THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of Imagi International Holdings Limited.

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

(incorporated in Bermuda with limited liability)
(Stock Code: 585)

(1) MAJOR TRANSACTION
(2) SUBSCRIPTION OF NEW SHARES BY SUBSCRIBERS
(3) SPECIFIC MANDATE TO ISSUE CONSIDERATION SHARES, SUBSCRIPTION SHARES AND IDG OPTION SHARES
(4) INTENTION OF IDEA TALENT LIMITED TO EXERCISE OPTIONS AND
(5) NOTICE OF SGM

All capitalised terms used in this circular have the meanings set out in the section headed "Definitions" of this circular. A letter from the Board is set out on pages 8 to 51 of this circular.

A notice convening the SGM to be held at The Atrium, Island Shangri-La, Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong, on Tuesday, 12 April 2011 at 3:30 p.m. is set out on pages 133 to 135 of this circular. A form of proxy for use in the SGM is enclosed. Whether or not you propose to attend the SGM, you are requested to complete the enclosed form of proxy in accordance with instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, as soon as practicable but in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish.

23 March 2011

* *For identification purpose only*

CONTENTS

In this circular, unless the context otherwise requires, the following expressions have the meanings as set out below:

"Acquisition"	the acquisition of the Sale Shares by the Company from the Seller pursuant to the terms and conditions set out in the Sale and Purchase Agreement
"Announcement"	the announcement dated 18 February 2011 issued by the Company in relation to, among other things, the Acquisition and the Subscription
"Applicable Law, Law or Laws"	with respect to any person, any laws, rules, regulations, guidelines, directives, judgments, decrees, order, notices, rulings or decisions of any governmental or regulatory authority or stock exchange that is applicable to such person
"AV Programmes"	any animated cinematograph work, including motion pictures films, television programmes, or any other form of audio-video publication, regardless of the media on which such cinematograph work is recorded
"Board"	the board of Directors
"Bofanti"	Bofanti Limited, a Subscriber
"Broadcasting Agreement"	the license agreement entered into between Buena Vista and CPE on 15 October 2010
"Buena Vista"	Buena Vista International Inc., a company whose registered address is at 500 South Buena Vista Street, Burbank, California 91521, USA, and a related company of Disney Enterprises
"Business Day"	a day other than a Saturday or Sunday or a public holiday in Hong Kong or the PRC on which banks are open in Hong Kong and the PRC for general commercial business and on which the Stock Exchange is open for business in dealing in securities
"CCC"	China Consumer Capital Fund L.P., a Subscriber
"China Alpha"	China Alpha II Fund Limited, a Subscriber
"CITIC Alpha Leaders"	CITIC Securities Alpha Leaders Fund Limited, a Subscriber

"Commercial Exploitation"	the exploitation of existing and future intellectual property of Toon Express Group and those covered by agreements with CPE for profit by way of granting rights to third parties to develop, produce, broadcast, exhibit, manufacture, package, market, sell and distribute television programmes, feature films, computer games and merchandise based on such intellectual property and authorising others to do so
"Company"	Imagi International Holdings Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Stock Exchange
"Completion"	completion of the sale and purchase of the Sale Shares in accordance with the provisions of the Sale and Purchase Agreement
"Completion Date"	five Business Days after satisfaction or waiver of the Conditions (such date not being later than the Long Stop Date) unless the Company and the Seller otherwise agree in writing
"Conditions"	the conditions to Completion
"Consideration"	the consideration for the Sale Shares in the maximum aggregate amount of HK$1,046.5 million
"Consideration Shares"	the 1,382,857,143 new Shares to be issued at the Issue Price by the Company to the Seller or its shareholder(s) or nominee(s) (as directed by the Seller) on Completion to satisfy part of the Consideration
"CP Agreement"	the Consumer Products and Related Use Agreement (as amended and supplemented) entered into by Disney Enterprises, Infoport, certain direct and indirect shareholders of Infoport and CPE on 30 August 2010
"CPE"	Creative Power Entertaining Limited Liability Company 廣東原創動力文化傳播有限公司, a company incorporated in the PRC with limited liability
"Directors"	the directors of the Company
"Disney"	Disney Enterprises and Buena Vista
"Disney Enterprises" or "Master Licensee"	Disney Enterprises, Inc., a Delaware corporation

"Earn-out Payment"	the earn-out payment that may be payable by the Company to the Seller as part of the Consideration if the sum of the Net Profits for FY2011 and FY2012 exceeds the sum of the Performance Targets for FY2011 and FY2012
"Encumbrance"	any claim, charge, mortgage, security, lien, pledge, option, equity, power of sale, hypothecation or other third party rights, retention of title, right of pre-emption, right of first refusal or security interest of any kind, and ***Encumber*** shall be construed accordingly
"Enlarged Group"	the Group as enlarged by the Acquisition
"Escrow Agent"	King & Wood, the escrow agent appointed by the Seller
"Escrow Agreement"	the agreement to be entered into between the Seller and the Escrow Agent for the escrow arrangement of the Consideration Shares
"FY2010"	the financial year of Infoport ended 31 December 2010
"FY2011"	the financial year of Infoport ending 31 December 2011
"FY2012"	the financial year of Infoport ending 31 December 2012
"Greater China"	the PRC, Hong Kong, Macau and Taiwan
"Group"	the Company and its subsidiaries
"Guarantors"	Mr. Lo Wing Keung, Mr. So Wing Lok, Jonathan, Medianew and Sure Wealth (each a ***Guarantor***)
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKGAAP"	the generally accepted accounting principles in Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Idea Talent"	Idea Talent Limited, a company incorporated in the British Virgin Islands owned as to 93.75% indirectly by Mr. Leung Pak To, Chairman and Non-executive Director of the Company and 6.25% indirectly by Mr. Chung Cho Yee, Mico as of the Latest Practicable Date

"IDG"	IDG-Accel China Growth Fund II L.P. and IDG-Accel China Investors II L.P., together a Subscriber
"IDG Option Agreement"	the option agreement entered into between the Company and Sevena dated 18 March 2011 in relation to the grant of the IDG Options
"IDG Option Shares"	those Shares to be issued by the Company upon exercise of the IDG Options up to a total of 50,000,000 Shares
"IDG Options"	the rights to subscribe for the IDG Option Shares at HK$0.35 per Share (as appropriately adjusted for stock splits, stock dividends, recapitalisation and the like)
"IDG Options Specific Mandate"	the authority to issue and allot the IDG Option Shares upon the exercise of the IDG Options in accordance with the terms of the IDG Option Agreement pursuant to the ordinary resolution to be proposed at the SGM
"Infoport"	Infoport Management Limited, a company incorporated in the British Virgin Islands with limited liability
"Initial Consideration"	the initial consideration for the Sale Shares in the amount of HK$814 million
"Investor Option Agreement"	the option agreement entered into between the Company and Idea Talent on 10 February 2010 pursuant to which the Company granted Idea Talent options to subscribe for 1,500,000,000 new Shares
"Issue Price"	HK$0.35 per Consideration Share
"Joint Brand Management Agreement"	the Joint Brand Management Agreement entered into by Infoport, Toon Express GZ and CPE dated 15 April 2010, as supplemented on 27 August 2010 and 10 December 2010, amended on 17 February 2011 and clarified on 8 March 2011 and 15 March 2011
"Kolela"	Kolela Limited, a company incorporated in the British Virgin Islands and a shareholder of the Seller which owns 6% of the issued share capital of the Seller as at the Latest Practicable Date
"Last Trading Day"	16 February 2011, being the last Trading Day prior to the signing of the Sale and Purchase Agreement

"Latest Practicable Date"	18 March 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange as amended from time to time
"Long Stop Date"	30 April 2011 or such other date as the Company and the Seller may at any time and from time to time agree in writing
"Medianew"	Medianew Consultants Limited, a company incorporated in the British Virgin Islands wholly owned by Mr. Lo Wing Keung (one of the Guarantors), and a shareholder of the Seller which owns 46% of the issued share capital of the Seller as at the Latest Practicable Date
"Mousse"	Mousserena L.P., a Subscriber
"Net Profit"	the audited consolidated net profit after tax of Toon Express Group for the relevant financial year
"Non-Competition Deed"	the non-competition deed entered into among the Seller, the Guarantors and the Company on 17 February 2011
"Options"	the options granted by the Company to Idea Talent to subscribe for 1,500,000,000 new Shares pursuant to the Investor Option Agreement
"Paragon Asset"	Paragon Asset Holdings Inc., a Subscriber
"Performance Target"	financial performance targets of Toon Express Group as set out in the Sale and Purchase Agreement
"PRC"	People's Republic of China
"Promissory Notes"	the promissory notes that may be issued by the Company as Earn-out Payment
"Reorganisation"	any reorganisation of the capital shares of the Company (with exceptions as provided under the IDG Option Agreement), or any merger or consolidation of the Company with or into another corporation (other than a merger or consolidation of the Company in which the Company is the surviving entity), or any transfer of all or substantially all the assets of the Company

"RMB"	Renminbi, the lawful currency of the PRC
"Sale and Purchase Agreement"	the agreement entered into by the Company, the Seller and the Guarantors on 17 February 2011 regarding the sale and purchase of the Sale Shares
"Sale Shares"	the 499,990 ordinary shares of Infoport, comprising 100% of the issued share capital of Infoport
"Seller"	PGBBW Limited, a company incorporated in the British Virgin Islands with limited liability, which owns 100% equity interest of Infoport
"Sevena"	Sevena Holdings Ltd, a company incorporated in the British Virgin Islands which is an affiliate of IDG
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be convened to approve the matter(s) referred to herein, including (1) the Acquisition and the Sale and Purchase Agreement; (2) the Subscription and the Subscription Agreement; and (3) the IDG Options Specific Mandate
"Share Subscription Agreement"	a conditional subscription agreement entered into between the Company and Idea Talent on 10 February 2010 in respect of the issue of 1,880,000,000 subscription Shares and up to 988,000,000 top-up Shares of the Company
"Shareholder(s)"	holder(s) of Share(s)
"Shares"	the ordinary shares of HK$0.001 each of the Company
"Shikumen"	Shikumen Special Situations Fund, a Subscriber
"Specific Mandate"	the authority to issue and allot such number of Consideration Shares and Subscription Shares pursuant to the ordinary resolutions to be proposed at the SGM
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscribers"	IDG, Bofanti, Mousse, CCC, Paragon Asset, Super Winner, CITIC Alpha Leaders, China Alpha and Shikumen

"Subscription"	the subscription of new Shares by the Subscribers pursuant to the Subscription Agreement
"Subscription Agreement"	the subscription agreement dated 18 February 2011 entered into by the Company and the Subscribers
"Subscription Shares"	the 1,282,816,000 new Shares to be issued pursuant to the Subscription
"Super Winner"	Super Winner Investment Limited, a Subscriber
"Sure Wealth"	Sure Wealth Holdings Limited, a company incorporated in the British Virgin Islands wholly owned by Mr. So Wing Lok, Jonathan (one of the Guarantors), and a shareholder of the Seller which owns 48% of the issued share capital of the Seller as at the Latest Practicable Date
"Toon Express HK"	Toon Express Hong Kong Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Infoport
"Toon Express Group"	Infoport and its subsidiaries, namely Toon Express International, Toon Express HK and Toon Express GZ
"Toon Express GZ"	Toon Express GZ Limited 廣州新原動力動漫形象管理有限公司, a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of Infoport
"Toon Express International"	Toon Express International Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Infoport
"Trading Day"	the days on which the Shares are traded on the Stock Exchange, each a ***Trading Day***
"Transactions"	the Acquisition, the Subscription and the allotment and issuance of the Consideration Shares and Subscription Shares

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

(incorporated in Bermuda with limited liability)
(Stock Code: 585)

Chairman and Non-executive Director:
Mr. Leung Pak To

Executive Director:
Ms. Ma Wai Man, Catherine

Independent Non-executive Directors:
Mr. Chan Yuk Sang
Mr. Cheng Yuk Wo
Dr. Lam Lee G.

Registered Office:
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

Principal place of business in Hong Kong:
22nd Floor,
Eight Commercial Tower,
8 Sun Yip Street,
Chai Wan,
Hong Kong

23 March 2011

To the Shareholders:

Dear Sir or Madam,

**(1) MAJOR TRANSACTION
(2) SUBSCRIPTION OF NEW SHARES BY SUBSCRIBERS
(3) SPECIFIC MANDATE TO ISSUE CONSIDERATION SHARES, SUBSCRIPTION SHARES AND IDG OPTION SHARES
(4) INTENTION OF IDEA TALENT LIMITED TO EXERCISE OPTIONS
AND
(5) NOTICE OF SGM**

We refer to the Announcement in relation to, among other things, the Acquisition, the Subscription and the Specific Mandate for the issue of the Consideration Shares and Subscription Shares.

INTRODUCTION

On 18 February 2011, the Board announced that the Company, the Seller and the Guarantors had entered into the Sale and Purchase Agreement on 17 February 2011 pursuant to which, subject to the satisfaction of the Conditions, the key details of which are set out in the section headed "A. — 1. The Sale and Purchase Agreement — Conditions Precedent", the Seller will sell and the Company will

* *For identification purpose only*

purchase the Sale Shares representing the entire issued share capital of Infoport. Infoport is the holding company of Toon Express Group. The Initial Consideration for the Acquisition payable on Completion is HK$814 million, to be settled partly in cash in the amount of HK$330 million, and partly by the issuance and allotment of the Consideration Shares at the Issue Price. Subject to the achievement of certain performance criteria as set out in the section headed "A. — 1. The Sale and Purchase Agreement — Consideration" below, an Earn-out Payment may be payable by the Company to the Seller in the form of Promissory Notes with a maximum principal amount of HK$232.5 million. The Consideration may therefore be up to HK$1,046.5 million.

The Board also announced that on 18 February 2011, the Company entered into the Subscription Agreement pursuant to which the Company will issue, and the Subscribers will subscribe for a total of 1,282,816,000 Shares at the subscription price of HK$0.28 per Share, subject to the approval of Shareholders at the SGM. The proceeds of the Subscription are estimated to amount to approximately HK$359 million and will be used to finance the cash component of the Initial Consideration payable on Completion.

The Board has been advised that Idea Talent may exercise its Options pursuant to the Investor Option Agreement dated 10 February 2010 to subscribe for 1,500,000,000 Shares immediately after both the Completion and the completion of the Subscription. Pursuant to the terms of the Investor Option Agreement and as a result of the issuance of the Subscription Shares, the subscription price for the Shares granted under the Options is adjusted from the initial subscription price of HK$0.08 to HK$0.076 per Share with effect from the Completion Date. If the Options are exercised in full, based on the revised subscription price of HK$0.076 per Share, the gross proceeds arising from the exercise of the Options will be HK$114 million, which will be used for general working capital of the Company.

On 18 March 2011, the Company entered into the IDG Option Agreement pursuant to which the Company agreed to grant the IDG Options to an affiliate of IDG to subscribe for up to 50,000,000 Shares at an exercise price of HK$0.35 per Share under the IDG Options Specific Mandate, as remuneration for introducing potential subscribers to the Company.

As at the Latest Practicable Date, the authorised share capital of the Company is HK$1,000,000,000 divided into 1,000,000,000,000 Shares of HK$0.001 each, of which 5,724,907,577 have been issued and are fully paid up.

The purpose of this circular is to provide you with (i) further details of the Acquisition; (ii) further details of the Subscription; (iii) the grant of the IDG Options; (iv) the intention of exercise of the Options by Idea Talent; (v) the appointment of new Directors and senior management of the Company after Completion and the completion of the Subscription; and (vi) a notice of the SGM.

A. THE ACQUISITION

1. THE SALE AND PURCHASE AGREEMENT

Date: 17 February 2011

Parties:
(a) The Company
(b) The Seller
(c) The Guarantors

Sale Shares: Subject to the satisfaction of the Conditions, at Completion, the Seller will sell and the Company will purchase the Sale Shares.

The Company confirms that, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the Latest Practicable Date, each of the Seller and the ultimate beneficial owners and substantial shareholders of the Seller are third parties independent of the Company, its subsidiaries or their respective associates or the connected persons of the Company as such term is defined in the Listing Rules.

Assets to be acquired

The Sale Shares represent the entire issued share capital of Infoport. Upon Completion, Infoport will become a wholly-owned subsidiary of the Company.

Consideration

Pursuant to the Sale and Purchase Agreement, the Consideration payable to the Seller comprises the Initial Consideration payable on Completion and the Earn-out Payment which may be payable subject to conditions set out below. The Initial Consideration is in the amount of HK$814 million, which will be satisfied in the following manner:

(a) Cash payment. On Completion, the Company will pay to the Seller a total of HK$330 million in cash.

(b) Consideration Shares. On Completion, Consideration Shares will be allotted and issued to the Seller or its shareholder(s) or nominee(s) (as directed by the Seller) at the Issue Price. The following is a list of shareholders or nominees of the Seller who will be issued Consideration Shares, as set out in the Sale and Purchase Agreement. Please refer to the section headed "E. Shareholding Structure of the Company" in this circular for their respective shareholdings in the Company upon Completion. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the Latest Practicable Date, none of the following nominees of the Seller is a connected person of the Company as such term is defined in the Listing Rules.

- Mr. So Wing Lok, Jonathan (the Consideration Shares will be issued to Sure Wealth, his wholly-owned company)
- Mr. Lo Wing Keung (the Consideration Shares will be issued to Medianew, his wholly-owned company)
- ASEAN China Investment Fund II L.P. (managed by UOB Venture Management Pte Ltd., a venture fund manager in Singapore)
- Mr. Soh Szu Wei (the Consideration Shares will be issued to Kolela, his wholly-owned company)
- Mr. Chua Ee Mong (the Consideration Shares will be issued to Fameup Trading Limited, his wholly-owned company)

- Ms. Tan Mae Ling (the Consideration Shares will be issued to Allenda International Limited, her wholly-owned company)
- Ms. Tan Siok Neo, Eileen (the Consideration Shares will be issued to Connley Corporation Ltd., her wholly-owned company)
- Mr. Lai Seck Khui (the Consideration Shares will be issued to Bayline Business Corp., his wholly-owned company)

The Consideration Shares are subject to restrictions as set out in the paragraph headed "Lock-up Undertakings" below. The Consideration Shares will be held by the Escrow Agent from their issuance date and shall only be released subject to the terms and conditions set out in the Escrow Agreement. The Acquisition will not result in a change of control of the Company.

The cash portion of the Consideration will be funded by the proceeds of the Subscription.

Earn-out Payment

The Earn-out Payment shall be payable by the Company to the Seller if the sum of the Net Profits for FY2011 and FY2012 exceeds the sum of the Performance Targets for FY2011 and FY2012, as detailed below:

(a) if the sum of the actual Net Profits for FY2011 and FY2012 is equal to or less than HK$242 million, being the aggregate of the Performance Targets for FY2011 and FY2012, no Earn-out Payment will be payable by the Company to the Seller; or

(b) if the sum of the actual Net Profits for FY2011 and FY2012 is more than HK$242 million, being the aggregate of the Performance Targets for FY2011 and FY2012, then the Company shall grant to the Seller the Earn-out Payment in the form of the Promissory Notes, the principal amount of which is equal to:

(Sum of the actual Net Profits for FY2011 and FY2012) MINUS HK$242 million MULTIPLY by 9.3,

and that if the sum of the Net Profits for FY2011 and FY2012 is equal to or higher than HK$267 million, the maximum amount of Consideration is HK$1,046.5 million and the Seller will be granted the maximum principal amount of the Promissory Notes, being HK$232.5 million. The multiple of 9.3 is based on the maximum Consideration, the Earn-out Payment and the aggregate of the Performance Targets for FY2011 and FY2012. If the maximum amount of Consideration is achieved, the implied average price-earning ratio based on the average of the Net Profits for FY2011 and FY2012 is not more than 7.84 times. Based on the factors as described under the section headed "Basis of Consideration", the Directors are of the view that the average price-earning ratio of 7.84 times is fair and reasonable.

For the avoidance of doubt, the principal amount of the Promissory Notes shall not exceed HK$232.5 million in any event.

(c) The following table sets out the FY2011 and FY2012 Performance Targets provided for under the Sale and Purchase Agreement:

Financial year ending 31 December		Target of Net Profit *(HK$ million)*
2011		85
2012		157
	Total	242

Promissory Notes

If the Promissory Notes are issued as Earn-out Payment, they are subject to the following terms and conditions:

(a) Principal Amount. The principal amount, which is up to HK$232.5 million, shall be determined in accordance with provisions in the Sale and Purchase Agreement as set out in the paragraph above headed "Earn-out Payment";

(b) Interest. Interest shall accrue at an interest rate of 1% per annum commencing from the Completion Date;

(c) Maturity. The Promissory Notes are payable in one lump sum together with all accrued interest on the day which is two and a half (2.5) years from the Completion Date.

