of animation contents and the provision of services. Due to subsequent changes in market dynamics and the change of key personnel of the Group in 2012, the Company and CPE decided to delay the relevant plans and also modify them in such a way that we will make use of online platforms operated by third parties, instead of building our own distribution capability, thereby reducing a substantial amount of capital expenditure. As a result, the revised earnings projected to be derived from online business are less than that of the original plans, and the estimated value in use of these intangible assets (which has been adversely affected by the reduced projected earnings) became less than their carrying amount as at 31 December 2012. As the fair value less costs to sell of these intangible assets based on the independent evidence available at that time was higher than their aggregate carrying value, no impairment loss was recognised as of 31 December 2012. However, as at 30 June 2013, the fair value less costs to sell of these intangible assets was uncertain due to a lack of concrete independence evidence for selling prices. Accordingly, the Group recognised an impairment loss of HK$205.0 on the intangible assets as at 30 June 2013, with associated reversal of deferred tax amounting to HK$51.3 million.

As a result of the impairment loss on intangible assets, a decrease in the Group's gross profit (before the amortisation of intangible assets) of HK$6.6 million and a realised loss of HK$2.2 million on disposal and written off of property, plant and equipment, and after taking into account interest income and the amortisation of intangible assets (after deducting the related reversal of the deferred tax liabilities) of HK$0.8 million and HK$38.2 million respectively (2012: HK$1.8 million and HK$37.4 million respectively), loss after tax from the Continuing Operations for the Period under Review amounted to HK$194.1 million, compared with HK$40.3 million for the Last Comparative Period. The Group's total loss (comprising both Discontinued Operation and Continuing Operations) for the Period under Review amounted to HK$194.1 million, compared with HK$52.8 million for the Last Comparative Period.

Liquidity and Financial Resources

The liquidity and financial position of the Group as at 30 June 2013 remained healthy and strong, with bank balance amounting to HK$242.2 million and a current ratio of 15.8.

As at 30 June 2013, 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 2013, 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.

Exposure to Exchange Rates

In 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 as necessary to minimise any adverse impact that may be caused by such fluctuation.

Contingent Liabilities

As at 30 June 2013, the Group had no significant contingent liabilities.

As disclosed in note 21 to the condensed consolidated financial statements, a writ was issued on 15 June 2013 by an individual against one of the wholly-owned subsidiaries of the Company, and So Wing Lok Jonathan. After seeking legal advice, the Company believes it has meritorious defenses and intends to defend the case vigorously. The management does not believe that the outcome of such proceeding will have a material effect on the Group's financial position, results of operations or cash flows, and accordingly, no provision for such legal contingency was made as of 30 June 2013.

FUTURE PLANS AND PROSPECTS

The Group's vision continues to be becoming a world class media and entertainment group engaged in the provision of innovative products and services. In addition to raising the value and popularity of its core brand *Pleasant Goat and Big Big Wolf*, the Group also looks into brand's extension and new brand development concurrently. We expect that the Group will face increasing competition from both domestic and international producers of animation contents. We believe that heightened competition and rapid market changes will entail more creativity and better responsiveness to consumer's needs in order to maintain *Pleasant Goat and Big Big Wolf*'s leading position in the animation industry in China.

Contents Development and Distribution

We will continue to work with our strategic partner, CPE, who continues to be one of the leading animation producers and distributors of TV episodes in the Greater China region and keeps bringing out more TV episodes of *Pleasant Goat and Big Big Wolf*, bringing joys and funs to fans and audiences. Apart from this year's first new series of *Pleasant Goat and Big Big Wolf* TV episodes, namely Happy Formula (開心方程式), which debuted on China Central Television ("CCTV") in late July 2013, another series, namely, Paddi the Amazing Chef (懶羊羊當大厨), will be released in the last quarter of 2013. Paddi the Amazing Chef will be the first *Pleasant Goat and Big Big Wolf* TV series with duration of 30 minutes per episode, compared to the previous ones of 15 minutes each.

The production of *Pleasant Goat and Big Big Wolf* movie VI ("Movie VI") is in progress and it will be released in early 2014. Being the Number 1 cartoon brand in China, *Pleasant Goat and Big Big Wolf* has attracted Huayi Brothers Media Group, which is a top player in Mainland China's film industry, to be the distributor of Movie VI in-charge of promotion, advertising and distribution. We believe this combination forms a formidable opponent.

Following the success of I Love Wolffy (我愛灰太狼), which was a real action movie produced by Mr. Cartoon Pictures Co., Ltd based on animation brands owned by the Group and released in the summer of 2012, I Love Wolffy 2 (我愛灰太狼II) was released on 1 August 2013 and has received lots of applauses. This encouraging response not only demonstrates the power of the *Pleasant Goat and Big Big Wolf* brand to strike good box office in both competitive summer and Chinese New Year seasons, but also proves that Wolffy (灰太狼) himself can also be a popular character in the silver screen. This result increases our confidence in developing another line extension of *Pleasant Goat and Big Big Wolf* to target at the teens and young adults segments.