Basis of Consideration

The Initial Consideration payable on Completion and the Earn-out Payment mechanism were arrived at after arm's length negotiations between the Company and the Seller and on normal commercial terms after taking into account a number of factors including the following:

- the position of Toon Express Group in the Chinese animation industry;
- the strong brand name of Toon Express Group's cartoon characters, in particular "Pleasant Goat and Big Big Wolf";
- the diverse customer base of Toon Express Group's consumer products licensing business;
- the business prospects of Toon Express Group, taking into account the strategic business relationship that Toon Express Group has with its long-term partners such as CPE, and its contractual relationships with Disney; and
- the financial performance of Toon Express Group.

The Issue Price of HK$0.35 per Consideration Share represents:

- a premium of approximately 9.38% over the closing price of HK$0.32 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- a discount of approximately 11.40% over the closing price of HK$0.395 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a discount of approximately 9.79% over the average closing price of HK$0.388 per Share as quoted on the Stock Exchange for the last five (5) Trading Days of the Shares prior to and including the Last Trading Day;
- a discount of approximately 6.67% over the average closing price of HK$0.375 per Share as quoted on the Stock Exchange for the last ten (10) Trading Days of the Shares prior to and including the Last Trading Day; and
- a premium of approximately 1.74% over the average closing price of HK$0.344 per Share as quoted on the Stock Exchange for the last fifteen (15) Trading Days of the Shares prior to and including the Last Trading Day.

Conditions Precedent

The obligations of the Company, the Seller and the Guarantors to complete the Acquisition are subject to the satisfaction or waiver of the following Conditions (save for the Conditions in (b), (c(i)) and (f) which cannot be waived):

(a) completion of the Subscription;

(b) the grant of approval by the Shareholders at the SGM of the Sale and Purchase Agreement, the Subscription Agreement, and all transactions contemplated therein (including but not limited to the allotment and issue of the Consideration Shares and the Subscription Shares pursuant to the Specific Mandate) in accordance with the requirements of the Listing Rules;

(c) the Stock Exchange granting or agreeing to grant a listing of and permission to deal in (i) the Consideration Shares to be issued and (ii) the Subscription Shares to be issued (subject to conditions to which neither the Seller nor the Company may reasonably object);

(d) the Non-Competition Deed having been entered into (please refer to the paragraph headed "Non-Competition Deed" below);

(e) Mr. Lo Wing Keung and Mr. So Wing Lok, Jonathan having entered into service agreements with Infoport to act as senior advisors to Infoport for a term of not less than six (6) months from the Completion Date with an option to renew for a further term of six (6) months on the same terms at the request of the Company;

(f) all licences, permissions, authorisations, regulatory approvals and consents in relation to the Transactions under any Applicable Laws having been obtained;

(g) the delivery by the Seller to the Company of written consents from counterparties of any contracts or agreements of which any member of Toon Express Group is a party who may have a right arising from the change of control of Infoport, that they consent to the sale and purchase of the Sale Shares and agree not to exercise any right (whether of termination or otherwise) arising by reason of such sale and purchase (including any consents required under the CP Agreement, the Joint Brand Management Agreement and any loan agreements entered into by Toon Express Group);

(h) Toon Express Group having been operated in the normal course of its business during the period between the date of the Sale and Purchase Agreement and Completion; and

(i) no material adverse change (as defined in the Sale and Purchase Agreement) having occurred to Toon Express Group prior to Completion.

Guarantee

Each of the Guarantors unconditionally and irrevocably guarantees to the Company as a continuing obligation that the Seller will comply properly and punctually with its obligations under the Sale and Purchase Agreement and each document entered into pursuant to the Transactions.

Completion

The Completion Date shall be five Business Days after satisfaction or waiver of the Conditions (such date not being later than the Long Stop Date) unless the Company and the Seller otherwise agree in writing.

Termination

At any time before Completion, the Company may terminate the Sale and Purchase Agreement by giving notice to the Seller if:

(a) any material adverse change (as defined in the Sale and Purchase Agreement) occurs to Toon Express Group;

(b) a material breach of any of the warranties given by the Seller on the date of the Sale and Purchase Agreement or the occurrence of any event, circumstance, effect or state of affairs or any combination of them (whether existing or occurring on or before the date of the Sale and Purchase Agreement or arising or occurring afterwards) which would constitute a material breach of any of the warranties given by the Seller if they were repeated at any time before Completion by reference to the facts and circumstances then existing (on the basis that references in the warranties to the date of the Sale and Purchase Agreement were references to the relevant date);

(c) any material breach by the Seller of its obligations under the Sale and Purchase Agreement.

At any time before Completion, the Seller may terminate the Sale and Purchase Agreement by giving notice to the Company if:

(a) any material adverse change occurs to the Company;

(b) a material breach of any of the warranties given by the Company on the date of the Sale and Purchase Agreement or the occurrence of any event, circumstance, effect or state of affairs or any combination of them (whether existing or occurring on or before the date of the Sale and Purchase Agreement or arising or occurring afterwards) which would constitute a material breach of any of the warranties given by the Company if they were repeated at any time before Completion by reference to the facts and circumstances then existing (on the basis that references in the warranties to the date of the Sale and Purchase Agreement were references to the relevant date); or

(c) any material breach by the Company of its obligations under the Sale and Purchase Agreement.

Post-Completion Undertakings

The Company has agreed and undertaken that it shall, subject to any mandatory legal requirements and the Listing Rules from time to time, procure:

(a) that Mr. Soh Szu Wei be appointed to the Board as an executive Director and the chief executive officer of the Company; and

(b) that Mr. Christopher Chong Meng Tak, as nominated by the Seller, be appointed to the Board as a non-executive Director.

Lock-up Undertakings

Pursuant to the Sale and Purchase Agreement, the Seller has undertaken that it will not and will procure its shareholder(s) or nominee(s) receiving the Consideration Shares (as directed by the Seller and pursuant to the arrangements in the Sale and Purchase Agreement) do(es) not, (whether directly or indirectly and whether conditionally or unconditionally) Encumber, sell, transfer or otherwise dispose of, or grant any option, warrant or other right over or to convert or exchange into or swap for, the Consideration Shares (or any shares or other securities of the Company deriving from them or any interest (including any economic benefit or risk of ownership) in the Consideration Shares or such other securities) or enter into any arrangement or agreement in respect of the voting rights attached to the Consideration Shares (or any such other securities or any interest (including any economic benefit or risk of ownership) in the Consideration Shares or such other securities) or enter into any agreement or announce any intention to enter into or effect any of the above, from the signing of the Sale and Purchase Agreement and (i) if Completion takes place, for a period of two (2) years from the issuance date of the Consideration Shares; or (ii) if the Sale and Purchase Agreement is terminated before Completion, ending on the date of termination of the Sale and Purchase Agreement, except:

(a) the Seller and its shareholder(s) and nominee(s) shall have the right to sell up to 25% of the Consideration Shares issued to them six months after the issuance date of the Consideration Shares (the ***First Release Date***);

(b) after the First Release Date and only upon the earlier occurrence of (i) the Net Profit for FY2011 is equal to or greater than HK$110 million; or (ii) for each Trading Day of a consecutive period of twenty one (21) Trading Days the daily volume-weighted average price of the Shares calculated based on Bloomberg data is equal to or higher than HK$0.525 per Share, then the Seller and its shareholder(s) and nominee(s) shall have the right to sell up to another 25% of the Consideration Shares (the ***Second Tranche Shares***). The Board may, at its sole discretion and by written notice, waive the requirements in this paragraph for the release of the Second Tranche Shares prior to the second anniversary of the date of issuance of the Consideration Shares (but after the First Release Date); and

(c) apart from the provisions in paragraphs (a) and (b), the Board may, at its sole discretion and by written notice to the Seller or the respective shareholder(s) or nominee(s), consent to the sale of the remaining Consideration Shares before the second anniversary of the date of issuance of the Consideration Shares.

Non-Competition Deed

On 17 February 2011, the Seller, the Guarantors and the Company entered into the Non-Competition Deed. Pursuant to the Non-Competition Deed, the Seller and the Guarantors undertake not to carry on any business similar to that of Toon Express Group, and more importantly, not to make use of any intellectual property rights owned by or used by Toon Express Group nor to solicit any of Toon Express Group's employees or customers. This protects the value of the intellectual property rights of Toon Express Group and thereby the interests of the Group.

The key terms of the Non-Competition Deed were the covenants given by each of the Seller and each Guarantor that it will not (and shall procure that its associates will not), for a period from the Completion Date until the date of maturity of the Promissory Notes or the expiration of the lock-up period of the Consideration Shares (whichever is earlier),:

(i) carry on, participate, invest or engage in any company, business or activity which is similar to, in competition or may be in competition (whether directly or indirectly) with, Toon Express Group's business;

(ii) use, display or register any trademark, business name or domain name similar to any of the intellectual property rights that Toon Express Group owns or otherwise uses in its business (including any translation or transliteration);

(iii) solicit any customers, contractors or subcontractors who were doing business with Toon Express Group at the time of, or in the 12 months preceding the Completion Date or any of the employees of Toon Express Group employed or otherwise engaged by Toon Express Group within the 12 months preceding the Completion Date;

(iv) incorporate a company with a name substantially similar to the company names used by Toon Express Group; and

(v) make use of or disclose to any person any confidential information about Toon Express Group or its business.

2. CONSIDERATION SHARES AND SPECIFIC MANDATE FOR THE ISSUE OF THE CONSIDERATION SHARES

The Consideration Shares will be issued at the Issue Price of HK$0.35 per Share, credited as fully paid, on the Completion Date. The Consideration Shares when allotted and issued shall rank pari passu in all respects with the Shares then in issue and be entitled to all dividends, distributions and other rights carried by the Shares. At the SGM, the Company will seek the grant of the Specific Mandate from the Shareholders to allot and issue the Consideration Shares.

The Consideration Shares that will be issued represent (i) approximately 24.16% of the existing issued share capital of the Company as at the date of this circular; (ii) approximately 16.48% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and the Subscription Shares and (iii) approximately 13.98% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares, the Subscription Shares and exercise of Options by Idea Talent.

Application for Listing

Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

3. INFORMATION ON THE GROUP

The Group is principally engaged in the production, distribution and marketing of computer graphic imaging ("CGI") animation pictures with both licensed classic anime properties and original designs; licensing of ancillary rights of CGI animation pictures and provision of creative and design to integration services in all CGI products. The Company's studio is a full service project management and production house in respect of CGI animation pictures, special CGI effects and stereoscopic 3D features. The Group provides creative services in character designs to integration services in all CGI products ranging from animated films, visual effects in commercials, music videos, television programs to CGI games. In May 2010, the Group successfully completed a financial restructuring and operational rationalisation programme, during and after which the Group continued its principal operations as stated above.

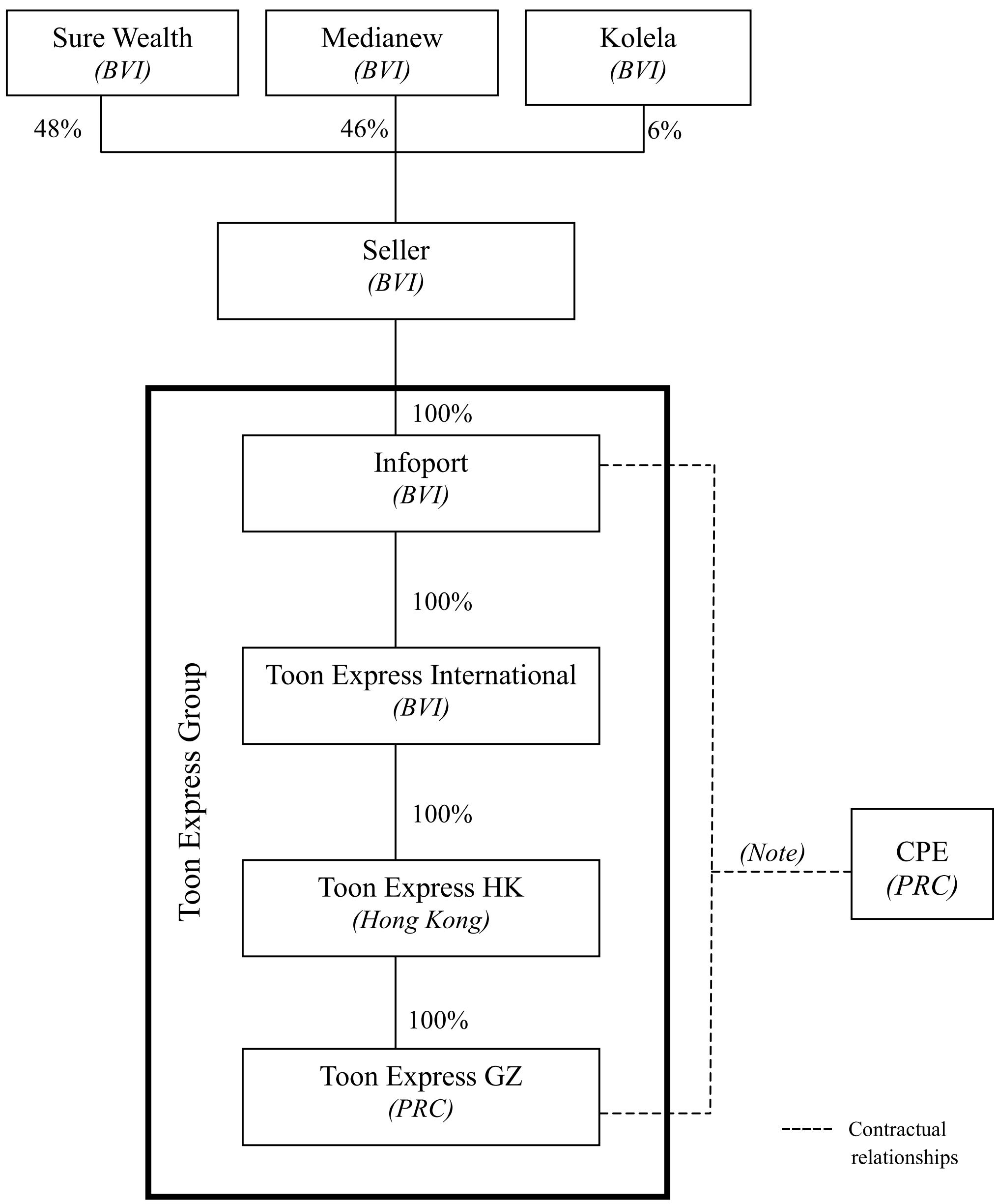
4. INFORMATION ON THE SELLER

The Seller is an investment holding company which holds the entire interest in Toon Express Group. The Seller, through its subsidiaries, is principally engaged in the business carried out by Toon Express Group.

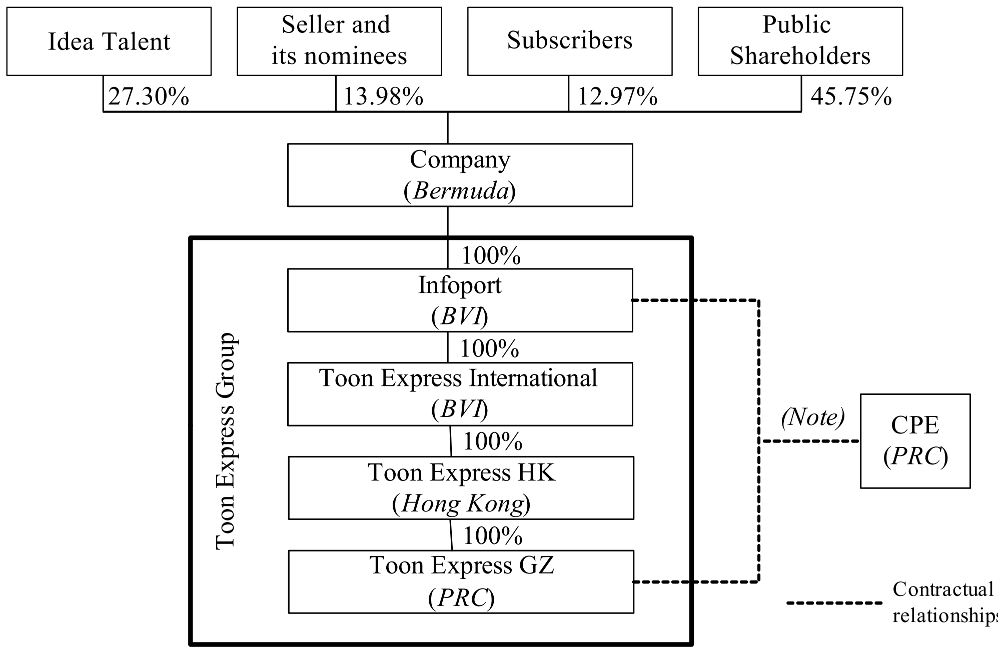
5. SHAREHOLDING STRUCTURE OF TOON EXPRESS GROUP AND CONTRACTUAL RELATIONSHIP WITH CPE

Set out below is the shareholding structure of Toon Express Group and contractual relationship with CPE before Completion (and as at the Latest Practicable Date) and immediately after Completion:

Before Completion and as at the Latest Practicable Date



After the Completion, the completion of the Subscription and the exercise of Options by Idea Talent



Note: Infoport, Toon Express GZ and CPE have a contractual relationship. Please refer to the section headed "Information on Toon Express Group" for details.

6. INFORMATION ON TOON EXPRESS GROUP

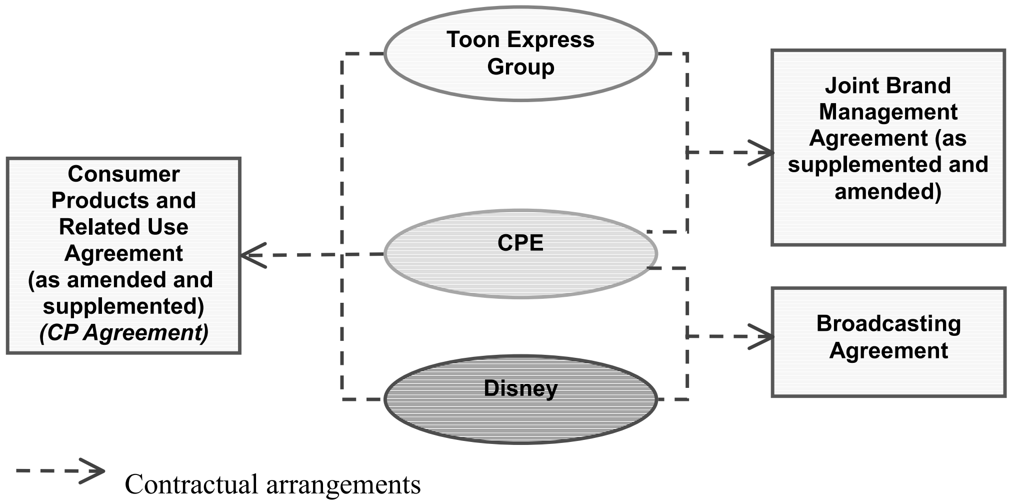
To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the following sets out the information relating to Toon Express Group.

Toon Express Group consists of Infoport, an investment holding company incorporated in the British Virgin Islands, and its wholly-owned subsidiaries, Toon Express International, Toon Express HK and Toon Express GZ, the main operating entity.

Overview

Toon Express Group is a leading brand manager in China's animation industry. Toon Express Group has key commercial arrangements with two contractual partners CPE and Disney. Toon Express Group creates and develops animation brands and generates additional value to such brands through their franchising and commercialisation. Building on the respective strengths of CPE, Disney and Toon Express Group, Toon Express Group can deploy its branding strategy across multiple channels including television, movies, publication, stage shows, mobile carnivals and interactive media. Toon Express Group's core business is to develop, market and manage popular animation brands in the PRC and international markets with a focus on the consumer products licensing business.

The key contractual agreements that Toon Express Group has are summarised as follows:



CPE is a company incorporated in the PRC which engages in the development, production and distribution of AV Programmes in the PRC. It is also involved in publication, content development and licensing as well as stage shows and mobile carnival operations. CPE derives its revenue mainly from these business activities. Its revenue model is as follows: for television, it generates revenue from production and sales of television series episodes to television stations. For movies, CPE generates revenue from production and distribution. It shares box office receipts of each movie with its commercial partners, after deducting production and distribution expenses, in accordance with the respective movie production and distribution contract. For publications, CPE provides content to publishers on request and charges content development fees. For stage shows and mobile carnivals, CPE charges performance fees to producers and organisers across the country for such live performances. Further details regarding the various business segments and the key contractual agreements mentioned above are set out in the following paragraphs of this circular.