In April 2013, iQIYI (iQIYI.COM), which is one of China's leading online television and movie portals, was granted exclusive right to broadcast various series of *Pleasant Goat and Big Big Wolf* on internet in Mainland China during certain periods in future, and has set up a special zone on its website especially for *Pleasant Goat and Big Big Wolf*, where users can watch almost all the *Pleasant Goat and Big Big Wolf* movies and TV series. The Directors expect that internet-related income will account for an increasingly important portion of our future revenue.

Licensing and Strategic Marketing Initiatives

The Group continues to work with Disney to explore new licensing opportunity. The Group's key target consumer product categories include food, fashion and home products, toys and stationary. Despite the current disruption in the growth of licensing income caused by the adoption of a strategy to engage quality sub-licensees, the Directors believe that, given the continued popularity of the *Pleasant Goat and Big Big Wolf* brand, the future prospects for the Group's licensing business are encouraging. One of the reassuring achievements is the licensing agreement newly entered into between our Master Licensee and one of the world's largest jewelers, whereby the *Pleasant Goat and Big Big Wolf* collection will be released in the last quarter of 2013. This collection intends to tempt not only families with kids, but also young adults including office ladies. Another example of newly engaged quality sub-licensee is a widely recognised casual wear brand renowned for its comfortable, easy to mix-and-match, colorful and energetic style. This sub-licensee applies images of *Pleasant Goat and Big Big Wolf* on its line of kids' fashion and apparel, which was launched in mid August 2013 in Taiwan. This further proves the popularity of the *Pleasant Goat and Big Big Wolf* brand in markets outside of Mainland China.

To enhance the value and popularity of the *Pleasant Goat and Big Big Wolf* brand, the Group continues its various strategies to uplift the brand position and penetrate into different age segments. Apart from the age segment of 4-14, which is the *Pleasant Goat and Big Big Wolf* brand's solid foundation, the Group continues its efforts to latch on the teens and young adults segments. "Simple Life", the new image of *Pleasant Goat and Big Big Wolf*, is becoming more and more well-known after a roadshow held in various Wanda Plazas located in different key cities of China. The Directors believe that "Simple Life" can further stand out as a prominent image hitting the youths through music, short animation and micro film.

All in all, the Group will focus its resources on extending its target audience to include infants, teens and young adults, increasing its target consumer's brand loyalty, driving distribution, enhancing marketing and ensuring strong execution to deliver results for stakeholders.

HUMAN RESOURCES

The Group currently employs a total of 70 employees in the PRC, Taiwan and Hong Kong. Emolument policy is reviewed regularly to ensure compliance of the latest labour laws and market norms where the Group has operations.

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

CORPORATE GOVERNANCE PRACTICES

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

During the six months ended 30 June 2013, the Company has complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), except for the deviation from Code A.6.7 of the CG Code that Ms. Wei Wei, an independent non-executive director of the Company, was unable to attend the annual general meeting of the Company held on 3 June 2013 due to overseas engagement.

CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as its own code of conduct regarding the Directors' securities transactions. In response to the specific enquiry made by the Company, all the Directors confirmed that they fully complied with the required standard set out in the Model Code throughout the six months ended 30 June 2013.

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.

- Dr. Lam Lee G. was re-designated as a non-executive director of China Communication Telecom Services Company Limited on 18 March 2013 and retired as an independent non-executive director of Wai Chun Mining Industry Group Limited on 23 May 2013, both of these two companies are listed on the Stock Exchange. Vietnam Equity Holding and Vietnam Property Holding, of which Dr. Lam is an independent non-executive director, are listed on the Stuttgart Stock Exchange with effect from 3 April 2013. Dr. Lam was appointed to the Financial Services Development Council and a member of the Derivatives Market Consultative Panel of Hong Kong Exchange and Clearing Limited on 5 April 2013 and 1 June 2013 respectively.

- On 7 May 2013, Mr. Cheng Yuk Wo retired as an independent non-executive director of South China Land Limited, the shares of which are listed on the Stock Exchange.

- On 21 June 2013, Mr. Yung Tse Kwong, Steven retired as an independent non-executive director of NVC Lighting Holding Limited, the shares of which are listed on the Stock Exchange.

Save for the above, there is no other change in Directors' information since 25 March 2013, the date of the annual report of the Company for the year ended 31 December 2012, 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 2013.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2013, 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 2013.

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 2013, 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 2013, the interests and short positions of those person (other than the Directors and chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company were as follows:

Long positions in the shares of the Company

Name	Capacity	Number of Shares	% of the issued share capital *(note 1)*
Idea Talent Limited	Beneficial owner	2,700,000,000	26.95%
Grandwin Enterprises Limited	Interest in controlled corporation	2,700,000,000 *(note 2)*	26.95%
Better Lead Limited	Interest in controlled corporation	2,700,000,000 *(note 2)*	26.95%
Chung Cho Yee, Mico	Interest in controlled corporation	2,700,000,000 *(note 2)*	26.95%
FIL Limited	Investment manager	703,080,000	7.02%

Notes:

1. It was based on 10,020,180,720 Shares in issue as at 30 June 2013.

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.