As of the Latest Practicable Date, the major animation properties and related brands and characters under the management and ownership (including intellectual property rights in the form of trademarks and copyrights (images)) of Toon Express Group are as follows:

- Pleasant Goat and Big Big Wolf（喜羊羊與灰太狼）;
- Happy Family（寶貝女兒好媽媽）;
- Cookie Masters（小宋當家）;
- Planet of 7 Colors（七色戰記）; and
- Legendary Soccer Kid（宋代足球小將）.

Please refer to the paragraph headed "Intellectual Property Rights used in the business of Toon Express Group" for further information about the trademarks and copyrights.

The above animations and characters are widely distributed in the PRC. "Pleasant Goat and Big Big Wolf" is also distributed in the Asia Pacific region through television, movies, publications and other means.

Business model of Toon Express Group

Creativity in character design and content development is the key driver of the business of Toon Express Group. The character designs created and the content developed reach the target audience through various distribution channels, thereby building brand awareness. This forms the basis for the development of Toon Express Group's consumer products licensing business. Through arrangements with CPE and Toon Express Group's consumer products licensing business which is managed by Disney Enterprises on Toon Express Group's behalf, Toon Express Group has developed an integrated business model which allows it to tap into each segment of the value chain of the entertainment industry. Its objective is to give consumers a total 360° experience of the brands from home entertainment to consumer products to live shows. It is therefore able to create family branded entertainment, connect to its target market through multiple delivery channels, and commercialise and realise the value of its brands through its consumer products licensing business. Upstream content creation and distribution through various media raise the profile and popularity of Toon Express Group's brands and characters such as "Pleasant Goat and Big Big Wolf". This benefits its core business of consumer products licensing, which brings a steady and recurring income flow to Toon Express Group.

At present, Toon Express Group cooperates with CPE to operate six key business segments, namely television production and broadcasting, movie production, publications, stage shows/carnivals, interactive media and consumer products licensing, pursuant to the Joint Brand Management Agreement. Consumer products licensee recruitment, relationship and accounts management were managed by an independent third party from 2006 to June 2009, by Toon Express Group during the period from June 2009 to December 2010 and since then, have been managed by Disney Enterprises under the CP Agreement on behalf of Toon Express Group. Toon Express Group focuses on brand building and oversees branding activities throughout the entire value chain.

Television production and broadcasting

The animation "Pleasant Goat and Big Big Wolf" was created and began broadcasting in the PRC in 2005. The 15-minute episodes of the animation are now casted in more than 75 national, provincial and municipal free to air and cable television stations and networks. In the second quarter of 2010, according to AC Nielsen, various series of "Pleasant Goat and Big Big Wolf" programmes occupied five out of the top ten animation programmes in the PRC in terms of rating based on primetime viewership by children aged 4-14 in cities.

Another indicator of the popularity of a brand among consumers is the advertising revenue derived from such a brand. Advertisers spent around RMB4,673 million during the airtime of "Pleasant Goat and Big Big Wolf" in 2010 according to AC Nielsen. This represented 27.1% of total advertising spending by advertisers in the cartoon programme genre in the PRC during the same period. From 2008 to 2010, the total advertising spending during the airtime of "Pleasant Goat and Big Big Wolf" grew by a compound annual growth rate of approximately 215% per year as compared to 55% per year for the cartoon programme category. The popularity of the animation and the advertising revenue derived from it has also driven television channels to broadcast the episodes frequently. 7,728 hours of airtime were recorded in the fourth quarter of 2010 amongst 55 channels monitored in the PRC. In addition to being a revenue generator, Toon Express Group believes that television is an effective media to create critical mass for brand awareness within a short period of time.

Outside the PRC, "Pleasant Goat and Big Big Wolf" has been broadcasted in Asia through local free or pay television channels, for example TVB in Hong Kong, the Momo Channel in Taiwan and channels owned by Mediacorp in Singapore. Moreover, CPE has entered into the Broadcasting Agreement with Buena Vista, a related company of Disney Enterprises in October 2010 to broadcast "Pleasant Goat and Big Big Wolf — Joys of Seasons (羊羊快樂的一年)" in the Asia Pacific region. Under this agreement and other broadcasting agreements, the geographical reach of CPE's productions will further expand to 52 territories in the Asia Pacific region. For example, various series of "Pleasant Goat and Big Big Wolf" are currently broadcasted in Taiwan on Momo Channel and Disney Channel, in Hong Kong on Disney Channel and in Singapore on free-to-air channels owned by Mediacorp. Broadcasting in other territories is expected in the latter half of 2011 pending regulatory approvals in the various territories and local language adaptation. Please refer to the paragraph headed "Contractual Arrangements — Broadcasting Agreement" below for further information. Overseas broadcasting of television series is a crucial step to lay the groundwork for downstream consumer products licensing in the respective markets.

In addition to strengthening the brand equity of "Pleasant Goat and Big Big Wolf", one of the business strategies of Toon Express Group is to develop a diversified franchise portfolio. When "Pleasant Goat and Big Big Wolf" first began broadcasting in the PRC, it was among the first animation brands developed by CPE and Toon Express Group, and acceptance of the cartoon characters by television stations was only gained after much effort. The success of "Pleasant Goat and Big Big Wolf" has now allowed other animation programmes of CPE and Toon Express Group to achieve a faster penetration into television stations across the PRC. Since the launch of "Legendary Soccer Kid" and "Planet of 7 Colors" in May and July 2010 respectively, the programmes have been broadcasted in more than 40 television stations throughout the PRC. Over the years, other television series were produced; CPE and Toon Express Group currently have access to a library of more than 900 episodes across all animation brands and the library is growing continuously. Television broadcasting is an important business stream for CPE and Toon

Express Group and Toon Express Group believes this is the foundation for development of other media content and downstream derivative products. Furthermore, under the Broadcasting Agreement, Buena Vista has the right to dub or subtitle the television series episodes under the agreement into other languages. CPE intends to acquire these dubbing from Buena Vista and other potential overseas partners to enrich its library. In time, CPE will increase its library to languages other than Mandarin and this will provide CPE with new business opportunities.

Movies

The copyright to all movies is owned by CPE. Three full feature "Pleasant Goat and Big Big Wolf" animation movies were launched in 2009, 2010 and 2011 respectively. The first movie, "Pleasant Goat and Big Big Wolf — The Super Adventure" achieved a gross box office of RMB80 million, which was the highest box office for domestic animation productions in the PRC at that time. "Pleasant Goat and Big Big Wolf — Desert Trek: The Adventure of the Lost Totem" followed in 2010 and achieved gross box office of over RMB128 million, which was record-breaking for both domestic and foreign animation productions. Riding on the success of the first two movies, the third movie "Moon Castle — The Space Adventure" was released in the PRC during the Chinese New Year period of 2011. As at 13 February 2011, it has achieved gross box office of over RMB150 million which already surpassed the total box office achieved by the second movie. For the past three feature movies, CPE cooperated with its strategic business partners, namely Toonmax Media Co., a subsidiary of Shanghai Media Group, and Beijing U-Young Cultural and Media Company Limited in production and distribution in order to reach a large nationwide audience. CPE's continued success at box offices in the PRC contributes positively to Toon Express Group as Toon Express Group believes that movie production and distribution will help raise the profile of the animation, reinforce branding and benefit downstream consumer products licensing.

Publications

The publications segment is an effective means for "Pleasant Goat and Big Big Wolf" cartoon characters to reach the audience. Currently, the publications business is operated under a licensing model covered by the CP Agreement. In terms of content, licensees either pay CPE for content development or develop their own by following the guidelines provided by Toon Express Group. All content is subject to Toon Express Group's final approval. In either case, the licensee pays a licensing fee for the use of the intellectual property rights. Since 2009, a monthly "Pleasant Goat and Big Big Wolf" magazine has been published by Children's Fun, the largest publisher of children's books in the PRC and Toon Express Group's strategic partner in the publishing category. This has recently been changed to a bi-weekly publication due to overwhelming popularity. Other publishers are also licensed to publish books mainly in the PRC, Hong Kong and Taiwan, containing "Pleasant Goat and Big Big Wolf" cartoon characters. Such publications range from comics, novels to educational and game books.

Stage shows and mobile carnivals

"Pleasant Goat and Big Big Wolf" cartoon characters are brought to life to the audience through stage shows and other real-life platforms, allowing the audience to "feel and touch" the characters. In December 2008, CPE launched the stage show "Memory Thief" and in August 2009, a second show, "3 Wishes", debuted. The shows were performed in 42 cities in the PRC in 2009 and 55 cities in 2010.

CPE also organises ad hoc mobile carnivals in the PRC, five of which were held in 2010. Carnivals are a key focus for Toon Express Group and CPE in 2011 as they help expand the geographical reach of the brand, including overseas markets. For instance, in 2010 CPE participated in the Taipei Summer Carnival, a 10-week event where visitors could experience the "Green Grassland" (modelled after the backdrop of the animation) in real-size houses of "Pleasant Goat and Big Big Wolf" characters. These shows and carnivals serve as platform for direct interaction with the audience, a tool to boost brand awareness and a channel to promote sales of consumer products.

Interactive media

With a 900-episode library, Toon Express Group and CPE are well positioned to take advantage of modern electronic communications media such as the Internet, wireless telecommunications and other electronic modes of distribution. For example, Toon Express Group through its licenscees has developed products such as e-books that can be downloaded to iPhones and iPads, to capitalise on the advancement in digital media but at the same time maintain a strong position in the traditional distribution channels.

As part of its interactive media initiative, online video streaming in cooperation with video streaming websites in the PRC, namely Sohu, Youku and Qiyi (Baidu) has been initiated by CPE. Initial results are encouraging, with "Pleasant Goat and Big Big Wolf" episodes recording a hit rate of 79.6 million on sohu.com since its launch on 25 June 2010 to 21 January 2011.

A revamped brand website (www.toonwiz.com) was launched in February 2011 in both Chinese and English, where fans of the animation of Toon Express Group can experience the brands and characters through the Internet or mobile phone. The site is geared for customer relationship management and anti-counterfeit programmes. Features such as lucky draws and e-credit redemption are in place to attract viewers to the site and encourage referrals from members. The site also encourages interaction among visitors through online mini games updated quarterly. In addition to extending "Pleasant Goat and Big Big Wolf" to the online world, the website also supports the consumer products licensing business by offering banner advertisement position for targeted customers, product launches or marketing campaigns of Toon Express Group. Toon Express Group also collaborates with its business partners on certain online activities through the site such as online marketing.

Consumer products licensing

Each of the above business segments of CPE serves as a very important foundation for the success of Toon Express Group's consumer products licensing business. Toon Express Group restructured its consumer products licensing business in 2009. It grants licences or franchises to companies which are interested in the manufacture and/or distribution of consumer products using the brand "Pleasant Goat and Big Big Wolf" ranging from toys, apparel, footwear, stationeries, healthcare and household products, books and publications to food and beverages. Toon Express Group is not involved in the production and distribution of the consumer products. It oversees product development, application and usage of its brands in the design process to ensure that the intellectual property rights and the integrity of the brands are adequately safeguarded.

As at 31 December 2010, Toon Express Group had signed 250 licensees with 332 licensing contracts. Its renowned licensees include KFC, Sega Corporation, Opal Cosmetics (Huizhou) Limited, Children's Fun Publishing Co., Ltd. and Bandai Asia Co., Ltd. The duration of the licensing contracts that Toon Express Group previously entered into is generally one to three years, and the majority of these contracts contain a minimum guarantee provision so that Toon Express Group enjoyed a steady income flow.

On 30 August 2010, Infoport and CPE entered into the CP Agreement with Disney Enterprises and certain direct and indirect shareholders of Infoport, pursuant to which, with effect from 1 January 2011, Disney Enterprises is the Master Licensee of Toon Express Group. Toon Express Group has completed the transition of all the existing licenses to the Master Licensee. The Master Licensee receives royalties from existing licensees and future sub-licensees, and in turn pays to Toon Express Group royalties at the relevant rate for each product category subject to an annual minimum guarantee amount, as stipulated in the CP Agreement. Toon Express Group will therefore continue to enjoy a reliable source of revenue from this business segment. Please refer to the paragraph headed "Contractual Arrangements — CP Agreement" below for further information.

Apart from brand building through the other five segments mentioned above, Toon Express Group also participates in other promotional events to help the growth of the consumer products licensing business. For example, it regularly attends trade shows to reach out to potential licensees.

For the year ended 31 December 2010, the revenues derived from the consumer products licensing business accounted for approximately 53.6% of the total turnover of Toon Express Group.

Contractual Arrangements

Joint Brand Management Agreement

Infoport, Toon Express GZ and CPE entered into the Joint Brand Management Agreement on 15 April 2010, and supplemental agreements were entered into on 27 August 2010 and 10 December 2010. Subsequently, parties to the Joint Brand Management Agreement entered into an amendment agreement on 17 February 2011 and clarification memoranda on 8 March 2011 and 15 March 2011, with the aim of enhancing their cooperation and to better coordinate their joint efforts and strategy to develop, manage and exploit the CPE Intellectual Property and Toon Express Intellectual Property, as defined below. The initial term of the Joint Brand Management Agreement is ten years (from 15 April 2010), thereafter automatically renewable for subsequent periods of ten years on the same terms unless terminated by a party if another party commits a Default (as defined in the Joint Brand Management Agreement) that is not remedied. The parties may not terminate without cause.

Toon Express Group owns the image copyrights and trademarks used in its business, including (i) copyright in certain characters appearing in the television programme series "Pleasant Goat and Big Big Wolf", "Happy Family", "Cookie Masters", "Planet of 7 Colors" and "Legendary Soccer Kid" and the animated feature films of the same titles; and (ii) registered trademarks and all pending trademarks developed or to be developed deriving from or in relation to the characters referred to in (i) (collectively, the "Toon Express Intellectual Property").

CPE owns copyrights in the contents of each of the television programme series "Pleasant Goat and Big Big Wolf", "Happy Family", "Cookie Masters", "Planet of 7 Colors" and "Legendary Soccer Kid" and the animated feature films of the same titles, including all related sequels throughout the world (collectively the "CPE Intellectual Property").

CPE is responsible for the production and broadcasting of the media content of television programmes, movies, publications, stage shows and carnivals under guidelines jointly determined by Toon Express Group and CPE, while Infoport and Toon Express GZ are responsible for the commercialisation and merchandising of the copyright and trademarks related to the titles to each of these television programme series and the names and images of the characters in these television programme series and movies. Pursuant to the Joint Brand Management Agreement (as supplemented and amended),

- the parties established a brand management committee to adopt a consistent and coordinated strategy for the development and Commercial Exploitation of the Toon Express Intellectual Property and CPE Intellectual Property worldwide. The brand management committee has, amongst other functions, the right to approve an annual plan for the production of AV Programmes and an annual plan for the Commercial Exploitation of the intellectual property rights in relation to these AV Programmes;
- Infoport has overall supervision of the financial aspects of the Commercial Exploitation of the Toon Express Intellectual Property and CPE Intellectual Property;

- CPE shall develop AV Programmes in accordance with, among other things, all laws, regulations and policies in the PRC, requirements set out in the CP Agreement, and the production plan as devised by the brand management committee or other resolutions of the brand management committee;

- Infoport is appointed as CPE's exclusive agent with respect to the Commercial Exploitation of the intellectual property rights owned by CPE in relation to the AV Programmes developed in accordance with the production plan enacted by the brand management committee;

- Infoport and Toon Express GZ shall second personnel to CPE to take up relevant positions in CPE with pre-determined authority in accordance with the Joint Brand Management Agreement; and

- subject to conditions and adjustments provided in the Joint Brand Management Agreement, if the results from specified operating activities in the audited annual statement of accounts of CPE for a financial year is a positive number, CPE will pay Infoport and Toon Express GZ an amount that equals to 90% of its results from such specified operating activities for that financial year as direct marketing expenses; if the results from such specified operating activities in the audited annual statement of accounts of CPE for a financial year is a negative number, CPE shall be entitled to charge Toon Express GZ an amount equal to 100% of its results from operating activities for that financial year as direct marketing expenses.

CP Agreement

In order to diversify its income streams and broaden its geographical reach, Infoport entered into the CP Agreement with Disney Enterprises on 30 August 2010 pursuant to which Disney Enterprises has become the Master Licensee with effect from 1 January 2011. This was subsequently supplemented and amended, and pursuant to such amendment CPE became a party to the CP Agreement. Certain direct and indirect shareholders of Infoport were also parties to the CP Agreement under which they each agreed to guarantee and indemnify Disney Enterprises in connection with Infoport's obligations under the CP Agreement. These direct and indirect shareholders of Infoport are namely the Seller and Mr. Lo Wing Keung, Mr. So Wing Lok, Jonathan, Medianew and Sure Wealth (the Guarantors in the Sale and Purchase Agreement).

Pursuant to the CP Agreement (as supplemented and amended), each of Infoport and CPE granted the Master Licensee an exclusive worldwide right and licence to use and exploit the Toon Express Intellectual Property and CPE Intellectual Property respectively, for certain permitted uses for a period of ten years commencing from 1 January 2011. The permitted uses include, amongst others, any use in connection with the development, design, production, exhibition, distribution and sale of consumer products, publishing and distribution of publications and all marketing materials related to such uses. The role of the Master Licensee is to manage the existing licensees on behalf of Toon Express

Group and CPE, and is responsible for seeking new sub-licensees. Under the CP Agreement, existing licensees and any future sub-licensees will pay royalties to the Master Licensee, who in turn pays royalties to Toon Express Group, at the relevant rate for each product category subject to an annual minimum guarantee amount, as stipulated in the CP Agreement.

In order to maintain a close oversight over the application and usage of the brands and the design process to ensure the intellectual property rights of CPE and Toon Express Group and their integrity are adequately safeguarded, Toon Express Group continues to maintain the "style guides" establishing the style and design for licensees to adopt and emulate. Toon Express Group also remains responsible for development of new products with new themes and for expanded demographic segments, whereas the day-to-day interaction with licensees is managed by the Master Licensee on Toon Express Group's behalf. Toon Express Group has completed the transition of the existing licensing agreements to Disney Enterprises, and hereafter all licensees will conduct matters regarding their licences on the online business-to-business platform maintained by the Master Licensee to achieve a more structured management.

In Toon Express Group's opinion, the Master Licensee has unique advantages in the management of consumer products licensees, worldwide connection to large scale producers and distributors, strong negotiating position and technical knowhow. Toon Express Group believes that the CP Agreement allows the consumer products licensing business of Toon Express Group to attract more licensees, develop into new geographies, and enhance product design and content development capabilities, with the goal of bringing the animation brands of Toon Express Group to international markets with world class standards.

Broadcasting Agreement

This agreement was entered into between Buena Vista and CPE on 15 October 2010. Buena Vista is a company incorporated in California, USA. Pursuant to this agreement, CPE grants a licence to Buena Vista to broadcast 100 episodes of "Pleasant Goat and Big Big Wolf — Joys of Seasons (羊羊快樂的一年)" in 52 territories commencing in 2011, (a) exclusively on all forms of pay television in all territories except the PRC, including Australia, Hong Kong, Macau, New Zealand, Taiwan, India and Southeast Asia, (b) non-exclusively in the PRC on all forms of pay television for telecast within hotels and foreign compounds and (c) non-exclusively in the PRC on the "Dragon Club Services" (a block of children and family oriented programmes broadcasted on a range of pay television channels in the PRC), in return for a licence fee from Buena Vista. Buena Vista has the right to dub or subtitle the episodes into ten languages (including English) and any other language used in the 52 territories. Toon Express Group believes that this geographical expansion will open the path to internationalisation of "Pleasant Goat and Big Big Wolf" and other cartoon characters and brands of Toon Express Group in the Asia Pacific region, with the potential of expanding the consumer products licensing business into these regions as well, in particular into Taiwan, a market which shares the same language and similar culture with the PRC.

Future business development of Toon Express Group

In future, Toon Express Group intends to continue with its current strategies, at the same time explore new initiatives to develop its business. For instance, for its existing business it will seek new distribution channels such as through the Internet and mobile phones, and new markets to deepen and broaden its current franchises. It will also seek other strategic alliances with creators of other animated brands in Asia Pacific. Ultimately, Toon Express Group's goal is to become a blue-chip company in branded family entertainment and consumer market. Although "Pleasant Goat and Big Big Wolf" is the leading animation brand in the PRC, Toon Express Group has always had a clear strategy to diversify its existing licensing portfolio. Toon Express Group will therefore continue to develop new animation brands, as well as develop new contents and characters for its existing animation brands with the aim of expanding the consumer products licensing business to brands other than "Pleasant Goat and Big Big Wolf".