Save as disclosed above, as at 30 June 2013, so far as was known to the Directors, no other persons (other than the Directors and chief executive of the Company) had any interests or short positions in the shares or underlying shares of the Company representing five percent or more in the issued share capital of the Company and as recorded in the register required to be kept under Section 336 of the SFO.

SHARE OPTIONS

The Company adopted a share option scheme on 16 August 2002 (the "2002 Scheme"). 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. 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.

No share option has been granted under the 2012 Scheme and the movements of the share options granted under the 2002 Scheme during the six months ended 30 June 2013 were as follows:

					Number of share options					
	Date of grant	Vesting period	Exercise period	Exercise price per Share HK$	As at 1 January 2013	Granted during the period	Exercised during the period	Cancelled during the period	Forfeited during the period	As at 30 June 2013
Directors										
Yung Tse Kwong, Steven	2 April 2012	1 to 3 years	3 years	0.173	80,000,000	–	–	–	–	80,000,000
Ma Wai Man, Catherine	13 April 2011	3 to 5 years	3 years	0.368	2,000,000	–	–	–	–	2,000,000
					82,000,000	–	–	–	–	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	6,920,000	–	–	(1,016,000)	–	5,904,000
					7,337,160	–	–	(1,016,000)	–	6,321,160
					89,337,160	–	–	(1,016,000)	–	88,321,160

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2013, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

REVIEW OF INTERIM RESULTS

The audit committee of the Company has reviewed with the management and the independent auditor of the Company the interim results and the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2013.

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

Hong Kong, 26 August 2013

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 17 to 48, which comprise the condensed consolidated statement of financial position as of 30 June 2013 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other 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

26 August 2013

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2013

	NOTES	Six months ended 30 June 2013 HK$'000 (unaudited)	2012 HK$'000 (unaudited) (restated)
Continuing operations			
Revenue		**59,233**	74,290
Cost of sales before amortisation of intangible assets		**(17,473)**	(25,899)
Gross profit before amortisation of intangible assets		**41,760**	48,391
Amortisation of intangible assets	12	**(50,869)**	(49,801)
Gross loss after amortisation of intangible assets		**(9,109)**	(1,410)
Other income	5	**5,110**	8,741
Other gains and losses		**(2,401)**	(311)
Selling expenses		**(7,089)**	(10,193)
Administrative expenses		**(37,700)**	(43,083)
Impairment loss on intangible assets	12	**(205,012)**	–
Share of loss of an associate		**–**	(5,553)
Gain on disposal of interests in an associate and cancellation of related options and liabilities	13	**–**	7,687
Loss before taxation		**(256,201)**	(44,122)
Income tax credit	7	**62,032**	3,750
Loss for the period from continuing operations	6A	**(194,169)**	(40,372)
Discontinued operation			
Loss for the period from discontinued operation	8	**–**	(12,429)
Loss for the period		**(194,169)**	(52,801)
Loss per share from continuing and discontinued operations			
Basic and diluted	10	**(HK$0.019)**	(HK$0.005)
Loss per share from continuing operations			
Basic and diluted	10	**(HK$0.019)**	(HK$0.004)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2013

	Six months ended 30 June	
	2013	2012
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Loss for the period	**(194,169)**	(52,801)
Other comprehensive income:		
Exchange differences arising on translation that will not be reclassified to profit or loss	**8,471**	(1,352)
Total comprehensive expenses for the period	**(185,698)**	(54,153)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2013

	NOTES	30 June 2013 HK$'000 (unaudited)	31 December 2012 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	11	**2,074**	4,779
Intangible assets	12	**595,694**	841,492
Deferred tax assets	16	**2,108**	2,208
		599,876	848,479
Current assets			
Trade and other receivables, deposits and prepayments	14	**94,010**	90,968
Bank balances and cash		**242,216**	253,567
		336,226	344,535
Current liabilities			
Trade, other payables and liabilities	15	**15,328**	18,280
Unearned revenue		**3,119**	3,101
Tax payable		**2,840**	11,086
		21,287	32,467
Net current assets		**314,939**	312,068
Total assets less current liabilities		**914,815**	1,160,547
Non-current liability			
Deferred tax liabilities	16	**151,330**	212,533
Net assets		**763,485**	948,014
Capital and reserves			
Share capital	17	**10,020**	10,020
Reserves		**753,465**	937,994
Total equity attributable to owners of the Company		**763,485**	948,014

CONDENSED CONSOLIDATED
STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2013

	Share capital 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 (Note 18 (i))	PRC statutory reserve HK$'000 (Note iii)	Accumulated losses HK$'000	Total HK$'000
At 1 January 2012 (audited)	10,020	1,037,593	909	20,241	2,301	6,060	2,429	(52,732)	1,026,821
Exchange differences on translation of foreign operations	–	–	–	(1,352)	–	–	–	–	(1,352)
Loss for the period	–	–	–	–	–	–	–	(52,801)	(52,801)
Total loss and comprehensive expenses for the period	–	–	–	(1,352)	–	–	–	(52,801)	(54,153)
Reversal of equity-settled share-based payments (Note 18(ii)(b))	–	–	–	–	(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
Exchange differences on translation of foreign operations	–	–	–	13,330	–	–	–	–	13,330
Loss for the period	–	–	–	–	–	–	–	(38,766)	(38,766)
Total loss and comprehensive expenses for the period	–	–	–	13,330	–	–	–	(38,766)	(25,436)
Recognition of equity-settled share-based payments	–	–	–	–	1,700	–	–	–	1,700
At 31 December 2012 (audited)	10,020	1,037,593	909	32,219	3,083	6,060	2,429	(144,299)	948,014
Exchange differences on translation of foreign operations	–	–	–	8,471	–	–	–	–	8,471
Loss for the period	–	–	–	–	–	–	–	(194,169)	(194,169)
Total loss and comprehensive expenses for the period	–	–	–	8,471	–	–	–	(194,169)	(185,698)
Recognition of equity-settled share-based payments (Note 18(ii)(b))	–	–	–	–	1,169	–	–	–	1,169
At 30 June 2013 (unaudited)	**10,020**	**1,037,593**	**909**	**40,690**	**4,252**	**6,060**	**2,429**	**(338,468)**	**763,485**

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) 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.

	NOTES	Six months ended 30 June 2013 HK$'000 (unaudited)	2012 HK$'000 (unaudited)
OPERATING ACTIVITIES			
Operating cash flow before movement in working capital		**5,520**	(3,193)
Decrease (increase) in trade and other receivables, deposits and prepayments		**204**	(3,746)
Decrease in trade, other payables and liabilities		**(2,419)**	(12,128)
Decrease in unearned revenue		**(4,546)**	(8,366)
Other operating activities		**–**	303
Cash used in operations		**(1,241)**	(27,130)
PRC income tax paid		**(10,331)**	(2,484)
Net cash used in operating activities		**(11,572)**	(29,614)
INVESTING ACTIVITIES			
Proceeds from disposal of interests in an associate and cancellation of related options and liabilities	13	**–**	9,100
Purchase of property, plant and equipment	11	**(262)**	(467)
Purchase of intangible assets	12	**(120)**	–
Other investing activities		**863**	2,215
Net cash from investing activities		**481**	10,848
Net decrease in cash and cash equivalents		**(11,091)**	(18,766)
Cash and cash equivalents at beginning of the period		**253,567**	281,341
Effect of foreign exchange rate changes		**(260)**	526
Cash and cash equivalents at end of the period, represented by bank balances and cash		**242,216**	263,101

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 (the "Listing Rules").

During the year ended 31 December 2012, the directors of the Company have decided to discontinue its operation in Hong Kong which was primarily engaged in the Segment A business (as defined in Note 4) and shifted its operation focus to the PRC in order to achieve a better cost control over its operation. Segment A business had been discontinued and presented as a discontinued operation in the preparation of the Group's consolidated financial statements for the year ended 31 December 2012. Accordingly, in preparing the condensed consolidated financial statements for the six months ended 30 June 2013, the comparative figures of the condensed consolidated statement of profit or loss have been restated to reflect the presentation of Segment A business as a discontinued operation.

2. PRINCIPAL ACCOUNTING POLICIES

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

Except for described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2013 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012.

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 new or revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

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

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

In the current interim period, the Group has applied for the first time HKFRS 10, HKFRS 11, HKFRS 12 and HKAS 28 (as revised in 2011) together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding the transitional guidance. HKAS 27 (as revised in 2011) is not applicable to these condensed consolidated financial statements as it deals only with separate financial statements.

The impacts of the application of HKFRS 10 and HKFRS11 are set out below.

Impact of the application of HKFRS 10

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK(SIC)-Int 12 *Consolidation — Special Purpose Entities*. HKFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Adoption of new and revised HKFRSs effective in the current period (continued)

New and revised Standards on consolidation, joint arrangements, associates and disclosures (continued)

The directors of the Company made an assessment as at the date of initial application of HKFRS 10 (i.e. 1 January 2013) as to whether or not the Company has control over its investees in accordance with the new definition of control and the related guidance set out in HKFRS 10. The directors of the Company concluded that the application of HKFRS 10 does not have a material impact on these condensed consolidated financial statements.

Impact of the application of HKFRS 11

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures*, and the guidance contained in a related interpretation, HK(SIC)-Int 13 *Jointly Controlled Entities — Non-Monetary Contributions by Venturers*, has been incorporated in HKAS 28 (as revised in 2011). HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under HKFRS 11, there are only two types of joint arrangements — joint operations and joint ventures. The classification of joint arrangements under HKFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. Previously, HKAS 31 had three types of joint arrangements — jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under HKAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was classified as a jointly controlled entity).