Building on its existing library of cartoon episodes, Toon Express Group is committed to cooperate with CPE to produce a further 220 episodes each year, at least half of which will be "Pleasant Goat and Big Big Wolf", pursuant to the CP Agreement. As discussed above, the distribution of "Pleasant Goat and Big Big Wolf" on international broadcast platforms such as Momo Channel in Taiwan, TVB in Hong Kong, Mediacorp in Singapore and Disney Channels pursuant to the various broadcasting agreements will also significantly expand exposure of the animation properties.

Toon Express Group will be cooperating with CPE and other business partners to produce three more "Pleasant Goat and Big Big Wolf" animated feature films in the five years commencing from 2011. It is expected that 3D technology will be employed in the production of future animated feature films in line with international trends. As such, the Board believes that the combination of Toon Express Group with the Company will allow Toon Express Group to utilise the resources and technological capabilities of the Company.

Stage shows and mobile carnivals are a focus of development of Toon Express Group and CPE. In 2011, coverage of stage shows will be extended from tier 1 and 2 cities to tier 3 cities in the PRC to elevate awareness of the brand.

Toon Express Group is currently also exploring the potential of licensing its characters for mobile carnivals with other potential commercial partners.

The Board believes that these strategies provide an enormous opportunity for exposure to and consumer interactions with the "Pleasant Goat and Big Big Wolf" brand, and can unleash further growth potentials of the brand by giving the consumer a 360° opportunity to experience the brand, which ultimately benefits the core consumer products licensing business of Toon Express Group.

Financial information of Toon Express Group

Toon Express Group achieved audited consolidated turnover of approximately HK$20,821,000 and approximately HK$85,771,000 for the year ended 31 December 2009 and 2010 respectively, which represented a positive difference of approximately HK$3,688,000 and HK$11,167,000 respectively when compared with the corresponding unaudited figures disclosed in the Announcement. The difference of HK$3,688,000 for 2009 mainly represented the immediate recognition of unearned income, which would otherwise be amortised over the life of the contract, from a license contract that was terminated in 2009. The difference of HK$11,167,000 for 2010 was mainly due to the recognition of additional management fee income from CPE arising from the difference in accounting standards applicable in the PRC and Hong Kong.

The audited consolidated profit for the year of Toon Express Group for the two years ended 31 December 2009 and 2010 amounted to approximately HK$2,038,000 and HK$29,124,000 respectively, which represented a positive difference of approximately HK$2,907,000 and HK$183,000 respectively when compared with the corresponding unaudited figures as disclosed in the Announcement. The difference for 2009 was mainly due to the reason described in the preceding paragraph. The difference for 2010 was immaterial because the impact of the recognition of additional revenue from CPE described above was off-set by the reversal of other income from the holding company of Toon Express Group and an additional provision for certain expenses and taxation.

As a result, the audited consolidated total assets and net assets of Toon Express Group as at 31 December 2010 were approximately HK$73,973,000 and HK$34,364,000 respectively.

For details of the audited financial information and management discussion and analysis of Toon Express Group, please refer to the accountants' report on Toon Express Group set out in Appendix II and the section "Management Discussion and Analysis of Toon Express Group" set out in Appendix III to this circular.

Intellectual Property Rights used in the business of Toon Express Group

Currently, Toon Express Group utilises a wide range of intellectual property rights in its business, which it either owns or is authorised to use pursuant to arrangements with CPE including:

(a) copyright in the motion pictures, television programme series and other forms of audio-visual publications entitled "Pleasant Goat and Big Big Wolf", "Happy Family", "Cookie Masters", "Planet of 7 Colors" and "Legendary Soccer Kid", including all related sequels;

(b) copyright in artistic works being drawings of the characters appearing in the motion pictures, television programmes and other forms of audio-visual publication set out in paragraph (a) above; and

(c) trademarks (registered and pending), including word marks corresponding to the titles of the television programme series referred to in paragraph (a) above, the names of the characters which appear in the television programme series, as well as the images of these characters and their derivatives.

Specifically, to the best of the Company's knowledge, there are 940 trademarks in total in the PRC, Hong Kong, Macau and Taiwan of which 139 are registered and 801 are pending examination or other routine trademark office actions specific to each jurisdiction. These trademarks cover the name "Toon Express" and the related device, the titles of the various television programme series (including "Pleasant Goat and Big Big Wolf") some of which are stylised, as well as the names and images of the characters appearing in the television programme series. The majority of the trademarks of Toon Express Group relate to the "Pleasant Goat and Big Big Wolf" television programme series, 89 trademarks relate to the other animation properties as set out in paragraph (a) above. The average term of registration for a trademark is ten years, which term as perpetually renewable for successive ten year terms. Set out below are examples of the trademarks:

To the best of the Company's knowledge, only Hong Kong application number 301597438 in respect of the word mark "Koona", Hong Kong application number 301597429 in respect of the word mark "Bala", Hong Kong application number 301597401AA in respect of the word mark "法制羊羊" and Hong Kong application number 301597410AA in respect of the word mark "律羊羊" have been formally opposed. These word marks are not material to Toon Express Group's operations and business as they do not relate to any of the motion pictures, television programme series or other forms of audio-visual publications set out in paragraph (a) above. To the best of the Company's knowledge, the applications for these word marks that have been opposed are currently awaiting their hearing date before a hearing officer who will render a decision as to the opposition. Toon Express Group has been advised by its Hong Kong counsel that it has strong reasons to believe that it will very likely succeed in defending the trademark applications with respect to the Bala Goat and Koona Goat trademarks, as: (i) Infoport is the creator and/ or entity that authorised the making and creation of the two cartoon characters known as

"Bala Goat 法制羊羊" and "Koona Goat 律羊羊"; (ii) it owns all copyrights subsisting in the Bala Goat and Koona Goat (including the said two cartoon characters and their names); (iii) Toon Express Group was the first to use the marks in Hong Kong under a license to the Joint Committee for the Promotion of the Basic Law of Hong Kong; and (iv) Ms. Ung, the defendent, was in breach of her fiduciary duty owed to Infoport in wrongfully and/or without consent registering the trademarks in her own name.

The Company has identified five important pending applications in the PRC, where, to the best of the Company's knowledge, although no formal rejection by the China Trademark Office or opposition by a third party has been filed, the Company is aware of prior applications filed by third parties for similar or identical marks which could potentially give rise to an objection or opposition. In each case, the Company has been advised by its PRC counsel that there are various strong grounds to overcome such prior applications on the basis that Toon Express Group has prior rights in copyright, and/or the applications were made in bad faith, and/or the later applications by Toon Express Group are for marks which enjoy well known status. The relevant applications are: 8519056, 8519060, 8519077, 8519076, and 8519070. These applications are all pending and to the best of the Company's knowledge, no official rejection or opposition to Toon Express Group's applications has yet occurred.

There are nine other less important marks, where prior applications for similar or identical marks have been filed by third parties. The relevant applications are: 8519211, 8519170, 8519183, 7927016, 8519190, 8519189, 8519075, 7927142, and 8519204. Again, the Company's PRC counsel is of the view that various strong grounds exist for defeating these prior applications. To the best of the Company's knowledge, no official rejection or opposition to applications submitted by Toon Express Group has yet occurred.

None of the currently registered trademarks in all the relevant jurisdictions will expire within the next 12 months. To the best of the Company's knowledge, the Directors are not aware of, nor do they foresee, any difficulties or legal impediments for the renewal of the 139 currently registered trademarks upon expiry of the registrations.

In addition, Toon Express Group's intellectual property portfolio also includes 235 registered copyright works, all except 42 of which relate to the "Pleasant Goat and Big Big Wolf" animation property. The majority of these copyright works consist of artistic works being drawings of the cartoon characters and scenic cartoon backdrops of the "Pleasant Goat and Big Big Wolf" television programme series and the other animation properties of Toon Express Group as referred to in paragraph (a) above. The basic copyright term in the PRC for these 235 copyright works owned by Toon Express Group is the life of the author plus 50 years where the author is an individual, and 50 years from the date of first publication where the author is a corporation. Similar periods of copyright protection would arise in other Berne member countries around the world, regardless of registration.

Toon Express Group also owns many other prior copyright works which, even though not registered, would receive copyright protection in China immediately upon the work being created in a material form under the Berne international copyright convention. Further, such a work will be protected throughout the world in all other member conventions, without the need for registration. Despite this, as part of its plan to expand its current portfolio of intellectual property, Toon Express Group is actively registering additional copyrights in the relevant jurisdictions. These unregistered copyright works include five songs titled "You Can Be Beautiful Too", "别看我只是一隻羊", "我只是一隻羊", "勇敢闖天崖", and "羊羊頂呱呱".

7. RISKS ASSOCIATED WITH THE ACQUISITION AND THE BUSINESS OF TOON EXPRESS GROUP

Risks associated with the Acquisition — Investment in new business sector for the Company

Upon Completion, the Enlarged Group will be primarily engaged in the creation and development of animation brands as well as franchising and commercialisation of these brands. While production and broadcasting of television series and movies (through cooperation with CPE) is similar to the current business operation of the Company, the Acquisition constitutes an investment in a new business sector for the Company, especially in respect of the consumer products licensing business.

Shareholders and prospective investors should consider the Company's businesses and prospects in light of the potential risks that the Company may face as a company operating in a new business sector. The Enlarged Group may encounter the following risks related to the expansion into this new business sector.

Risks associated with the business of Toon Express Group — Protection of intellectual property rights

The copyrights and trademarks related to television programme series and motion pictures related to "Pleasant Goat and Big Big Wolf" animation property and the other animation properties are of fundamental importance to the business of Toon Express Group. To the extent that protection of the relevant intellectual property rights is afforded under applicable laws and regulations, Toon Express Group relies on such laws and regulations to protect its rights. However, there is no guarantee that Toon Express Group and CPE will be able to protect their intellectual property rights.

While Toon Express Group and CPE have registered a series of copyrights and trademarks in the PRC and other jurisdictions, a number of trademark applications are pending registration with the relevant authorities in the PRC. There are also certain trademarks related to the brands owned by Toon Express Group for which prior third party registrations and applications exist. Toon Express Group has taken, and will continue to take, actions to cancel such prior trademark registrations and oppose such prior trademark applications. Further, Toon Express Group and CPE face piracy issues, especially in the PRC. Intellectual property infringement and fraud pose risks that may harm the images of the brands of Toon Express Group and CPE. Whilst actively managing these issues there is no guarantee that Toon Express Group and/or CPE can entirely eradicate such conduct.

In future, procedures and potential litigation to dispute third party trademark applications or registrations, tackle piracy problems or otherwise protect intellectual property rights may be time-consuming and Toon Express Group may have to divert substantial resources to enforce its rights which may disrupt its operations.

Other risks in the business of the Enlarged Group

As discussed in the section headed "Information on Toon Express Group", "Pleasant Goat and Big Big Wolf" is the most popular brand among all brands developed and managed by Toon Express Group and CPE. There is no guarantee that the popularity of "Pleasant Goat and Big Big Wolf" can be maintained, and to lessen reliance on a single brand, the Enlarged Group needs to continuously strengthen other brands in its portfolio and develop new brands that leverage on the Enlarged Group's expertise, goodwill and reputation with consumers, licensees and business partners. Moreover, the ability of Toon Express Group to invest and develop new technologies in production and deploy new distribution channels is also critical to the continued growth of the Enlarged Group.

8. REASONS FOR AND BENEFITS OF THE ACQUISITION

As mentioned in the Group's interim report for the six months ended 30 September 2010 published on 8 December 2010, with the completion of the financial restructuring and operational rationalisation programme in May 2010, the Group intends to undergo vast expansion in order to regain critical mass and capture market leadership status in the animation, media and entertainment industry, with particular focus on the Greater China market. In addition, it is the objective of the Group to reposition its business to generate recurrent earnings both short-term and in the long run. The Board believes that the Acquisition provides a good opportunity for the Group to achieve this objective.

The Acquisition enables the Group to tap into the animation business in the PRC and to acquire a fast growing consumer products licensing business capitalising on a group of well-known brands and cartoon characters across multiple distribution channels in the PRC. The Directors consider that the Acquisition will bring real value to the Group by transforming the Group into an owner of leading brands in family entertainment who monetises its brands through licensing of the brands to a diverse range of producers of consumer products including toys, apparel, footwear, stationeries, healthcare and household products, books and publications, and food and beverages. The consumer products licensing business also provides a steady income stream to support and finance the Group's future expansion. As such, the Acquisition is value and earnings accretive for the Group.

The Directors believe that the Group will benefit from the Acquisition by achieving the following:

Immediate access to the mainland Chinese market

The growth of the animation industry in the PRC presents business opportunities which the Group, being an animation studio with a well represented production team, is well placed to capture. The Acquisition allows the Group immediate and direct access to the mainland Chinese animation market from its cooperation with CPE in the production of AV Programmes, the business of publishing and distributing the AV Programmes and more importantly, the consumer products licensing business of the brands and cartoon characters owned and managed by Toon Express Group and CPE. The Group will benefit from the strong market positions of the brands and cartoon characters created and owned by Toon Express Group and CPE, established through their years of operation in the PRC.

Broadening the Group's revenue sources and achieving a steady stream of income flow

It is the objective of the Group to broaden its revenue sources. Consumer products licensing is currently the major income source of Toon Express Group. Despite being a relatively new income stream, Toon Express Group's consumer products licensing business spans over a diverse range of consumer products categories, which makes it well placed to benefit from the rapidly growing domestic consumption in the PRC. The majority of the existing licensees, including Disney Enterprises as the Master Licensee under the CP Agreement, are obliged to pay a minimum guarantee amount to Toon Express Group periodically. Moreover, Toon Express Group will profit from the growth of its licensees' businesses as its royalty charges are generally based on a fixed percentage of the relevant licensees' sales. Thus, the Board believes that the Acquisition will provide the Group with a new income source that is reliable and with strong growth potential.

Complementary skill sets between the Group and Toon Express Group

The Group is one of the leading animation studios in Asia with full service project management and production capabilities in respect of CGI animation pictures, special CGI effect and stereoscopic 3D features. The Group can cooperate and share its knowledge in CGI technology and stereoscopic 3D technique with CPE to upgrade the quality of CPE's AV Programmes and movies to international standards which will further enhance CPE's and Toon Express Group's position in the animation industry in the PRC and fortify their competitive advantages over their competitors in the family entertainment industry. The Group's advanced rendering facilities will further improve the efficiency of the production workflow of CPE in the production of AV Programmes and movies. Further, our extensive experience in the production of feature films together with international picture producers and distributors will add value to the marketing of "Pleasant Goat and Big Big Wolf" television programmes and films in foreign markets. These perceivable resources are instrumental to future commercial exploitation of "Pleasant Goat and Big Big Wolf".

The integration and cooperation of the Group's and CPE's production teams will also expand the Group's capability in developing new brands and cartoon characters and therefore enhance its existing portfolio.

Promoting the Group's original animations and cartoon characters through Toon Express Group's connection with multiple distribution channels

Toon Express Group has established a strong connection with multiple distribution channels in the PRC through CPE and in other countries through the Broadcasting Agreement. These distribution channels are proven to be efficient and effective means for Toon Express Group to promote its brands and cartoon characters and create brand awareness, which in turn enhances and strengthens its consumer products licensing business. Following the Acquisition, the Group intends to leverage on Toon Express Group's connections with the distribution channels in promoting the Group's CGI animation pictures, original brands and cartoon characters.

Experienced management team

Through the Acquisition, the Group will also acquire the service of an experienced management team from Toon Express Group which have many years of experience in the animation industry, brand management and consumer products licensing business. Toon Express Group's existing core business of consumer products licensing started in mid 2009 under the leadership of Mr. Soh Szu Wei and the significant improvement of the financial performance of Toon Express Group in FY2010 proved that the new leadership is instrumental to the success of Toon Express Group. To ensure management continuity, retention arrangements have been made with each of the key members of the management team of Toon Express Group. The Board believes that the Group's business in the PRC will greatly benefit from the expertise of Toon Express Group's management team.

Global expansion of "Pleasant Goat and Big Big Wolf" through the CP Agreement and the Broadcasting Agreement

Pursuant to the CP Agreement and the Broadcasting Agreement, the Group will, upon Completion, have a commercial relationship with Disney. In the Board's view, these Agreements will further heighten the Group's position in the animation industry.

In addition, pursuant to various broadcasting agreements, "Pleasant Goat and Big Big Wolf — Joys of the Seasons (羊羊快樂的一年)" and other television series will be broadcasted to households in more than 52 territories including Australia, Hong Kong, Macau, New Zealand, Taiwan, India and Southeast Asia through Disney Channels, Singapore's Mediacorp, Hong Kong's TVB, and Taiwan's Momo Channel. The debut of "Pleasant Goat and Big Big Wolf" in non-Chinese speaking countries and areas is an important step to attract a large number of new viewers internationally. The Board expects that in the near future, the "Pleasant Goat and Big Big Wolf" brand and characters will be featured in consumer products to be sold worldwide, particularly in Taiwan and Hong Kong and Singapore, the language and culture of which are similar to that in the PRC. As a further step, the Group aims to leverage on the strong relationship with its business partners including the Master Licensee to promote its original brands and cartoon characters internationally.

Taking into account the Group's leading position in the management and production of CGI animation pictures, special CGI effect and stereoscopic 3D features and Toon Express Group's established position in its own and managed brands and cartoon characters in the PRC, the Board is confident that the combined group will soon become a leader in brand creation and management in the animation industry with extensive exposure to a rapidly growing entertainment market in the PRC.

Taking into account the above, the Board, including the independent non-executive Directors, considers that the terms of the Sale and Purchase Agreement are on normal commercial terms, fair and reasonable, and in the interests of the Company and Shareholders as a whole. Accordingly, the Directors recommend that the Shareholders vote in favour of the resolutions to approve the Sale and Purchase Agreement and the transactions contemplated therein (including but not limited to the allotment and issue of the Consideration Shares pursuant to the Specific Mandate) at the SGM to be held in this regard.

9. FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, Infoport will become a wholly-owned subsidiary of the Company. As such, the accounts of Infoport and its subsidiaries (being Toon Express Group) will be consolidated into those of the Company.

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular, the unaudited pro forma adjusted consolidated total assets of the Enlarged Group will be approximately HK$1,557.2 million, as compared to the unaudited consolidated total assets of the Group of approximately HK$262.2 million as at 30 September 2010. In addition, the unaudited pro forma adjusted consolidated total liabilities of the Enlarged Group will be approximately HK$498.0 million, as compared to the unaudited consolidated total liabilities of the Group of approximately HK$6.4 million as at 30 September 2010.

It is expected that upon the Completion, the Acquisition will have a positive impact on the earnings of the Group as it will broaden the Group's existing revenue sources and provide a stable income stream to the Group.

Further, the remuneration payable to and benefits in-kind receivable by the Directors will not change as a consequence of the Acquisition. However, three more Directors will be added to the Board, as detailed in the paragraph headed "New Directors and senior management of the Company after Completion of the Acquisition and completion of the Subscription" in this circular.

B. THE SUBSCRIPTION

1. THE SUBSCRIPTION AGREEMENT

Date: 18 February 2011

Parties:

(a) The Company

(b) IDG

Bofanti

Mousse

CCC

Paragon Asset

Super Winner

CITIC Alpha Leaders

China Alpha

Shikumen

Subscription of Shares

Pursuant to the Subscription Agreement, the Subscribers will subscribe for such number of new Shares as set out against their names in column 2 of the table below, representing the approximate percentage of the existing share capital of the Company and of the share capital as enlarged by the allotment and issue of the Consideration Shares and the Subscription Shares and the exercise of Options by Idea Talent, as set out against their names in columns 3 and 4 of the table below respectively.

Name of Subscriber	Number of Subscription Shares	% in existing share capital of the Company	% in share capital of the Company as enlarged by the allotment and issue of (i) the Consideration Shares; (ii) the Subscription Shares and (iii) the Shares subscribed pursuant to the exercise of the Options by Idea Talent
IDG	278,568,000	4.87%	2.82%
Bofanti	278,568,000	4.87%	2.82%
Mousse	140,680,000	2.46%	1.42%
CCC	139,288,000	2.43%	1.41%
Paragon Asset	139,288,000	2.43%	1.41%
Super Winner	139,288,000	2.43%	1.41%
CITIC Alpha Leaders	55,712,000	0.97%	0.56%
China Alpha	55,712,000	0.97%	0.56%
Shikumen	55,712,000	0.97%	0.56%

Subscription Price

The price per Subscription Share of HK$0.28 represents:

- a discount of approximately 12.5% over the closing price of HK$0.32 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- a discount of approximately 29.11% over the closing price of HK$0.395 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a discount of approximately 27.84% over the average closing price of HK$0.388 per Share as quoted on the Stock Exchange for the last five (5) Trading Days of the Shares prior to and including the Last Trading Day;
- a discount of approximately 25.33% over the average closing price of HK$0.375 per Share as quoted on the Stock Exchange for the last ten (10) Trading Days of the Shares prior to and including the Last Trading Day; and
- a discount of approximately 18.60% over the average closing price of HK$0.344 per Share as quoted on the Stock Exchange for the last fifteen (15) Trading Days of the Shares prior to and including the Last Trading Day.