The initial and subsequent accounting of joint ventures and joint operations are different. Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed). Investments in joint operations are accounted for such that each joint operator recognises its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with the applicable standards.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Adoption of new and revised HKFRSs effective in the current period (continued)

New and revised Standards on consolidation, joint arrangements, associates and disclosures (continued)

Impact of the application of HKFRS 11 (continued)

The directors of the Company reviewed and assessed the classification of the Group's interest in joint arrangement in accordance with the requirements of HKFRS 11. The directors concluded that the joint brand management agreement between the Group and Creative Power Entertaining Limited Liability Company ("CPE"), which was classified as a jointly controlled operation under HKAS 31, should be classified as a joint operation under HKFRS 11. The directors of the Company concluded that the application of HKFRS 11 does not have a material impact on these condensed consolidated financial statements.

Amendments to HKAS 1 "Presentation of Items of Other Comprehensive Income"

The amendments to HKAS 1 introduce new terminology for statement of comprehensive income and income statement. Under the amendments to HKAS 1, the Group's statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and income statement is renamed as a statement of profit or loss. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis — the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

The application of the other new or revised 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 has 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 recoverable amounts which are the higher of the value in use or the fair value less costs to sell 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.

As at 30 June 2013, the management of the Group considered value in use and fair value less costs to sell to evaluate the recoverable amount of intangible assets. 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. Details of the impairment assessment are set out in Note 12.

Since the estimated recoverable amount is less than the carrying amount of the CGU, an impairment loss of approximately HK$205,012,000 was recognised for the six months ended 30 June 2013 (six months ended 30 June 2012: nil). Where the actual future cash flows vary against what were expected or changes in facts and circumstances which result in revision of future estimated cash flows, a material further impairment loss or reversal of previously recognised impairment loss may arise.

As at 30 June 2013, the carrying amount of intangible assets is approximately HK$595,694,000, net of accumulated amortisation and impairment loss of approximately HK$726,772,000 (31 December 2012: carrying amount of approximately HK$841,492,000, net of accumulated amortisation and impairment loss of approximately HK$507,688,000).

4. REVENUE AND SEGMENT INFORMATION

The Group had two operating segments in prior periods:

Segment A: Production, broadcasting and licensing of the Group's computer graphic imaging ("CGI") animation pictures not developed by Toon Express Hong Kong Limited, its intermediate holding company and its subsidiaries (the "TE Group"); and

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

For the purpose of performance assessment and resources allocation, the executive directors of the Company, being the chief operating decision maker ("CODM"), regularly review the revenue and results of the segment. Segment results in prior period represent loss attributable to each segment without allocation of certain income, administrative expenses, share of loss of an associate and gain on disposal of interests in an associate and cancellation of related options and liabilities. After Segment A was discontinued during the year ended 31 December 2012 as disclosed in Note 8, the Group has been operating with only one reportable and operating segment. CODM reviews the consolidated revenue as the segment revenue and the consolidated profit before taxation as the segment result commencing in the beginning of the current period. Accordingly, no further segment information has been presented in the current and prior interim periods.

5. OTHER INCOME — CONTINUING OPERATIONS

	Six months ended 30 June	
	2013	2012
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Interest income	**841**	1,856
Government award/subsidies (Note)	**–**	4,676
Compensation for infringement	**3,513**	1,276
Others	**756**	933
	5,110	8,741

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

6A. LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS

	Six months ended 30 June	
	2013	2012
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Loss for the period from continuing operations has been arrived at after charging and (crediting):		
Directors' emoluments	**4,430**	4,756
Contribution to retirement benefit scheme	**3,654**	3,524
Other staff costs (salaries, wages and benefits)	**21,335**	29,252
Equity-settled share-based payments expenses other than directors	**55**	35
Total staff costs	**29,474**	37,567
Allowance (reversal of allowance) for doubtful debts	**2,547**	(607)
Depreciation of property, plant and equipment	**732**	606
Loss on disposal of property, plant and equipment	**148**	168
Written-off of property, plant and equipment	**2,085**	2,282

6B. (LOSS) EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION — CONTINUING OPERATIONS

The calculation of the (loss) earnings before interest, tax, depreciation and amortisation ("(LBITDA)" "EBITDA") of continuing operations for the periods are based on the following data:

	Six months ended 30 June	
	2013	2012
	HK$'000	HK$'000
	(unaudited)	(unaudited)
(LBITDA) EBITDA		
Loss before taxation	**(256,201)**	(44,122)
Adjusted for:		
Interest income	**(841)**	(1,856)
Depreciation and amortisation	**51,601**	50,407
	(205,441)	4,429

7. INCOME TAX CREDIT — CONTINUING OPERATIONS

	Six months ended 30 June	
	2013	2012
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Current tax:		
PRC Enterprise Income Tax ("EIT")	**1,509**	6,304
Underprovision in prior years	**22**	169
	1,531	6,473
Deferred tax (Note 16):		
Current period	**(63,563)**	(10,223)
	(62,032)	(3,750)

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

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

8. DISCONTINUED OPERATION

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

The results for the six months ended 30 June 2012 have been restated and presented separately in the condensed consolidated statement of profit or loss as discontinued operation, was as follows:

	Six months ended 30 June 2012 HK$'000 (unaudited)
Revenue	4,031
Cost of sales	(11,253)
Other losses	(2,449)
Administrative expenses	(2,758)
Loss for the period	(12,429)

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

	Six months ended 30 June 2012 HK$'000 (unaudited)
Net cash used in operating activities	(5,185)
Net cash from investing activities	70
Net cash outflow	(5,115)

9. 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.