The aggregate nominal value of the Subscription Shares to be issued is HK$1,282,816. The net price per Subscription Share is approximately HK$0.28 after taking into account estimated related expenses of the Subscription which are insignificant.

Ranking of the Subscription Shares

The Subscription Shares, when allotted and issued, shall be free and clear from all Encumbrances and shall, when fully paid, rank pari passu in all respects with the other Shares in issue or to be issued by the Company on or prior to the completion of the Subscription including the rights to all dividends and other distributions declared, made or paid at any time after the completion date of the Subscription Agreement. At the SGM, the Company will seek the grant of the Specific Mandate from the Shareholders to allot and issue the Subscription Shares.

Conditions for the Subscription

Completion of the Subscription Agreement is conditional upon the following conditions having been fulfilled:

(a) the grant of approval by Shareholders at the SGM of the Sale and Purchase Agreement, the Subscription Agreement and all transactions contemplated therein (including but not limited to the allotment and issue of the Consideration Shares and the Subscription Shares pursuant to the Specific Mandate) in accordance with the requirements of the Listing Rules;

(b) the Stock Exchange granting or agreeing to grant a listing of and permission to deal in (i) the Consideration Shares and (ii) the Subscription Shares (subject to conditions to which neither the Subscribers nor the Company may reasonably object); and

(c) the Completion.

As soon as practicable after the signing of the Subscription Agreement, the Company shall:

(a) apply to the Stock Exchange for the granting of a listing of, and permission to deal in, the Subscription Shares, and use all reasonable endeavours to obtain the granting of such listing and such permission to deal; and

(b) furnish such information, supply such documents, pay such reasonable fees and do all such acts and things as may reasonably be required by the Subscribers, regulatory and/or governmental authorities (including the Stock Exchange) in connection with the fulfilment of the conditions in the Subscription Agreement.

Completion of the Subscription

Completion of the Subscription Agreement and the Sale and Purchase Agreement shall take place concurrently on the Completion Date.

Lock-up Undertakings

The Subscribers shall not (whether directly or indirectly and whether conditionally or unconditionally) Encumber, sell, transfer or otherwise dispose of, or grant any option, warrant or other right over or to convert or exchange into or swap for, the Subscription Shares (or any shares or other securities of the Company deriving from them or any interest (including any economic benefit or risk of ownership) in the Subscription Shares or such other securities) or enter into any arrangement or agreement in respect of the voting rights attached to the Subscription Shares (or any such other securities or any interest (including any economic benefit or risk of ownership) in the Subscription Shares or such other securities) or enter into any agreement or announce any intention to enter into or effect any of the above, from the signing of the Subscription Agreement and (i) ending on the date the Subscription Agreement is terminated or (ii) if completion of the Subscription takes place, for a period of six months commencing immediately after the completion of the Subscription.

Application for Listing

Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in the Subscription Shares.

Information on the Subscribers

IDG-Accel China Growth Fund II L.P. and IDG-Accel China Investors II L.P. are investment funds which are structured as Cayman Islands exempted limited partnerships controlled by the same general partner, IDG-Accel China Growth GP II Associates Ltd., indirectly or directly, which is itself a Cayman Islands exempted limited company, which is in turn controlled by Mr. Quan Zhou and Mr. Patrick J. McGovern. IDG are members of the IDG investment fund group which has more than 16 years of experience in investing in China-related projects with a total investment capital of approximately US$2.4 billion. The principal investment sectors of IDG include technology, telecom, media, healthcare, energy, clean technology, consumer business and service business.

Bofanti Limited is 100% owned by CK Life Sciences Int'l., (Holdings) Inc., a company listed on the Stock Exchange which principal activities are investment holding. The activities of its subsidiaries are research and development, manufacturing, commercialisation, marketing and sales of health and agriculture-related products, and water business as well as investment in various financial and investment products.

Mousserena L.P. is a private company managed by Mousse Partners, a New York-based private investment firm. In 2008, Mousse Partners established a Beijing office, headed by Ms. Sherry Lin, and has been actively investing in Chinese consumer growth companies.

China Consumer Capital Fund L.P. is managed by China Consumer Capital Partners Ltd.. China Consumer Capital Partners Ltd. is a China-focused investment firm focusing on China consumer/retail industry investments. China Consumer Capital Partners Ltd. has extensive domestic and international industry resources and investment experience, with strength in bringing strategic value to target companies. Grandwin Enterprise Limited, a company wholly owned by Mr. Leung Pak To, owns 93.75% of the issued share capital of Idea Talent (which in turn owns 20.96% of the issued share capital of the Company as at the Latest Practicable Date) and is also a limited partner of China Consumer Capital Fund L.P.. China Consumer Capital Fund L.P. is however not a connected person of the Company as defined under Chapter 14A of the Listing Rules, as Mr. Leung Pak To does not, directly or indirectly, has 30% or more of the voting power of China Consumer Capital Fund L.P. or any ability to control the composition of a majority of its management.

Paragon Asset Holdings Inc. is a company incorporated in the British Virgin Islands and is wholly owned by Mr. Larry Yung Chi Kin, the Chairman of Yung's Enterprise Holdings Limited.

Super Winner Investment Limited is a company incorporated in the British Virgin Islands and is wholly owned by Mr. Eddie Ping Chang Ho, Vice Chairman of Hopewell Holdings Limited.

CITIC Securities Alpha Leaders Fund Limited is an exempted company incorporated in the Cayman Islands with limited liability. CITIC Securities Alpha Leaders Fund Limited was launched in April 2008 and invests primarily in securities of companies listed on the stock exchanges of Hong Kong, Shanghai, Shenzhen, Singapore, Taiwan, London and New York and their derivative products and related instruments. It aims to be a Greater China market neutral fund.

China Alpha II Fund Limited is an exempted company incorporated in the Cayman Islands with limited liability. China Alpha is fundamentally an equity long/short fund which invests primarily in Greater China securities of companies listed on the stock exchanges of Hong Kong, Shanghai, Shenzhen, Singapore and New York and their derivative products and related instruments. China Alpha has more than an 8-year track record.

Shikumen Special Situations Fund is an investment fund incorporated in the Cayman Islands. The Fund specialises in private equity, pre-IPO, and structured products investments in Asia. As at the Latest Practicable Date, Shikumem holds 142,000,000 Shares.

Post-completion Undertakings

Pursuant to the Subscription Agreement, the Company has agreed and undertaken that it shall, subject to any mandatory legal requirements and the Listing Rules from time to time, procure that Mr. Yang Fei be appointed to the Board as a non-executive Director.

Pursuant to the Subscription Agreement, the Company has also agreed and undertaken that it shall, upon completion of the Subscription, grant an option to subscribe for 50,000,000 Shares at an exercise price of HK$0.35 per Share to an affiliate of IDG as remuneration for arranging the Subscription. Please refer to the section headed "C. Grant of IDG Options" for further information.

2. REASONS FOR THE SUBSCRIPTION AND USE OF PROCEEDS

The gross proceeds from the Subscription will be approximately HK$359 million. The Company intends to use the proceeds from the Subscription to finance the Acquisition, mainly for payment of the cash portion of the Initial Consideration.

The Board, including the independent non-executive Directors, considers that the terms of the Subscription Agreement are on normal commercial terms, fair and reasonable, and in the interests of the Company and Shareholders as a whole. Accordingly, the Directors recommend that the Shareholders vote in favour of the resolutions to approve the Subscription Agreement and the transactions contemplated therein (including but not limited to the allotment and issue of the Subscription Shares pursuant to the Specific Mandate) at the SGM to be held in this regard.

C. GRANT OF IDG OPTIONS

On 18 March 2011, the Company entered into the IDG Option Agreement with Sevena, an affiliate of IDG, pursuant to which the Company agreed to grant the IDG Options to Sevena to subscribe for up to 50,000,000 Shares to be issued under the IDG Options Specific Mandate, as remuneration for introducing potential subscribers to the Company. The grant of the IDG Options is in accordance with the Subscription Agreement. It is one of the post-completion undertakings of the Subscription Agreement that the Company shall upon completion of the Subscription grant an option to subscribe for 50,000,000 Shares to an affiliate of IDG. Key terms of the IDG Option Agreement are as follows:

(a) Date of grant

The IDG Options will be granted on the date on which the conditions precedent set out in the IDG Option Agreement are satisfied.

(b) Conditions of grant

The grant of the IDG Options is conditional on:

(i) completion of the Subscription;

(ii) the grant of the IDG Options Specific Mandate at the SGM;

(iii) approval by the Stock Exchange of the grant of the IDG Options; and

(iv) approval by the Stock Exchange of the listing of, and permission to deal in, the IDG Option Shares.

(c) Exercise Period

The IDG Options may be exercised by Sevena in whole or in part from the date on which they are granted until 31 December 2013 on which date any unexercised IDG Options will automatically lapse.

(d) Exercise Price

The price at which Sevena may exercise the IDG Options is HK$0.35 per IDG Option Share (as appropriately adjusted for stock splits, stock dividends, recapitalisation and the like).

(e) Transferability

The IDG Options and/or the Shares held by Sevena upon exercise of the IDG Options are freely transferrable in whole or in part by Sevena subject to any laws, rules, regulations or guidelines of any governmental or regulatory authority or stock exchange applicable to Sevena or any transferee of the IDG Options or Shares.

(f) Reorganisations of Capital Structure

(i) If the Shares by reason of any consolidation, sub-division, Share dividend or like events become of a different nominal amount whilst any IDG Option remains exercisable, (i) the exercise price of the IDG Options in force immediately prior thereto shall be adjusted by multiplying it by the revised nominal amount and dividing the result by the former nominal amount and (ii) the number of IDG Option Shares in force immediately prior thereto shall be adjusted by multiplying it by the former nominal amount and dividing the result by the revised nominal amount.

(ii) In case of any reorganisation of the capital of the Company (other than those provided under paragraph (i) above), lawful provision shall be made so that Sevena shall thereafter be entitled to receive, upon exercise of the Options, the number of shares or other securities or property of the successor corporation resulting from such reorganisation that a holder of the shares deliverable upon exercise of the IDG Options would have been entitled to receive in such reorganisation if the IDG Options had been exercised immediately before such reorganisation, subject to any further adjustment provided in the IDG Option Agreement. This shall similarly apply to successive reorganisations.

(g) Winding up of the Company

If an effective resolution is passed during the exercise period of the IDG Options for the voluntary winding-up of the Company, then:

(i) if such winding-up be for the purpose of reconstruction or amalgamation pursuant to a scheme of arrangement to which Sevena as holder of the IDG Options shall be a party or in conjunction with which a proposal is made to Sevena, the terms of such scheme of arrangement or proposal (as the case may be) shall be binding on Sevena; and

(ii) in any other case, Sevena shall be entitled at any time within six weeks after the passing of such resolution for the voluntary winding-up of the Company to elect to be treated as if it had immediately prior to the commencement of such winding-up exercised the IDG Options in whole or in part and had on such date been the holder of Shares to which it would have become entitled pursuant to such exercise and the Company and the liquidator of the Company shall give effect to such election accordingly.

Subject to the foregoing, if the Company is voluntarily wound up, the IDG Options in so far as not exercised shall lapse.

In the case of a non-voluntary winding-up of the Company, the IDG Options in so far as not exercised shall lapse on an order having been made by the court for winding-up of the Company.

D. INTENTION OF EXERCISE OF OPTIONS BY IDEA TALENT

As disclosed in a circular issued by the Company on 24 March 2010, the Company entered into the Investor Option Agreement and the Share Subscription Agreement with Idea Talent on 10 February 2010. Pursuant to the Investor Option Agreement, the Company granted Idea Talent an option to subscribe for 1,500,000,000 Shares at an initial subscription price of HK$0.08 per Share (subject to adjustments) at any time during the 12 months commencing from 11 May 2010.

The Board has been advised that Idea Talent may exercise its Options to subscribe for 1,500,000,000 Shares immediately following both the Completion and the completion of the Subscription. Pursuant to the terms of the Investor Option Agreement and as a result of the issuance of the Subscription Shares, the subscription price for the Shares granted under the Options is adjusted from the initial subscription price of HK$0.08 to HK$0.076 per Share with effect from the Completion Date. If the Options are exercised in full, based on the revised subscription price of HK$0.076 per Share, the gross proceeds arising from the exercise of the Options will be HK$114 million, which will be used for general working capital of the Company. The Board has been informed by Idea Talent that it has no intention to dispose of any Shares within six months from the Completion and the completion of the Subscription.

E. SHAREHOLDING STRUCTURE OF THE COMPANY

The existing shareholding structure of the Company and the effect on the shareholding structure of the Company upon the Completion, the completion of the Subscription and the exercise of Options by Idea Talent are set out below:

	Existing shareholding structure		Shareholding structure after (i) the Completion and (ii) the completion of Subscription		Shareholding structure after (i) the Completion; (ii) the completion of Subscription; and (iii) the exercise of Options by Idea Talent	
	No. of Shares	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*
Idea Talent						
Existing Shares	1,200,000,000	20.96%	1,200,000,000	14.30%	1,200,000,000	12.13%
Exercise of Options			—	0.00%	1,500,000,000	15.17%
	1,200,000,000	**20.96%**	**1,200,000,000**	**14.30%**	**2,700,000,000**	**27.30%**
Subscribers						
IDG	—	0.00%	278,568,000	3.32%	278,568,000	2.82%
Bofanti	—	0.00%	278,568,000	3.32%	278,568,000	2.82%
Mousse	—	0.00%	140,680,000	1.69%	140,680,000	1.42%
CCC	—	0.00%	139,288,000	1.66%	139,288,000	1.41%
Paragon Asset	—	0.00%	139,288,000	1.66%	139,288,000	1.41%
Super Winner	—	0.00%	139,288,000	1.66%	139,288,000	1.41%
CITIC Alpha Leaders	—	0.00%	55,712,000	0.66%	55,712,000	0.56%
China Alpha	—	0.00%	55,712,000	0.66%	55,712,000	0.56%
Shikumen *(Note)*	—	0.00%	55,712,000	0.66%	55,712,000	0.56%
	—	**0.00%**	**1,282,816,000**	**15.29%**	**1,282,816,000**	**12.97%**
Consideration shares						
Mr. So Wing Lok, Jonathan (Sure Wealth)	—	0.00%	657,039,810	7.83%	657,039,810	6.64%
Mr. Lo Wing Keung (Medianew)	—	0.00%	90,463,429	1.08%	90,463,429	0.92%
ASEAN China Investment Fund II L.P.	—	0.00%	55,714,286	0.66%	55,714,286	0.56%
Mr. Soh Szu Wei (Kolela)	—	0.00%	32,580,000	0.39%	32,580,000	0.33%
Mr. Chua Ee Mong (Fameup Trading Limited)	—	0.00%	350,000,000	4.17%	350,000,000	3.54%
Ms. Tan Mae Ling (Allenda International Limited)	—	0.00%	133,239,618	1.59%	133,239,618	1.35%
Ms. Tan Siok Neo, Eileen (Connley Corporation Ltd.)	—	0.00%	53,820,000	0.64%	53,820,000	0.54%
Mr. Lai Seck Khui (Bayline Business Corp)	—	0.00%	10,000,000	0.12%	10,000,000	0.10%
	—	**0.00%**	**1,382,857,143**	**16.48%**	**1,382,857,143**	**13.98%**
Other public shareholders	**4,524,907,577**	**79.04%**	**4,524,907,577**	**53.93%**	**4,524,907,577**	**45.75%**
Total	**5,724,907,577**	**100.00%**	**8,390,580,720**	**100.00%**	**9,890,580,720**	**100.00%**

Note: Shikumen owns 142,000,000 Shares as at the Latest Practicable Date representing 2.48% of the existing issued share capital of the Company. Upon the completion of the Subscription, it will own 197,712,000 Shares representing 2.36% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and Subscription Shares and 2% as enlarged by the allotment and issue of the Consideration Shares, the Subscription Shares and the Shares resulting from the exercise of Options by Idea Talent.

F. NEW DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY AFTER COMPLETION AND COMPLETION OF THE SUBSCRIPTION

Pursuant to the Sale and Purchase Agreement, Mr. Soh Szu Wei will be appointed to the Board as an executive Director and the chief executive officer of the Company and Mr. Christopher Chong Meng Tak, as nominated by the Seller, will be appointed to the Board as a non-executive Director after Completion. Pursuant to the Subscription Agreement, Mr. Yang Fei will be appointed to the Board as a non-executive Director of the Company after completion of the Subscription.

Mr. Soh Szu Wei, aged 45, received his Bachelor of Science (Economics) Degree from University of Oregon, United States and his Master of Business Administration (Accountancy) from the Nanyang Technological University, Singapore.

Presently the chief executive officer of Toon Express Hong Kong Limited, he has been working in Toon Express Group since 2009. He has extensive experience in business development and corporate management. Prior to joining Toon Express Group, Mr. Soh served in the public sector in Singapore's Economic Development Board and the Ministry of Trade and Industry. He later left the public sector to work in PriceWaterhouseCoopers as a principal consultant. He has also held the appointment of General Manager of Fraser & Neave Ltd, F&N Coca Cola Group of Companies and Country Manager for British American Tobacco (Singapore, Indochina, Hong Kong, Macau, Mongolia and DPR Korea).

The Company and Mr. Soh have entered into a letter of appointment, which constitutes a service contract, in relation to his concurrent appointment as executive Director and chief executive officer of the Company. The term of the appointment is three years, subject to termination of the service contract by either party on three months' written notice or payment of three months' basic salary of Mr. Soh in lieu of such notice. He will receive a gross salary of HK$7.8 million per annum (inclusive of all allowances, benefits and tax) and a discretionary bonus for fiscal years 2011 and 2012 to be determined based on the actual consolidated Net Profit of Toon Express Group for FY2011 and FY2012 at the sole discretion of the Board. He will also be eligible for the Company's employee share option scheme under which he will be granted an option to subscribe in cash for 50,000,000 Shares exercisable in accordance with the terms of the Company employee share option scheme.

Mr. Christopher Chong Meng Tak, aged 52, obtained a Bachelor of Science in Economics (First Honours) from the University College of Wales in 1979 and a MBA from the London Business School in 1985. He is a member of the Institute of Chartered Accountants of Scotland, a fellow and ex-Honorary Secretary of Hong Kong Institute of Investment Analysts, a master stockbroker of the Australian Securities, Investment & Derivatives Association and a fellow of Hong Kong Institute of Certified Public Accountants, Australia Institute of Certified Public Accountants, Australia Institute of Company Directors and Singapore Institute of Directors.

Mr. Chong has extensive experience in accounting, finance and equity research. He was a senior accountant at Ernst & Whitney London (now Ernst & Young), senior analyst at Jardine Fleming (now JP Morgan), Executive Director of James Capel Asia, Executive Director of Kay Hian James Capel (now UOB Kay Hian) and Managing Director of HSBC Securities (Singapore). He is the co-founder and partner of ACH Investments Pte Ltd, a corporate advisory firm registered with the Monetary Authority of Singapore. Mr. Chong has extensive experience as a director of publicly listed companies and is currently an independent director of two companies listed on the Australian Securities Exchange, namely GLG Corp. Ltd and Koon Holdings Ltd, and of five companies listed on the Singapore Exchange, namely ASL Marine Holdings Ltd, Koda Ltd, Lorenzo International Ltd, Xpress Holdings Ltd and YingLi International Real Estate Ltd. In the previous three years, Mr. Chong had also been an independent director of Regional Express Holdings Ltd and Singapore listed Sky China Petroleum Services Ltd.

Mr. Yang Fei, aged 53, graduated from Sun Yat Sen University with a Bachelor of Science degree in 1982 and a master degree in 1989. He started in IDG Capital Partners in 1997 and is currently a general partner of IDG Capital Partners. Previously he was the Director of IPO Division of Guangdong Government Securities Regulatory Commission, Vice President of Guangdong United Future Exchange and the Director of Consultant Division of Guangdong Foreign Trade and Economy Institute. Mr. Yang Fei was also engaged in the research of the PRC economy, having worked on the project of "Strategy of Pushing Area Economy Forward" awarded in 1996 by the central government of the PRC.

Mr. Chong and Mr. Yang will each receive an annual fee of HK$200,000 for their service as non-executive Directors.

The amount of emoluments for Mr. Soh, Mr. Chong and Mr. Yang is determined by arm's-length negotiation with reference to their duties and responsibilities with the Company, the Company's emolument policy and the prevailing market conditions.

Save as disclosed above, none of Mr. Soh, Mr. Chong or Mr. Yang currently holds, nor did any of them in the past three years, hold any other directorships in any listed companies. None of Mr. Soh, Mr. Chong or Mr. Yang has any relationship with any director, senior management or substantial or controlling shareholders of the Company. As at the Latest Practicable Date, none of Mr. Soh, Mr. Chong or Mr. Yang has any interests in the Shares within the meaning of Part XV of the SFO.

Save as disclosed above, there is no other information that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules nor are there any matters that need to be brought to the attention of the Shareholders in relation to the proposed appointment of Mr. Soh, Mr. Chong or Mr. Yang.

G. FUND RAISING ACTIVITIES OF THE COMPANY IN THE PAST TWELVE MONTHS

On 17 February 2010, the Company announced a rights issue of not less than 1,440,607,352 Shares at a subscription price of HK$0.07 per Share. The Company also announced that, pursuant to the Share Subscription Agreement, Idea Talent conditionally agreed to subscribe for 1,880,000,000 new Shares at a subscription price of HK$0.07 per Share. Both the rights issue and share subscription by Idea Talent were completed on 11 May 2010. The total net proceeds of the rights issue and the share subscription in the amount of approximately HK$226.5 million were intended to be used as repayment of debts and as working capital. As at the Latest Practicable Date, an amount of approximately HK$148.0 million of the net proceeds has been utilised on the intended uses as described above, and the balance of HK$78.5 million is kept in time deposit. The cash currently kept in time deposits are intended to be applied as working capital of the Group, and upon Completion, the Enlarged Group.

On 17 February 2010, the Company entered into a top-up arrangement for the issue of a maximum of 988,000,000 Shares to Idea Talent at a subscription price of HK$0.07 per Share. Subsequently, a total of 985,000,000 Shares were subscribed by Idea Talent on 11 May 2010 under the top-up arrangement. The net proceeds of the issue in the amount of approximately HK$68.9 million were intended to be used as working capital. As at Latest Practicable Date, the entire amount of net proceeds is kept in time deposit. Moreover, the Company received approximately HK$21.6 million upon the exercise of 270,400,000 options held by other option holders up to the Latest Practicable Date and the entire amount is kept in time deposit. The cash, currently kept in time deposits, are intended to be applied as working capital of the Group, and upon Completion, the Enlarged Group. Save as disclosed above, the Company has not conducted any fund raising activities in the past twelve months prior to the Latest Practicable Date.

As at the Latest Practicable Date, Idea Talent holds approximately 20.96% of the issued share capital of the Company.

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

H. LISTING RULE IMPLICATIONS

Major Transaction

The Acquisition constitutes a major transaction under Chapter 14 of the Listing Rules. Pursuant to Rule 14.40 of the Listing Rules, the Acquisition is therefore subject to the approval of Shareholders at the SGM.

Specific Mandate

The Consideration Shares and the Subscription Shares will be issued under the Specific Mandate subject to the Shareholders' approval at the SGM. The issue of the Consideration Shares and the Subscription Shares will result in the issue of 1,382,857,143 and 1,282,816,000 new Shares respectively, which will cause a significant dilution of the shareholding of the existing Shareholders.

IDG Options Specific Mandate

The IDG Options will be issued under the IDG Options Specific Mandate subject to the Shareholders' approval at the SGM. Upon exercise of the IDG Options in full, a total of 50,000,000 Shares shall be issued.

I. SGM

The SGM will be held at The Atrium, Island Shangri-La, Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong, on Tuesday, 12 April 2011 at 3:30 p.m. to consider and, if thought fit, approve, (i) the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) the Subscription Agreement and the transactions contemplated thereunder; and (iii) the IDG Option Agreement and the transactions contemplated thereunder.

In addition, application will be made to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares, the Subscription Shares and the IDG Option Shares that may be issued upon exercise of the IDG Options.

A notice convening the SGM is set out on pages 133 to 135 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time fixed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the SGM if you so wish.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder has an interest in the Sale and Purchase Agreement, the Subscription Agreement, the Specific Mandate or the IDG Option Agreement which is materially different from the other Shareholders. Accordingly, no Shareholders are required under the Listing Rules to abstain from voting at the SGM. The Board has been advised that Idea Talent will vote in favour of the Transactions in the SGM.

J. RECOMMENDATIONS

For the reasons as set out in the section headed "A. — 8. Reasons for and Benefits of the Acquisition" of this letter from the Board, the Board considers that the Acquisition and the Sale and Purchase Agreement are on normal commercial terms, fair and reasonable and that the entering into of the Acquisition and the Sale and Purchase Agreement is in the interests of the Company and Shareholders as a whole.

For the reasons as set out in section headed "B. — 2. Reasons for the Subscription and Use of Proceeds" of this letter from the Board, the Board considers that the Subscription and the Subscription Agreement are fair and reasonable to the Shareholders and the Company as a whole on the basis that the Subscription represents an opportunity to raise capital for the Company to finance the cash consideration for the Acquisition.

Accordingly, the Board recommends the Shareholders to vote in favour of the Sale and Purchase Agreement, the Subscription Agreement, and the IDG Option Agreement at the SGM.

Yours faithfully,
For and on behalf of the Board
Imagi International Holdings Limited
Leung Pak To
Chairman

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three years ended 31 March 2008, 2009 and 2010 and the six months ended 30 September 2010 is disclosed in the following documents which have been published on the websites of the Company (http://www.imagi.com.hk) and the Stock Exchange (http://www.hkexnews.hk):

- Annual report of the Group for the year ended 31 March 2008 as published on 28 July 2008;
- Annual report of the Group for the year ended 31 March 2009 as published on 30 July 2009;
- Annual report of the Group for the year ended 31 March 2010 as published on 28 July 2010; and
- Interim report of the Group for the six months ended 30 September 2010 as published on 8 December 2010

2. INDEBTEDNESS

As of the close of business of 31 January 2011, being the latest practicable date for the purpose of ascertaining information contained in this indebtedness statement, the Enlarged Group had the following outstanding borrowings:

	HK$'000
The Group	—
Toon Express Group — bank borrowings *(Note)*	5,529
The Enlarged Group	5,529

Note: The bank borrowings are secured by Toon Express Group's fixed deposits at Agricultural Bank of China Limited which have a carrying amount of RMB5,148,600 as at 31 January 2011. The fixed deposits have been pledged with Agricultural Bank of China Limited for an uncommitted revolving loan facility of HK$6 million for general corporate funding requirements of Toon Express HK, granted pursuant to a banking facility letter dated 29 December 2010.

Save as aforesaid or otherwise disclosed in the paragraphs above, and apart from intragroup liabilities and normal trade payables in the ordinary course of the business, as at 31 January 2011, the Enlarged Group had no other outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

The Directors are not aware of any material adverse change in the Enlarged Group's indebtedness position and contingent liabilities since 31 January 2011.

3. MATERIAL ADVERSE CHANGES

The Directors are not aware of any material adverse change in the Group's financial or trading position since 31 March 2010, the date to which the latest published audited consolidated accounts of the Group were made up.

4. WORKING CAPITAL

The Directors, after due consideration and taking into account of the Acquisition, are of the opinion that based on the expected cash flows, banking facilities, proceeds from the Subscription, and internal resources available, the Enlarged Group will have sufficient working capital for a period of 12 months from the date of this circular.

5. FINANCIAL AND TRADING PROSPECTS

As mentioned in the Group's interim report for the six months ended 30 September 2010, the Group intends to regain critical mass and capture market leadership status in the animation, media and entertainment industry, with particular focus on the Greater China market. Following the Completion, the Enlarged Group will have immediate access to the Chinese market given the stronghold Toon Express Group has established in China.

The Enlarged Group will also enjoy steady income flow from the business of Toon Express Group which is expected to generate, among others, meaningful consumer products licensing revenues and marketing fees from CPE. This provides higher earning and cash flow visibility to the Enlarged Group and allows the Enlarged Group to continue to seek expansion opportunities with prudence to create value for Shareholders.

As stated in the Group's interim report for the six months ended 30 September 2010, two feature films of the Company, namely *Gatchaman* and *Cat Tale*, are in different stages of production. For *Gatchaman*, the animation of primary characters and major scenes have been substantially completed. The marketing of this film is underway in order to secure a strong distributor, and it is expected to be released by the end of 2012. *Cat Tale* is at its initial production stage. Distributors have been invited for viewing of promotion trailer.

In order to reduce the Group's exposure to the production of high-budget CGI animation pictures, it is the view of the Directors that production schedules of the two films should be handled prudently with high cost-consciousness before the Group has teamed up with strategic partner of strong distribution capabilities. Accordingly, the completion and release schedule of the films have been slowed down and will be reviewed from time to time. The two films are not expected to contribute any revenue to the Group until they are released.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from Infoport's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

23 March 2011

The Directors
Imagi International Holdings Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Infoport Management Limited ("Infoport") and its subsidiaries (hereinafter collectively referred to as "Toon Express Group") including the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of Toon Express Group, for each of the years ended 31 December 2008, 2009 and 2010 (the "Relevant Period"), and the consolidated statements of financial position of Toon Express Group and the statements of financial position of Infoport as at 31 December 2008, 2009 and 2010, together with the explanatory notes thereto (the "Financial Information") for inclusion in the circular dated 23 March 2011 (the "Circular") issued by Imagi International Holdings Limited (the "Company") in connection with the proposed acquisition of Toon Express Group from PGBBW Limited (formerly Toon Express Global Limited), pursuant to the Sales and Purchase Agreement dated 17 February 2011 entered into between PGBBW Limited and the Company.

Infoport was incorporated in British Virgin Islands (the "BVI") on 23 November 2006 as an exempted company with limited liability under the BVI Business Companies Act, 2004 of the British Virgin Islands.

At the date of this report, no statutory audited financial statements have been prepared for Infoport, PGBBW Limited and Toon Express International Limited, as they are exempted companies and are not subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of incorporation.

Infoport and its subsidiaries have adopted 31 December as their financial year end date. Details of the subsidiaries that are subject to statutory audit during the Relevant Period and the names of the respective auditors are set out in note 1(b) of Section B. The statutory financial statements of these companies were prepared in accordance with the relevant accounting rules and regulations applicable to entities in the countries in which they were incorporated or established.

The director of Infoport has prepared the consolidated financial statements of Toon Express Group for the Relevant Period in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"). The Underlying Financial Statements for each of the years ended 31 December 2008, 2009 and 2010 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information has been prepared by the director of Infoport based on the Underlying Financial Statements, with no adjustments made thereon, and in accordance with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("SEHK") (the "Listing Rules").

RESPECTIVE RESPONSIBILITIES OF DIRECTOR AND REPORTING ACCOUNTANTS

The director of Infoport is responsible for the preparation of the Financial Information that gives a true and fair view in accordance with HKFRSs issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules and for such internal control as the director of Infoport determines is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Our responsibility is to form an opinion on the Financial Information based on our procedures.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA.

We have not audited any financial statements of Infoport, its subsidiaries or Toon Express Group in respect of any period subsequent to 31 December 2010.

OPINION

In our opinion, for the purpose of this report, the Financial Information, on the basis of preparation set out in Section B note (1) below, gives a true and fair view of Toon Express Group's consolidated results and cash flows for the Relevant Period, and the state of affairs of Toon Express Group and Infoport as at 31 December 2008, 2009 and 2010.

A CONSOLIDATED FINANCIAL INFORMATION

1. Consolidated income statements

		Years ended 31 December		
	Section B	**2008**	**2009**	**2010**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	*2 & 11*	737	20,821	85,771
Cost of sales		(183)	(2,046)	(6,607)
Gross profit		554	18,775	79,164
Other revenue	*3*	—	6	558
Distribution costs		—	(1,239)	(3,356)
Administrative expenses		(161)	(11,144)	(30,011)
Other operating expenses		(2,379)	(1,715)	(673)
(Loss)/profit from operations		(1,986)	4,683	45,682
Finance costs	*4(a)*	—	(263)	—
(Loss)/profit before taxation	*4*	(1,986)	4,420	45,682
Income tax	*5(a)*	(95)	(2,382)	(16,558)
(Loss)/profit for the year		(2,081)	2,038	29,124
(Loss)/earnings per share:	*10*			
Basic and diluted (HK$)		(42)	41	61

The accompanying notes form part of the Financial Information. Details of dividends payable to equity shareholders of Infoport attributable to the profit for the year are set out in Note 9.

2. Consolidated statements of comprehensive income

	Years ended 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
(Loss)/profit for the year	(2,081)	2,038	29,124
Other comprehensive income for the year			
Exchange differences on translation of financial statements of entities not using HK$ as functional currency	—	9	1,278
Total comprehensive income for the year	(2,081)	2,047	30,402

The accompanying notes form part of the Financial Information.

3. Consolidated statements of financial position

		As at 31 December		
	Section B	**2008**	**2009**	**2010**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Plant and equipment	*12*	—	496	1,012
Intangible assets	*13*	2,017	200	200
Prepayments	*16*	—	—	3,923
Deferred tax assets	*20(b)*	—	1,771	1,541
		2,017	2,467	6,676
Current assets				
Inventories	*15*	—	86	366
Trade and other receivables	*16*	1,590	9,521	53,615
Pledged deposits	*17*	—	—	6,061
Cash and cash equivalents	*18*	25	12,100	7,255
		1,615	21,707	67,297
Current liabilities				
Trade and other payables	*19*	5,116	19,458	29,453
Current taxation	*20(a)*	95	3,614	8,534
		5,211	23,072	37,987
Net current (liabilities)/assets		(3,596)	(1,365)	29,310
Total assets less current liabilities		(1,579)	1,102	35,986
Non-current liabilities				
Deferred tax liabilities	*20(b)*	—	634	1,622
NET (LIABILITIES)/ASSETS		(1,579)	468	34,364
CAPITAL AND RESERVES				
Share capital	*21(b)*	390	390	3,884
Reserves	*21*	(1,969)	78	30,480
TOTAL EQUITY		(1,579)	468	34,364

The accompanying notes form part of the Financial Information.

4. Infoport's statements of financial position

		As at 31 December		
	Section B	**2008**	**2009**	**2010**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Intangible assets	*13*	2,017	200	200
Investment in a subsidiary	*14*	—	78	78
Prepayments	*16*	—	—	3,923
		2,017	278	4,201
Current assets				
Trade and other receivables	*16*	1,590	1,357	4,584
Cash and cash equivalents	*18*	25	1	76
		1,615	1,358	4,660
Current liabilities				
Trade and other payables	*19*	5,113	320	6,918
Current taxation	*20(a)*	95	856	856
		5,208	1,176	7,774
Net current (liabilities)/assets		(3,593)	182	(3,114)
Total assets less current liabilities		(1,576)	460	1,087
NET (LIABILITIES)/ASSETS		(1,576)	460	1,087
CAPITAL AND RESERVES				
Share capital	*21(b)*	390	390	3,884
Reserves	*21*	(1,966)	70	(2,797)
TOTAL EQUITY		(1,576)	460	1,087

The accompanying notes form part of the Financial Information.

5. Consolidated statements of changes in equity

	Section B Note	Share capital (Note 21(b)) HK$'000	Statutory reserves (Note 21(c)) HK$'000	Exchange reserves (Note 21(d)) HK$'000	(Accumulated losses)/ Retained profits HK$'000	Total equity HK$'000
Balance at 1 January 2008		390	—	—	112	502
Changes in equity for 2008:						
Loss for the year		—	—	—	(2,081)	(2,081)
Total comprehensive income for the year		—	—	—	(2,081)	(2,081)
Balance at 31 December 2008 and 1 January 2009		390	—	—	(1,969)	(1,579)
Changes in equity for 2009:						
Profit for the year		—	—	—	2,038	2,038
Other comprehensive income		—	—	9	—	9
Total comprehensive income		—	—	9	2,038	2,047
Transfer to statutory reserves		—	733	—	(733)	—
Balance at 31 December 2009 and 1 January 2010		390	733	9	(664)	468
Changes in equity for 2010:						
Profit for the year		—	—	—	29,124	29,124
Other comprehensive income		—	—	1,278	—	1,278
Total comprehensive income		—	—	1,278	29,124	30,402
Shares issued	*21(b)*	3,494	—	—	—	3,494
Transfer to statutory reserves		—	4,028	—	(4,028)	—
Balance at 31 December 2010		3,884	4,761	1,287	24,432	34,364

The accompanying notes form part of the Financial Information.

6. Consolidated cash flow statements

	Section B Note	Years ended 31 December 2008 HK$'000	2009 HK$'000	2010 HK$'000
Operating activities				
Cash generated from operations	*18(b)*	4,516	15,358	16,415
PRC income tax paid		—	—	(9,826)
PRC dividend withholding tax paid		—	—	(594)
Net cash generated from operating activities		4,516	15,358	5,995
Investing activities				
Interest received		—	6	318
Advances to related parties		(993)	(4,048)	(19,296)
Repayment from related parties		—	1,053	11,441
Payment for the purchase of plant and equipment		—	(516)	(699)
Payment for the acquisition of intangible assets		(3,500)	—	—
Payment for pledged deposits		—	—	(6,061)
Net cash used in investing activities		(4,493)	(3,505)	(14,297)
Financing activities				
Advances from related parties		—	522	5,172
Repayment to related parties		—	(41)	(5,602)
Interest paid		—	(263)	—
Proceeds from loans and borrowings		—	585	—
Repayments of loans and borrowings		—	(585)	—
Shares issued		—	—	3,494
Net cash generated from financing activities		—	218	3,064
Net increase/(decrease) in cash and cash equivalents		23	12,071	(5,238)
Cash and cash equivalents at 1 January		2	25	12,100
Effect of foreign exchange rate changes		—	4	393
Cash and cash equivalents at 31 December	*18(a)*	25	12,100	7,255

The accompanying notes form part of the Financial Information.

B NOTES TO CONSOLIDATED FINANCIAL INFORMATION

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. Further details of the significant accounting policies adopted are set out in the remainder of this Section B.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Financial Information, Toon Express Group has adopted all these new and revised HKFRSs to the Relevant Period, except for any new standards or interpretations that are not yet effective for the accounting period ended 31 December 2010. The revised and new accounting standards and interpretations issued but not yet effective during the Relevant Period are set out in note 28.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation and presentation

The Financial Information comprises Infoport and its subsidiaries.

At the date of this report, Infoport has direct or indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid up/ registered capital	Percentage of direct/indirect equity attributable to Infoport		Principal activities
			Direct	Indirect	
Toon Express International Limited ("Toon Express International")	BVI 27 March 2009	USD 10,000	100%	—	Investment holdings
Toon Express Hong Kong Limited ("Toon Express HK")	Hong Kong 19 April 2007	HK$ 10,000	—	100%	Licensing of copyrights of cartoon characters in animation pictures; and sales of merchandise of the cartoon characters
Toon Express Guangzhou Limited (廣州新原動力動漫形象管理有限公司) ("Toon Express GZ") *(Note (i))*	PRC 24 April 2009	HK$ 1,500,000	—	100%	Licensing of copyrights of cartoon characters in animation pictures; and sales of merchandise of the cartoon characters

Note (i): Toon Express GZ is a wholly foreign owned enterprise in the PRC and the English translation of the company's name is for reference only. The official name of the company is in Chinese.

Details of subsidiaries that are subject to statutory audit during the Relevant Period and the names of the respective auditors are set out below:

Name of company	Financial period	Statutory auditors
Toon Express HK	Years ended 31 December 2008, 2009 and 2010	KPMG
Toon Express GZ	Period from 24 April 2009 (date of incorporation) to 31 December 2009 and year ended 31 December 2010	KPMG Huazhen Guangzhou Branch

The statutory financial statements of these companies were prepared in accordance with HKFRSs or the relevant rules and regulations applicable to entities in the PRC.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Basis of measurement

The Financial Information is presented in Hong Kong dollars ("HK$"), rounded to the nearest thousand, unless stated otherwise. It is prepared on the historical cost basis.

The functional currencies of Infoport and its subsidiaries are set out as follows:

—	Infoport	HK$
—	Toon Express International	HK$
—	Toon Express HK	HK$
—	Toon Express GZ	Renminbi ("RMB")

(d) Use of estimates and judgments

The preparation of Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in note 26.

(e) Subsidiaries

Subsidiaries are entities controlled by Toon Express Group. Control exists when Toon Express Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the Financial Information from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

When Toon Express Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Subsidiaries *(Continued)*

In Infoport's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(i)).

(f) Jointly controlled operations

A jointly controlled operation is a joint venture carried on by each venturer using its own assets in pursuit of the joint operations. The Financial Information include the assets that Toon Express Group controls and the liabilities that it incurs in the course of pursuing the joint operation, and the expenses that Toon Express Group incurs and its share of the income that it earns from the joint operation.