10. LOSS PER SHARE

From continuing and discontinued operations

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

	Six months ended 30 June	
	2013	2012
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Loss for the purposes of basic and diluted loss per share	**194,169**	52,801
Number of shares:		
Number of ordinary shares for the purposes of basic and diluted loss per share	**10,020,180,720**	10,020,180,720

The computation of diluted loss per share does not assume the exercise of the IDG Option (Note 18(i)) and options granted under the incentive share option scheme (Note 18(ii)) since their exercise would result in a decrease in loss per share for both periods.

10. LOSS PER SHARE (continued)

From continuing operations

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

	Six months ended 30 June	
	2013	2012
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Loss for the period attributable to the owners of the Company	**194,169**	52,801
Less: Loss for the period from discontinued operation	**–**	(12,429)
Loss for the period attributable to the owners of the Company from continuing operations	**194,169**	40,372

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

From discontinued operation

Basic and diluted loss per share for discontinued operation is approximately HK0.1 cent per share for the six months ended 30 June 2012 (30 June 2013: nil), based on the loss for the period from discontinued operation of HK$12,429,000 (30 June 2013: nil) and the denominators detailed above for basic and diluted loss per share.

11. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group (i) incurred approximately HK$262,000 (six months ended 30 June 2012: HK$467,000) for the acquisition of property, plant and equipment, (ii) disposed of property, plant and equipment with carrying value of approximately HK$162,000 (six months ended 30 June 2012: HK$238,000) for cash proceeds of HK$14,000 (six months ended 30 June 2012: HK$70,000), resulting in a loss on disposal of HK$148,000 (six months ended 30 June 2012: HK$168,000); and (iii) written-off of property, plant and equipment with carrying value of approximately HK$2,085,000 (six months ended 30 June 2012: HK$2,282,000) because of relocation of office premises during the period.

12. 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 19)	–	–	–	(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
Additions	–	277	–	–	277
Eliminated on dissolution of subsidiaries (Note 19)	–	–	–	(3,487)	(3,487)
Derecognised during the period	–	–	–	(457,910)	(457,910)
Exchange realignment	2,438	4,285	12,255	–	18,978
At 31 December 2012 (audited)	130,844	229,929	657,762	330,645	1,349,180
Additions	–	120	–	–	120
Eliminated on dissolution of a subsidiary (Note 19)	–	–	–	(39,226)	(39,226)
Exchange realignment	1,594	2,785	8,013	–	12,392
At 30 June 2013 (unaudited)	**132,438**	**232,834**	**665,775**	**291,419**	**1,322,466**
AMORTISATION AND IMPAIRMENT					
At 1 January 2012 (audited)	9,958	17,292	47,537	798,705	873,492
Impairment loss recognised for 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 19)	–	–	–	(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
Charge for the period	6,655	11,410	32,044	–	50,109
Eliminated on dissolution of subsidiaries (Note 19)	–	–	–	(3,487)	(3,487)
Derecognised during the period	–	–	–	(457,910)	(457,910)
Exchange realignment	368	635	1,768	–	2,771
At 31 December 2012 (audited)	23,485	40,482	113,076	330,645	507,688
Impairment loss recognised for the period	–	–	205,012	–	205,012
Charge for the period	6,756	11,584	32,529	–	50,869
Eliminated on dissolution of a subsidiary (Note 19)	–	–	–	(39,226)	(39,226)
Exchange realignment	322	555	1,552	–	2,429
At 30 June 2013 (unaudited)	**30,563**	**52,621**	**352,169**	**291,419**	**726,772**
CARRYING VALUE					
At 30 June 2013 (unaudited)	**101,875**	**180,213**	**313,606**	**–**	**595,694**
At 31 December 2012 (audited)	107,359	189,447	544,686	–	841,492

12. INTANGIBLE ASSETS (continued)

Notes:

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

(ii) The amount represents intellectual properties in the form of trademarks and copyrights of various animation brands and related characters under the ownership of TE Group ("TE Trademarks and Copyrights"). They generally have finite legal lives of 10 years but are renewable at minimal cost.

The amount also represents intellectual properties in the form of trademarks and copyrights arising from a joint brand management agreement with CPE ("JBM Agreement"). It can only be terminated by a party when the other party commits a default which is not remedied within a specified period.

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

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.

During the period ended 30 June 2012, the Group decided to scale down its operation in the production, broadcasting and licensing of CGI animation pictures ("CGI operations"). In the opinion of the directors, the anticipated future operating cash flow of the CGI operations is less than its aggregate recoverable amount, and accordingly, an impairment loss of approximately HK$5,249,000 was recognised in profit or loss in prior period.

12. INTANGIBLE ASSETS (continued)

Notes: (continued)

(iv) Due to delay of certain projects, the management has carried out a review of the recoverable amount of its intangible assets during the current interim period.

For the purpose of impairment testing, the Consumer Products Agreement, TE Trademarks and Copyrights and JBM Agreement are allocated to two separate CGUs, namely, the Consumer Products Agreement and TE Trademarks and Copyrights (Unit A) and JBM Agreement (Unit B), and their recoverable amounts have taken into consideration of the value in use calculation and fair value less costs to sell.

Recoverable amounts of Units A and B were calculated using cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 18% for Unit A and a discount rate of 17% for Unit B. The sets of cash flows beyond the five-year period are extrapolated using an average growth rate which approximated to the relevant industry growth forecasts. Other key assumptions for the recoverable amount calculations relate to the estimation of cash inflows/outflows which include budgeted revenue, and such estimation is based on management's expectations for the market development. Since the estimated recoverable amount is less than the carrying amount, an impairment loss of HK$205,012,000 in respect of the intangible assets was recognised for the six months ended 30 June 2013.

No impairment loss was recognised for Unit A and Unit B for the period ended 30 June 2012.

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

In August 2011, TE Group acquired 20.63% equity interest in Sino Light Enterprise Limited ("Sino Light") and an option (the "Sino Light Subscription Option"), which were satisfied by TE Group with a cash payment of HK$9.1 million and the provision of certain management services to Sino Light under a business support agreement (the "Business Support Agreement").

Pursuant to the shareholders' agreement entered among TE Group and the other two original shareholders, 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).

13. DISPOSAL OF INTERESTS IN AN ASSOCIATE AND CANCELLATION OF RELATED OPTIONS AND LIABILITIES (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 for business (the "TE Put Options").

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

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 with carrying value of approximately HK$26.9 million as a result of which all relevant parties were released of their rights and obligations arising therefrom. The Group received a net consideration of HK$9.1 million in relation to the aforesaid arrangement. The disposal was completed on 14 March 2012.

As a result of the above transactions, the Group recognised a gain of HK$7,687,000 for the six months ended 30 June 2012, 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	(21,533)
carrying amount of Sino Light Subscription Option	(6,798)
Add: carrying amount of management services obligations under the Business Support Agreement	26,918
Gain recognised in profit or loss	7,687

14. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30 June 2013 HK$'000 (unaudited)	31 December 2012 HK$'000 (audited)
Trade receivables (Note i)	**53,871**	47,230
Less: allowance for doubtful debts	**(7,675)**	(8,523)
	46,196	38,707
Amount due from CPE (Note ii)	**45,419**	48,775
Other receivables, deposits and prepayments	**2,395**	3,486
	94,010	90,968

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 30 days. The aged analysis of the Group's trade receivables (net of allowance), presented based on the invoice date, at the end of each reporting period is as follows:

	30 June 2013 HK$'000 (unaudited)	31 December 2012 HK$'000 (audited)
Current	**46,006**	37,555
31 — 60 days	**13**	–
61 — 90 days	**–**	251
91 days — 1 year	**177**	901
	46,196	38,707

(ii) Amount due from CPE included approximately HK$43,317,000 (31 December 2012: HK$47,169,000) related to the JBM Agreement and approximately HK$2,102,000 (31 December 2012: HK$1,606,000) 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.

15. TRADE, OTHER PAYABLES AND LIABILITIES

	30 June 2013 HK$'000 (unaudited)	31 December 2012 HK$'000 (audited)
Trade payables (Note)	**5,918**	5,600
Other payables and accruals	**9,410**	12,680
	15,328	18,280

Note: Trade payables are aged less than 60 days (31 December 2012: 30 days) based on the invoice dates.

16. DEFERRED TAXATION

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

	30 June 2013 HK$'000 (unaudited)	31 December 2012 HK$'000 (audited)
Deferred tax assets	**2,108**	2,208
Deferred tax liabilities	**(151,330)**	(212,533)
	(149,222)	(210,325)

16. DEFERRED TAXATION (continued)

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

	Fair value adjustments on assets acquired in business acquisition HK$'000	PRC dividend withholding tax HK$'000	Others (Note) HK$'000	Total HK$'000
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
(Credit) charge to profit or loss	(12,467)	432	(1,200)	(13,235)
Exchange realignment	4,034	–	(42)	3,992
At 31 December 2012 (audited)	209,478	3,055	(2,208)	210,325
(Credit) charge to profit or loss (Note 7)	(63,909)	219	127	(63,563)
Exchange realignment	2,487	–	(27)	2,460
At 30 June 2013 (unaudited)	**148,056**	**3,274**	**(2,108)**	**149,222**

Note: At the end of current interim period, the Group has recognised deferred tax assets on temporary deductible differences in deferred royalty income of HK$735,000 (31 December 2012: HK$624,000) and allowance for doubtful debts of HK$1,373,000 (31 December 2012: HK$1,584,000). The temporary differences may be carried forward indefinitely.

17. SHARE CAPITAL

	Number of shares '000	Share capital HK$'000
Ordinary share of HK$0.001 each		
Authorised:		
At 1 January 2012, 31 December 2012 and 30 June 2013	**1,000,000,000**	**1,000,000**
Issued and fully paid:		
At 1 January 2012, 31 December 2012 and 30 June 2013	**10,020,180**	**10,020**

18. 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

On 18 February 2011, the Company and various subscribers entered into a subscription agreement 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").