(g) Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(i)).

Gains or losses arising from the retirement or disposal of an item of plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

—	Computers	5 years
—	Office equipment and others	5 years

Where parts of an item of plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) Intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and Toon Express Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 1(u)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(i)). Other development expenditure is recognised as an expense in the period in which it is incurred.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Intangible assets *(Continued)*

Other intangible assets that are acquired by Toon Express Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(i)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

— Copyright of animations 10 years

Both the period and method of amortization are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(i) Impairment of assets

(i) Impairment of receivables

Receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of Toon Express Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets *(Continued)*

(i) Impairment of receivables (Continued)

If any such evidence exists, any impairment loss is determined and recognised as follows: For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When Toon Express Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

— plant and equipment;

— intangible assets; and

— investments in subsidiaries

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Short term employee benefits and contributions to defined contribution retirement plan

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plan and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combinations, or items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, Toon Express Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Income tax *(Continued)*

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if Infoport or Toon Express Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, Infoport or Toon Express Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when Toon Express Group or Infoport has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Other provisions and contingent liabilities *(Continued)*

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to Toon Express Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sales of goods

Revenue is recognised when goods are delivered at the customers' premises which are taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Royalty income

Royalty income from the licensing of copyrights is recognised on an accruals basis in accordance with the substance of the license agreements.

(iii) Rendering of management services

Income arising from rendering of management services is recognised as revenues as the services are provided.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(s) Lease assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if Toon Express Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Lease assets *(Continued)*

(i) Classification of assets leased to Toon Express Group

Assets that are held by Toon Express Group under leases which transfer to Toon Express Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to Toon Express Group are classified as operating leases.

(ii) Operating lease charges

Where Toon Express Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(t) Translation of foreign currencies

Foreign currency transactions during the Relevant Period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(u) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Borrowing costs *(Continued)*

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(v) Related parties

For the purposes of the Financial Information, a party is considered to be related to Toon Express Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control Toon Express Group or exercise significant influence over Toon Express Group in making financial and operating policy decisions, or has joint control over Toon Express Group;

(ii) Toon Express Group and the party are subject to common control;

(iii) the party is an associate of Toon Express Group or a joint venture in which Toon Express Group is a venturer;

(iv) the party is a member of key management personnel of Toon Express Group or Toon Express Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of Toon Express Group or of any entity that is a related party of Toon Express Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(w) Segment reporting

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to Toon Express Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, Toon Express Group's various lines of business and geographical locations.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Segment reporting *(Continued)*

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 TURNOVER

The principal activities of Toon Express Group are licensing of copyrights of cartoon characters in animation pictures, sales of merchandise of the cartoon characters and management of the commercial exploitation of animation pictures produced by a related party.

Turnover represents the royalty income, sales value of merchandise of the cartoon characters supplied to customers and management fee income. Turnover excludes value added taxes or other sales taxes and is after allowance for goods returned and deduction of any trade discounts. The amount of each significant category of revenue recognised in turnover during the Relevant Period is as follows:

	Years ended 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Royalty income	737	17,591	45,980
Sales of merchandise	—	3,230	5,879
Management fee income *(Note (i))*	—	—	33,912
	737	20,821	85,771

Note (i): During 2010, Infoport, Toon Express GZ and Creative Power Entertaining Limited Liability Company ("CPE") have entered into a joint brand management agreement and a supplemental agreement (collectively referred to as the "JBMA"). The JBMA is effective from 15 April 2010 and shall continue in force for an initial period of ten years and thereafter shall be automatically renewed for subsequent periods of ten years each unless terminated. CPE is a related party of Toon Express Group and is the owner of the copyrights of certain animation pictures and related cartoon characters. CPE is principally engaged in the production of animation pictures for licensing and sale.

The objective and purposes of the parties in entering the JBMA are to regulate and co-ordinate their efforts in the development and commercial exploitation of the intellectual properties that are owned by each party. Pursuant to the JBMA, a brand management committee was established comprising 2 representatives from each party. The brand management committee has the overall managerial control over the development and use of the intellectual properties and commercial exploitation of the intellectual properties. Each party shall follow all decision made by the brand management committee in connection with the development and commercial exploitation of the intellectual properties. Any decision shall not be made by the brand management committee other than unanimous consent by all parties.

2 TURNOVER *(Continued)*

Note (i): (Continued)

Pursuant to the JBMA, Toon Express Group will charge CPE an annual management fee which shall be an amount equal to 90% of the result from operating activities in the annual audited financial statements of CPE for that financial year if the result from operating activities in the audited annual financial statements of CPE for that financial year is a positive number. However, if the result from operating activities in the audited annual financial statements of CPE for that financial year is a negative number, CPE will charge Toon Express Group an annual fee which shall be an amount equal to 100% of the result from operating activities in the annual audited financial statements of CPE for that financial year. (For the purposes of JBMA, result from operating activities is defined as the resulting amount after adding other income and deducting distribution expenses, administrative expenses, research and development expenses and other expenses from gross profit derived from continuing operations before finance income (or expense), share of profit of equity accounted investees, income tax expenses, profit (or loss) from discontinued operation and other comprehensive income items for CPE, in each case as determined in accordance with the International Financial Reporting Standards. For the purpose of calculation of the annual management fee for the year ended 31 December 2010, results from operating activities of CPE for the period from 3 May 2010 to 31 December 2010 are adopted.)

Toon Express Group's customer base is diversified and only includes two and one customers with whom transactions exceeded 10% of Toon Express Group's aggregate revenue for the years ended 31 December 2008 and 2009 respectively. Revenue from these customers amounted to approximately HK$737,000 and HK$4,508,000 for the years ended 31 December 2008 and 2009 respectively. Toon Express Group did not have any customer with whom transactions exceeded 10% of Toon Express Group's aggregate revenue for the year ended 31 December 2010. Details of concentrations of credit risk arising from these customers are set out in note 22(a).

3 OTHER REVENUE

	Years ended 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Interest income from bank deposits	—	6	41
Interest income from loan to a related party *(Note 24 (b))*	—	—	303
Gain on disposal of a subsidiary *(Note 14)*	—	—	20
Others	—	—	194
	—	6	558

4 (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging:

(a) Finance costs

	Years ended 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Interest expenses on loans and borrowings	—	263	—

(b) Staff costs

	Years ended 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Salaries, wages and other benefits	—	6,821	20,972
Contributions to defined contribution retirement plan	—	136	744
	—	6,957	21,716

Staff costs included director's and senior management's remuneration.

The subsidiaries in the PRC participate in government pension schemes whereby they are required to pay annual contributions at the rates of 12% - 22% of the basic salaries of their PRC employees. Under these schemes, retirement benefits of the existing and retired employees are payable by the relevant authorities and Toon Express Group has no further obligations beyond the annual contributions.

Toon Express Group also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

Toon Express Group has no other obligations for payment of retirement and other post-retirement benefits of employees other than the contribution described above.

4 (LOSS)/PROFIT BEFORE TAXATION *(Continued)*

(c) Other items *(Continued)*

	Years ended 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Depreciation	—	20	174
Amortisation	183	200	—
Impairment of intangible assets *(Note 13)*	2,379	1,617	—
Operating lease charges	—	534	832
Net foreign exchange loss	—	98	564
Auditors' remuneration	—	142	530
Net loss on disposal of plant and equipment	—	—	9
Cost of inventories *(Note 15)*	—	1,386	4,093

5 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENTS

(a) Taxation in the consolidated income statements represents:

		Years ended 31 December		
		2008	**2009**	**2010**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Current tax				
Provision for PRC income tax	*20(a)*	—	2,758	15,340
Provision for Hong Kong Profits Tax	*20(a)*	95	761	—
		95	3,519	15,340
Deferred tax				
Origination and reversal of temporary differences	*20(b)*	—	(1,137)	1,218
		95	2,382	16,558

5 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENTS *(Continued)*

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Years ended 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
(Loss)/profit before taxation	(1,986)	4,420	45,682
Notional tax on profit before taxation, calculated at the rates applicable to the jurisdictions concerned	95	1,327	12,747
Tax effect of non-deductible expenses	—	11	203
Tax effect of unused tax losses not recognised	—	109	974
PRC dividend withholding tax	—	634	1,582
PRC withholding income tax	—	301	1,052
Income tax expense	95	2,382	16,558

Pursuant to the rules and regulations of the BVI, Toon Express Group is not subject to any income tax in the BVI.

During the years ended 31 December 2008 and 2009, Toon Express Group generated assessable profits under Hong Kong Profits Tax and the provision for Hong Kong Profits Tax was calculated at 16.5%. No provision for Hong Kong Profits Tax for the years ended 31 December 2010 as Toon Express Group had no assessable profits subject to Hong Kong Profits Tax.

Pursuant to the Corporate Income Tax Law of the PRC ("the CIT Law") which takes effect on 1 January 2008, Infoport's subsidiary in the PRC is subject to income tax at the Statutory rate of 25%.

According to the CIT Law and its implementation rules, dividends receivable by non-PRC corporate investors from PRC enterprises are subject to withholding income tax at 10%, unless reduced by tax treaties or similar arrangements. Pursuant to the Sino-Hong Kong Double Tax Arrangement and the related regulations, a qualified Hong Kong tax resident will be liable for a reduced withholding tax rate of 5% on dividends from a PRC enterprise if the Hong Kong tax resident is the "beneficial owner" and holds 25% or more of the equity interest of the PRC enterprise. Toon Express Group provided deferred tax liabilities on PRC dividend withholding tax at 10% and 5% for 2009 and 2010, respectively.

According to the CIT Law and its implementation rules, certain income of non-resident enterprises in the PRC derived from PRC enterprises are subject to withholding income tax at 10%, unless reduced by tax treaties or similar arrangements.

6 DIRECTOR'S REMUNERATION

Details of director's remuneration during the Relevant Period are set out below.

Year ended 31 December 2008

	Fees	Basic salaries, allowances and other benefits in kind	Retirement scheme contributions	Bonuses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Director					
Lai Seck Khui	—	—	—	—	—
Total	—	—	—	—	—

Year ended 31 December 2009

	Fees	Basic salaries, allowances and other benefits in kind	Retirement scheme contributions	Bonuses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Director					
Lai Seck Khui	80	18	—	—	98
Total	80	18	—	—	98

Year ended 31 December 2010

	Fees	Basic salaries, allowances and other benefits in kind	Retirement scheme contributions	Bonuses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Director					
Lai Seck Khui	115	32	—	289	436
Total	115	32	—	289	436

During the Relevant Period, no amount was paid or payable by Toon Express Group to the director or any of the five highest paid individuals set out in note 7 below as an inducement to join or upon joining Toon Express Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Period.

7 INDIVIDUAL WITH HIGHEST EMOLUMENTS

During the Relevant Period, none of the five individuals was director of Toon Express Group. The aggregate of the emoluments in respect of the five individuals are as follows:

	Years ended 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Salaries and other emoluments	—	4,618	12,802
Discretionary bonuses	—	272	432
Retirement scheme contributions	—	90	209
Total	—	4,980	13,443

The emoluments of the five individuals with the highest emoluments are within the following band:

	Years ended 31 December		
	2008	**2009**	**2010**
	Number of individuals		
Nil to HK$1,000,000	—	3	—
HK$1,000,001 to HK$2,000,000	—	1	3
HK$2,000,001 to HK$3,000,000	—	1	—
HK$4,000,001 to HK$5,000,000	—	—	2

8 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF INFOPORT

The consolidated profit attributable to equity shareholders of Infoport for the years ended 31 December 2008, 2009 and 2010 includes a (loss)/profit of HK$(2,081,000), HK$2,036,000 and HK$(2,867,000) which has been dealt with in the financial statements of Infoport.

9 DIVIDENDS

Dividends payable to equity shareholders of Infoport during the Relevant Period:

	Years ended 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Final dividend proposed after the end of the reporting period at HK$32 per ordinary share	—	—	16,000

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

10 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share for the years ended 31 December 2008, 2009 and 2010 are based on the net (loss)/profit attributable to equity shareholders of Infoport of HK$(2,081,000), HK$2,038,000, and HK$29,124,000 respectively and the weighted average number of ordinary shares of 50,000 shares, 50,000 shares and 474,100 shares in issue during Relevant Period, calculated as follows:

Weighted average number of ordinary shares

	Years ended 31 December		
	2008	**2009**	**2010**
Issued ordinary shares at 1 January	50,000	50,000	50,000
Effect of issue of ordinary shares *(Note 21(b))*	—	—	424,100
Weighted average number of shares at 31 December	50,000	50,000	474,100

(b) Diluted (loss)/earnings per share

There were no potential dilutive ordinary shares in issue during the Relevant Period, and therefore, diluted (loss)/earnings per share are the same as the basic (loss)/earnings per share.

11 SEGMENT REPORTING

Toon Express Group manages its business by business lines (products and services). In a manner consistent with the way in which information is reported internally to Toon Express Group's most senior executive management for the purposes of resource allocation and performance assessment, Toon Express Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Royalty income: this segment licenses the copyrights of cartoon characters in animation pictures to the third parties to design, create, manufacture, source and then sell the merchandise in the PRC and Hong Kong.
- Sales of merchandise: this segment sells merchandise of the cartoon characters to third parties in the PRC and Hong Kong.
- Management fee income: this segment manages the commercial exploitation of animation pictures produced by a related party.

11 SEGMENT REPORTING *(Continued)*

(a) Segment results, assets and liabilities *(Continued)*

For the purposes of assessing segment performance and allocating resources between segments, Toon Express Group's senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortization of assets attributable to those segment. However, assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

The measure used for reporting segment profit is "profit from operations". To arrive at "profit from operations", Toon Express Group's earnings are further adjusted for items not specifically attributed to individual segments, such as head office or corporate administration costs.

Segment assets and liabilities are not regularly reported to Toon Express Group's chief operating decision maker and therefore information of reportable segment assets and liabilities are not presented in the Financial Information.

Information regarding Toon Express Group's reportable segments as provided to Toon Express Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the Relevant Period are set out below.

11 SEGMENT REPORTING *(Continued)*

(a) Segment results, assets and liabilities *(Continued)*

	Royalty income			Sales of merchandise			Management fee income			Total		
	Years ended 31 December			Years ended 31 December			Years ended 31 December			Years ended 31 December		
	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from external customers	737	17,591	45,980	—	3,230	5,879	—	—	33,912	737	20,821	85,771
Reportable segment revenue	737	17,591	45,980	—	3,230	5,879	—	—	33,912	737	20,821	85,771
Reportable segment profit	(1,986)	14,061	39,906	—	1,739	1,786	—	—	30,654	(1,986)	15,800	72,346
Amortisation for the year	(183)	(200)	—	—	—	—	—	—	—	(183)	(200)	—
Impairment of intangible assets	(2,379)	(1,617)	—	—	—	—	—	—	—	(2,379)	(1,617)	—

(b) Reconciliations of reportable segment revenues and profit

	Years ended 31 December		
	2008	2009	2010
	HK$'000	*HK$'000*	*HK$'000*
Revenue			
Reportable segment revenue	737	20,821	85,771
Consolidated revenue	737	20,821	85,771

	Years ended 31 December		
	2008	2009	2010
	HK$'000	*HK$'000*	*HK$'000*
Profit			
Reportable segment profit/(loss)	(1,986)	15,800	72,346
Other revenue	—	6	558
Depreciation	—	(20)	(174)
Finance costs	—	(263)	—
Unallocated head office and corporate expenses	—	(11,103)	(27,048)
Consolidated profit/(loss) before taxation	(1,986)	4,420	45,682

11 SEGMENT REPORTING *(Continued)*

(c) Geographic information

Analysis of Toon Express Group's non-current assets by geographical market has not been presented as substantially all Toon Express Group's non-current assets are located in the PRC.

The following table sets out information about the geographical location of Toon Express Group's revenue from external customer. The geographical location of customers is based on the location at which the services were provided or the goods delivered.

	Years ended 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Hong Kong	737	8,029	6,099
The PRC	—	12,731	79,035
Other Asian regions	—	60	636
Other areas	—	1	1
	737	20,821	85,771

12 PLANT AND EQUIPMENT

Toon Express Group:

	Computers	Office equipment and others	Total
	HK$'000	*HK$'000*	*HK$'000*
Cost:			
At 1 January 2008, 31 December 2008 and 1 January 2009	—	—	—
Additions	419	97	516
At 31 December 2009	419	97	516
At 1 January 2010	419	97	516
Additions	599	100	699
Disposals	—	(10)	(10)
At 31 December 2010	1,018	187	1,205
Accumulated depreciation:			
At 1 January 2008, 31 December 2008 and 1 January 2009	—	—	—
Charge for the year	(16)	(4)	(20)
At 31 December 2009	(16)	(4)	(20)
At 1 January 2010	(16)	(4)	(20)
Charge for the year	(142)	(32)	(174)
Written back on disposals	—	1	1
At 31 December 2010	(158)	(35)	(193)
Carrying amount:			
At 31 December 2008	—	—	—
At 31 December 2009	403	93	496
At 31 December 2010	860	152	1,012

13 INTANGIBLE ASSETS

Toon Express Group and Infoport:

	Copyrights of songs, comic books and cartoon characters *HK$'000*	Copyrights of animations *HK$'000*	Total *HK$'000*
Cost:			
At 1 January 2008	1,079	—	1,079
Additions	1,500	2,000	3,500
At 31 December 2008	2,579	2,000	4,579
At 1 January 2009, 31 December 2009, 1 January 2010 and 31 December 2010	2,579	2,000	4,579
Accumulated amortisation:			
At 1 January 2008	—	—	—
Amortisation for the year	—	(183)	(183)
At 31 December 2008	—	(183)	(183)
At 1 January 2009	—	(183)	(183)
Amortisation for the year	—	(200)	(200)
At 31 December 2009	—	(383)	(383)
At 1 January 2010 and 31 December 2010	—	(383)	(383)
Impairment loss:			
At 1 January 2008	—	—	—
Impairment loss for the year	(2,379)	—	(2,379)
At 31 December 2008	(2,379)	—	(2,379)
At 1 January 2009	(2,379)	—	(2,379)
Impairment loss for the year	—	(1,617)	(1,617)
At 31 December 2009	(2,379)	(1,617)	(3,996)
At 1 January 2010 and 31 December 2010	(2,379)	(1,617)	(3,996)
Carrying amount:			
At 31 December 2008	200	1,817	2,017
At 31 December 2009 and 2010	200	—	200

13 INTANGIBLE ASSETS *(Continued)*

Intangible assets represent copyrights of songs, comic books, cartoon characters in animation pictures and animations. The useful lives of the copyrights of songs, comic books, cartoon characters in animation pictures are assessed to be indefinite.

For the purpose of impairment testing, the copyrights are allocated to Toon Express Group's single individual cash-generating units ("CGU"), being the operating segment of licensing of licenses the copyrights of cartoon characters in animation pictures to the third parties to design, create, manufacture, source and then sell the merchandise in the PRC and Hong Kong.

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. The cash flows are discounted using a discount rate of 17%, 17% and 17% for the year ended 31 December 2008, 2009 and 2010, respectively. The discount rates used are pre-tax and reflect specific risks relating to the operating segment.

14 INVESTMENTS IN A SUBSIDIARY

Investments in a subsidiary are stated at cost and details of the subsidiaries as at 31 December 2008, 2009 and 2010 are set out in note 1(b).

Disposal of a subsidiary

On 8 January 2010, Toon Express Group disposed of a subsidiary, PGBBW Limited (formerly Toon Express Global Limited), to related parties, Medianew Consultants Limited and Sure Wealth Holdings Limited (Note 24(b)) at a consideration of USD 4,900 and USD 5,100 respectively. PGBBW Limited was incorporated in British Virgin Islands on 8 April 2009. Prior to the disposal, PGBBW Limited was a dormant company and the effect of the disposal on the financial position of Toon Express Group was as follows:

	Years ended 31 December 2010 *HK$'000*
Trade and other receivables	78
Trade and other payables	(20)
	58
Consideration	(78)
Gain on disposal of a subsidiary	(20)

After the disposal of PGBBW Limited, Kolela Limited transferred all of its interests in Infoport through series of transactions to PGBBW Limited eventually. PGBBW Limited has become the immediate holding company of Infoport since then. The equity interests of PGBBW Limited are owned as to 46%, 48% and 6% by Medianew Consultants Limited, Sure Wealth Holdings Limited and Kolela Limited respectively.