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 Appraisal Limited ("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.

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

(i) IDG Option (continued)

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 2013, the IDG Option remained unexercised and outstanding.

(ii) Incentive Share Option Scheme

On 16 August 2002, the Company adopted a share option scheme for the primary purpose of providing incentives to employees, executives or officers, directors of the Company or any of its subsidiaries and any business consultants, agents, legal or financial advisers or any supplier or provider of goods and services of the Company or any of its subsidiaries for their contribution to the Group (the "2002 Scheme").

The 2002 Scheme was terminated on 11 June 2012 and a new share option scheme (the "2012 Scheme") was adopted by the shareholder of the Company on the same date. All share option granted under 2002 Scheme remain effective until the end of the exercise period. The period during which an option may be exercised will be determined by the directors at their absolute discretion, save that no option may be exercised more than 10 years from the date of grant.

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

(ii) Incentive Share Option Scheme (continued)

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

For the period from 1 January 2013 to 30 June 2013

2002 Scheme

	Grant date	Vesting period	Fair value of share option at grant date HK$	Outstanding at 1 January 2013	Granted during the period	Cancelled during the period (note b)	Outstanding at 30 June 2013
Directors	13 April 2011	13/4/2011 to 12/4/2014	0.164	1,000,000	–	–	**1,000,000**
		13/4/2011 to 12/4/2015	0.178	500,000	–	–	**500,000**
		13/4/2011 to 12/4/2016	0.191	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	3,460,000	–	(508,000)	**2,952,000**
		13/4/2011 to 12/4/2015	0.175	1,730,000	–	(254,000)	**1,476,000**
		13/4/2011 to 12/4/2016	0.187	1,730,000	–	(254,000)	**1,476,000**
				89,337,160	–	(1,016,000)	**88,321,160**

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

(ii) Incentive Share Option Scheme (continued)

For the period from 1 January 2012 to 30 June 2012

2002 Scheme

	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 b)	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

No share options are granted under the 2012 Scheme during the current interim period.

Exercise price for the share options are as follows:

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

18. 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 were vested on 1 April 2013 and are exercisable until the expiration of a three year period from the vesting date of such share option ("4 year Options");

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

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

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

18. 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) During the current interim period, 1,016,000 share options were cancelled prior to the vesting of relevant share options as a result of the resignation of an employee (30 June 2012: 53,760,000 share options were cancelled as a result of the resignation of a director and employees). The impact of the revision of the estimates during the vesting period was recognised in the profit or loss, with a corresponding adjustment to the share option reserve. The Group recognised a net equity-settled share-based payment of HK$1,169,000 (six months ended 30 June 2012: a net reversal of equity-settled share-based payment of HK$918,000).

19. DISSOLUTION OF SUBSIDIARIES

During the current interim period, the Group dissolved three (30 June 2012: three) subsidiaries, all of which had nil net asset value at the date of dissolution.

20. MAJOR NON-CASH TRANSACTIONS

From 1 January 2013 to 30 June 2013

The Group recognised a net equity-settled share-based payment of approximately HK$1,169,000.

From 1 January 2012 to 30 June 2012

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

21. CONTINGENT LIABILITY

A writ was issued on 15 June 2013 by King Jun Chih Joseph ("Joseph King") (the "Writ") against Infoport Management Limited ("Infoport"), a wholly-owned subsidiary of the Company, and So Wing Lok Jonathan ("Jonathan So"). The claims set out in the Writ relate to the transaction in April 2011 whereby the Company completed the acquisition of Infoport (the "Acquisition") from its sole shareholder, PGBBW Limited, of which Jonathan So was an indirect shareholder. In the Statement of Claim contained in the Writ, Joseph King claims that in or around March/April 2009, Joseph King and Jonathan So entered into an oral agreement whereby Joseph King was engaged by Jonathan So and by Infoport as a consultant/agent to assist with fundraising and the terms of the alleged oral agreement provided that in the event Joseph King effected an introduction of investors to Infoport resulting in a sale of Infoport's shares, a success fee of 5% of consideration for the Acquisition would be payable by Jonathan So and the other indirect shareholders of Infoport to Joseph King. It is claimed that based on the consideration for the Acquisition being HK$1,046,500,000, Joseph King is entitled to receive payment of a success fee of HK$52,325,000 from Jonathan So and/or Infoport, and that Jonathan So and Infoport are jointly liable to pay this amount.

After seeking legal advice, the Company believes it has meritorious defenses and intends to defend the case vigorously. The management does not believe that the outcome of such proceeding will have a material effect on the Group's financial position, results of operations or cash flows.

22. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

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

	Six months ended 30 June	
	2013	2012
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Short-term benefits	**6,524**	9,264
Post-employment benefits	**107**	66
Termination benefits (Note)	**–**	2,708
Share-based payments	**1,111**	(1,003)
	7,742	11,035

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


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