15 INVENTORIES

Toon Express Group:

	As at 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Merchandises of cartoon characters	—	86	366

	Years ended 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Carrying amount of inventories sold	—	1,386	4,093

16 TRADE AND OTHER RECEIVABLES

Toon Express Group:

	As at 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Current			
Trade debtors	—	4,012	3,438
Deposits, prepayments and other receivables	—	1,131	1,077
Amounts due from related parties *(Note 24(c))*	1,590	4,378	49,100
	1,590	9,521	53,615
Non-current			
Prepayments	—	—	3,923
	1,590	9,521	57,538

16 TRADE AND OTHER RECEIVABLES *(Continued)*

Infoport:

	As at 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Current			
Deposits, prepayments and other receivables	—	—	256
Amounts due from related parties	1,590	891	4,328
Amounts due from a subsidiary	—	466	—
	1,590	1,357	4,584
Non-current			
Prepayments	—	—	3,923
	1,590	1,357	8,507

The amount of Toon Express Group's and Infoport's trade and other receivables, deposits and prepayments (including amounts due from related parties and a subsidiary) are expected to be recovered or recognised as expense within one year.

Included in trade and other receivables are trade debtors with the following ageing analysis as of the end of the reporting period.

Toon Express Group:

	As at 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Current	—	2,915	2,625
Less than 1 month past due	—	308	176
1 to 3 months past due	—	479	128
More than 3 months but less than 12 months past due	—	310	509
Amounts past due	—	1,097	813
	—	4,012	3,438

Further details on Toon Express Group's credit policy are set out in note 22(a).

16 TRADE AND OTHER RECEIVABLES *(Continued)*

Receivables that were not past due relate to a number of customers for whom there were no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with Toon Express Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. Toon Express Group does not hold any collateral over these balances.

17 PLEDGED DEPOSITS

The deposits have been pledged with bank as security for a banking facility amounted to HK$6,000,000. The banking facility was not utilised as at 31 December 2010.

18 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

Toon Express Group:

	As at 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Cash at bank and in hand	25	12,100	7,255
Cash and cash equivalents in the consolidated cash flow statements	25	12,100	7,255

Infoport:

	As at 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Cash at bank and in hand	25	1	76

18 CASH AND CASH EQUIVALENTS *(Continued)*

(b) Reconciliation of (loss)/profit before taxation to cash generated from operations:

		Years ended 31 December		
		2008	**2009**	**2010**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
(Loss)/profit before taxation		(1,986)	4,420	45,682
Adjustments for:				
Finance costs	*4(a)*	—	263	—
Interest income	*3*	—	(6)	(344)
Depreciation	*4(c)*	—	20	174
Amortisation	*4(c)*	183	200	—
Impairment losses of intangible assets	*4(c)*	2,379	1,617	—
Net loss on disposal of plant and equipment	*4(c)*	—	—	9
Net foreign exchange loss	*4(c)*	—	98	564
Changes in working capital:				
Increase in inventories		—	(86)	(280)
Increase in trade and other receivables		—	(5,029)	(39,813)
Increase in trade and other payables		3,940	13,861	10,423
Cash generated from operations		4,516	15,358	16,415

19 TRADE AND OTHER PAYABLES

Toon Express Group:

	As at 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Trade creditors	450	72	240
Receipt in advance	—	12,951	18,270
Other payables and accruals	3	5,698	10,738
Amounts due to relate parties *(Note 24(c))*	4,663	737	205
	5,116	19,458	29,453

19 TRADE AND OTHER PAYABLES *(Continued)*

Infoport:

	As at 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Trade creditors	450	—	—
Other payables and accruals	—	243	910
Amount due to related parties	4,663	49	528
Amount due to a subsidiary	—	28	5,480
	5,113	320	6,918

The amount of Toon Express Group's and Infoport's trade payables, receipt in advance, other payables and accruals (including amounts due to related parties and a subsidiary) are expected to be settled or recognised as income within one year or are repayable on demand.

Included in trade and other payables are trade creditors with the following ageing analysis as of the end of the reporting period:

Toon Express Group:

	As at 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Due within 1 month or on demand	450	72	199
Due after 1 month but within 3 months	—	—	41
Due after 3 months but within 6 months	—	—	—
	450	72	240

20 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(a) Current taxation in the statements of financial position represents:

Toon Express Group:

	2008	2009	2010
	HK$'000	*HK$'000*	*HK$'000*
At 1 January	—	95	3,614
Provision for PRC income tax *(Note 5(a))*	—	2,758	15,340
Provision for Hong Kong Profits Tax *(Note 5(a))*	95	761	—
PRC income tax paid	—	—	(10,420)
At 31 December	95	3,614	8,534

Infoport:

	2008	2009	2010
	HK$'000	*HK$'000*	*HK$'000*
At 1 January	—	95	856
Provision for Hong Kong Profits Tax *(Note 5(a))*	95	761	—
At 31 December	95	856	856

20 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION *(Continued)*

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the Relevant Period are as follows:

	Deferred royalty income	PRC dividend withholding tax	Total
	HK$'000	*HK$'000*	*HK$'000*
Balance as at 1 January 2008 and 31 December 2008	—	—	—
Balance as at 1 January 2009	—	—	—
(Credited)/charged to consolidated income statements *(Note 5(a))*	(1,771)	634	(1,137)
Balance as at 31 December 2009	(1,771)	634	(1,137)
Balance as at 1 January 2010	(1,771)	634	(1,137)
Charged to consolidated income statements *(Note 5(a))*	230	988	1,218
Balance as at 31 December 2010	(1,541)	1,622	81

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(p), Toon Express Group has not recognised deferred tax assets in respect of unused tax losses of Nil, HK$661,000 and HK$6,561,000 as at 31 December 2008, 2009 and 2010 respectively, because it is not probable that future tax profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

21 SHARE CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of Toon Express Group's consolidated equity is set out in the consolidated statements of changes in equity. Details of the changes in Infoport's individual components of equity during the Relevant Period are set out below:

	Share capital	Retained profits	Total equity
	HK$'000	*HK$'000*	*HK$'000*
Balance at 1 January 2008	390	115	505
Changes in equity for 2008:			
Total comprehensive income for the year	—	(2,081)	(2,081)
Balance at 31 December 2008 and 1 January 2009	390	(1,966)	(1,576)
Changes in equity for 2009:			
Total comprehensive income for the year	—	2,036	2,036
Balance at 31 December 2009 and 1 January 2010	390	70	460
Changes in equity for 2010:			
Total comprehensive income for the year	—	(2,867)	(2,867)
Share issued *(Note 21(b))*	3,494	—	3,494
Balance at 31 December 2010	3,884	(2,797)	1,087

21 SHARE CAPITAL AND RESERVES *(Continued)*

(b) Share capital

(i) Authorised and issued share capital:

		2008			2009			2010		
	Note	*No. of Shares*	*US$'000*	*HK$'000 equivalent*	*No. of shares*	*US$'000*	*HK$'000 equivalent*	*No. of shares*	*US$'000*	*HK$'000 equivalent*
Authorised:										
Ordinary shares of US$1 each	*(ii)*	50,000	50	390	50,000	50	390	499,990	500	3,884
Ordinary shares, issued and receivable:										
At 1 January		50,000	50	390	50,000	50	390	50,000	50	390
Shares issued	*(ii)*	—	—	—	—	—	—	449,990	450	3,494
At 31 December		50,000	50	390	50,000	50	390	499,990	500	3,884

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of Infoport. All ordinary shares rank equally with regard to Infoport's residual assets.

(ii) Increase in authorised and issued share

Pursuant to the shareholders' resolution on 22 January 2010, Infoport's authorised ordinary share capital was increased to US$499,990 by the creation of an additional 449,990 ordinary shares of US$1 each, ranking pari passu with the existing ordinary shares of Infoport in all respect.

Pursuant to the shareholders' resolution on 22 January 2010, Infoport issued 449,990 ordinary shares of US$1 each to the shareholders.

(c) Statutory reserves

According to the relevant rules and regulations in the PRC, Toon Express Group's subsidiary in the PRC is required to transfer 10% of its profit after taxation to statutory surplus reserve until the surplus reserve balance reaches 50% of the registered capital. For the purpose of calculating the amount transferring to reserve, the profit after taxation shall be the amount determined based on the statutory financial statements prepared in accordance with the PRC accounting standards. The transfer to this reserve has to be made before distribution of dividend by the subsidiary.

Statutory surplus reserve can be used to make good previous years' losses, if any, and for capitalisation issue provided that the surplus reserve balance after such issue is not less than 25% of the registered capital of the subsidiary.

21 SHARE CAPITAL AND RESERVES *(Continued)*

(d) Exchange reserves

The exchange reserves comprises all foreign currency differences arising from the translation of the financial statements of entities not using HK$ as functional currency.

(e) Distributability of reserves

The aggregate amount of distributable reserves available for distribution to equity shareholders of Infoport as at 31 December 2008, 2009 and 2010 were HK$Nil, HK$70,000 and HK$Nil respectively.

(f) Capital management

Toon Express Group's primary objectives when managing capital are to safeguard Toon Express Group's ability to continue as a going concern, so that it can continue to provide returns for the equity shareholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

Toon Express Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Toon Express Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes loans and borrowings) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity, less unaccrued proposed dividends.

Toon Express Group has no loans and borrowings as at 31 December 2008, 2009 and 2010. It is the management's intention to maintain the ratio less than 50% in the future. In order to maintain the ratio, Toon Express Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

Neither Infoport nor its subsidiaries are subject to externally imposed capital requirements during the Relevant Period.

22 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit and liquidity risks arises in the normal course of Toon Express Group's business. Toon Express Group's exposure to these risks and the financial risk management policies and practices used by Toon Express Group to manage these risks are described below.

(a) Credit risk

Toon Express Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 days from the date of billing. Debtors with balances that are more than 12 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, Toon Express Group does not obtain collateral from customers.

Toon Express Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 13%, 7% and 68% of total trade and other receivables were due from Toon Express Group's largest customers, and 13%, 23% and 72% of the total trade and other receivables were due from Toon Express Group's five largest customers as at 31 December 2008, 2009 and 2010 respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statements of financial position after deducting any impairment allowance. Toon Express Group does not provide any other guarantees which would expose Toon Express Group or Infoport to credit risk.

Further quantitative disclosures in respect of Toon Express Group's exposure to credit risk arising from trade and other receivables are set out in note 16.

(b) Liquidity risk

Individual operating entities within Toon Express Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. Toon Express Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions and/or from other group companies to meet its liquidity requirements in the short and longer term.

22 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(b) Liquidity risk *(Continued)*

The following table shows the remaining contractual maturities at the end of the reporting period of Toon Express Group's and Infoport's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date Toon Express Group and Infoport can be required to pay:

Toon Express Group

	As at 31 December								
	2008 Contractual undiscounted cash flow			2009 Contractual undiscounted cash flow			2010 Contractual undiscounted cash flow		
	Within 1 year or on demand	Total	Carrying amount	Within 1 year or on demand	Total	Carrying amount	Within 1 year or on demand	Total	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade and other payables excluding receipt in advance	608	608	608	6,507	6,507	6,507	11,183	11,183	11,183
Infoport									
Trade and other payables excluding receipt in advance	605	605	605	320	320	320	6,918	6,918	6,918

(c) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2008, 2009 and 2010.

(d) Estimation of fair value

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

Trade and other receivables

Trade receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts. Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the end of the reporting period.

23 OPERATING LEASE COMMITMENTS

At 31 December 2008, 2009 and 2010, Toon Express Group's total future minimum leases payments under non-cancellable operating leases are payable as follows:

	As at 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Within 1 year	—	259	276

Toon Express Group is the leasee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one year, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

24 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere in the Financial Information, Toon Express Group entered into the following material related party transactions.

During the Relevant Period, the director is of the view that the following are related parties of Toon Express Group:

Name of Related Party	**Relationship**
PGBBW Limited	Immediate holding company of Infoport (subsidiary of Toon Express Group prior to 8 February 2010)
Medianew Consultants Limited ("Medianew")	Investment company holds 46% equity interests in Infoport. This company is controlled by Mr. Lo Wing Keung.
Sure Wealth Holdings Limited ("Sure Wealth")	Investment company holds 48% equity interests in Infoport. This company is controlled by Mr. So Wing Lok Jonathan.
Kolela Limited	Investment company holds 6% equity interests in Infoport. This company is controlled by Mr. Soh Szu Wei.
Greenlight International Limited ("Greenlight")	Immediate holding company of Infoport prior to 1 April 2009. This company is controlled by Mr. Wu Man Shing.
Pleasant Goat and Big Big Wolf Company Limited ("PGBBW Co Ltd")	Fellow subsidiary of Infoport.

24 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

Name of Related Party	Relationship
CPE (廣東原創動力文化傳播有限公司*)	A company which is under the significant influence of the key management personnel of Toon Express Group.
Manson Business & Finance Advisory Company Limited ("Manson")	Subsidiary of Medianew.
Intelli-Media WOFE (廣州原創動力動畫設計有限公司*)	The company's legal representative was Mr. Lo Wing Keung prior to 22 July 2009 and ceased to be the related party of Toon Express Group since that date.
Intelli-Media (HK) Limited ("IMHK")	Mr. So Wing Lok Jonathan and Mr. Lo Wing Keung are directors of this company prior to 18 June 2009. And the company ceased to be related party of Toon Express Group since that date.
East Centrum International Limited ("East Centrum")	This company is controlled by Mr. Soh Szu Wei.
Bulletin Corporation	The company is controlled by Mr. So Wing Lok Jonathan.
Shanghai Jijiang Company Limited (上海基江紡織工藝品有限公司*) ("SH Jijiang")	This company is controlled by Mr. So Wing Lok Jonathan.
Jijiang Company Limited ("Jijiang")	This company is controlled by Mr. So Wing Lok Jonathan.
Mr. Lai Seck Khui	Director of Infoport
Mr. Wu Man Shing	Greenlight is controlled by Mr. Wu Man Shing.
Mr. So Wing Lok Jonathan	Controlling shareholders of Toon Express Group
Mr. Lo Wing Keung	Controlling shareholders of Toon Express Group
Mr. Soh Szu Wei	Chief Executive Officer of Infoport

* The official names of these companies are in Chinese. The English translation of these companies' names is for reference only.

24 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(a) Key management personnel remuneration

Remuneration for key management personnel of Toon Express Group, including the amounts paid to Toon Express Group's director as disclosed in note 6 and certain of the highest paid employees as disclosed in note 7, is as follows:

	Years ended 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Short-term employee benefits	—	4,618	12,802
Contribution to defined contribution retirement plan	—	90	209
Discretionary bonus	—	272	432
Total	—	4,980	13,443

Total remuneration is included in "staff costs" *(note 4(b))*.

24 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with other related parties

During the Relevant Period, Toon Express Group entered into the following material related party transactions:

		Years ended 31 December		
		2008	**2009**	**2010**
		HK$'000	*HK$'000*	*HK$'000*
(i)	Royalty income from			
	— Intelli-Media WOFE	207	847	—
	— Intelli-Media (HK) Limited	530	4,508	—
		737	5,355	—
(ii)	Sales of merchandise to CPE	—	4	580
(iii)	Management fee income received from CPE	—	—	35,696
(iv)	Purchase merchandise from CPE	2,000	—	93
(v)	Provision of legal and advisory services by Manson	5	4,036	1,246
(vi)	Payment of expenses by Toon Express Group on behalf of related parties			
	— Greenlight	—	562	372
	— Mr. Wu Man Shing	993	—	—
	— Medianew	—	—	1,711
	— Sure Wealth	—	3,486	1,781
	— PGBBW Limited	—	—	12,728
	— PGBBW Co Ltd	—	—	1
	— CPE	—	—	21
	— Bulletin Corporation	—	—	92
		993	4,048	16,706
(vii)	Payment of expenses on behalf of Toon Express Group by related parties			
	— PGBBW Limited	—	—	(433)
	— Jijiang	—	(18)	(14)
	— SH Jijiang	—	(31)	—
	— East Centrum	—	(463)	(4,725)
	— CPE	—	(10)	—
		—	(522)	(5,172)

24 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with other related parties *(Continued)*

(viii) On 8 January 2010, Toon Express Group disposed of a subsidiary, PGBBW Limited (formerly Toon Express Global Limited) to Medianew and Sure Wealth at a consideration of USD 4,900 and USD 5,100 respectively *(Note 14)*.

(ix) During the year ended 31 December 2010, Toon Express Group has made cash advance of HK$2,590,000 to Mr. So Wing Lok Jonathan. The cash advance is unsecured, repayable on demand and bears interest rate of 1% per month. Interest of HK$303,000 was accrued for the year ended 31 December 2010.

(c) Balances with related parties

The outstanding balances arising from above transactions at end of the reporting period are as follows:

	As at 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Amounts due from related parties			
— Sure Wealth	—	3,486	1,771
— Greenlight	199	502	874
— Mr. So Wing Lok Jonathan	—	—	2,616
— Mr. Lai Seck Khui	—	199	—
— Mr. Wu Man Shing	993	—	—
— Medianew	191	191	1,711
— PGBBW Limited	—	—	5,261
— Intelli-Media WOFE	207	—	—
— CPE	—	—	36,867
	1,590	4,378	49,100
Amounts due to related parties			
— CPE	(150)	(11)	—
— Manson	(5)	(245)	(154)
— Jijiang	—	(18)	(5)
— East Centrum	—	(463)	—
— Intelli-Media (HK) Limited	(4,508)	—	—
— Mr. Lai Seck Khui	—	—	(46)
	(4,663)	(737)	(205)

24 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(c) Balances with related parties *(Continued)*

Note: The details of the outstanding balances with Mr. So Wing Lok Jonathan are set out in note 24(b)(ix). The outstanding balances with other related parties are unsecured, interest free and have no fixed repayment terms. The amounts due from related parties are included in "Trade and other receivables" (note 16) and the amounts due to other related parties are included in "Trade and other payables" (note 19). No allowance for doubtful debts has been made in respect of the amounts due from the related parties.

25 SUBSEQUENT EVENTS

(a) On 30 August 2010, Infoport entered into the Consumer Products Agreement ("CP Agreement") with Disney Enterprises, pursuant to which, with effect from 1 January 2011, Disney Enterprises is the master licensee of Toon Express Group. The master licensee receives royalties from existing licensees and future sub-licensees, and in turn pays to Toon Express Group royalties at the relevant rate for each product category subject to an annual minimum guarantee amount, as stipulated in the CP Agreement.

(b) After the end of the reporting period the director proposed a final dividend. Further details are disclosed in note 9.

26 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

Note 22 contains information about the assumptions and their risk factors relating to financial instruments. Other key sources of estimation uncertainty are as follows:

(i) Depreciation

Plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. Toon Express Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on Toon Express Group's historical experience with similar assets, taking into account upgrading and improvement work performed, and anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

26 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES *(Continued)*

(ii) Impairments

In considering the impairment losses that may be required for certain intangible assets and plant and equipment, recoverable amount of these assets needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to items such as level of turnover and amount of operating costs. Toon Express Group uses all readily available information in determining an amount that is reasonable and supportable assumptions and projections of items such as turnover and operating costs.

Impairment losses for bad and doubtful debts are assessed and provided based on the management's regular review of ageing analysis and evaluation of collectability. A considerable level of judgment is exercised by the management when assessing the credit worthiness and past collection history of each individual customer. An increase or decrease in the above impairment losses would affect the profit or loss in future periods.

(iii) Revenue from licensing

The amount of revenue that Toon Express Group recognises for its royalty income for licensing is dependent on the timing, accuracy and sufficiency of the information provided by the licensees. The licensees may make adjustments in future periods to information, i.e., the sales report, previously provided to Toon Express Group that could have a material impact on Toon Express Group's operating results in later periods. Such adjustments are mostly updated in subsequent periods as more information could be collected. Furthermore, management may, in their judgment, make material adjustments to the information including the sales report reported by the licensees to ensure that revenues are accurately reflected in the financial statements. Up to the date of approval of the Financial Information, neither the licensees nor the management has made material adjustments to information provided by the licensees and used in the preparation of the Financial Information.

27 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2010, the director considers the immediate parent of Toon Express Group to be PGBBW Limited, which is incorporated in British Virgin Islands; and the ultimate controlling parties of Toon Express Group to be Mr. So Wing Lok Jonathan and Mr. Lo Wing Keung. PGBBW Limited does not produce financial statements available for public use.

28 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Up to the date of issue of this report, the HKICPA has issued the following amendments, new standards and Interpretations which are not yet effective of the financial periods included in the Relevant Period. Of these developments, the following relate to matter that may be relevant to Toon Express Group's operations and the financial statements:

	Effective for accounting periods beginning on or after
Revised HKAS 24, *Related party disclosures*	1 January 2011
HKFRS 9, *Financial Instruments*	1 January 2013
Improvements to HKFRSs 2010	1 July 2010 or 1 January 2011
Amendments to HKAS 12, *Income taxes*	1 January 2012

The director has confirmed that Toon Express Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on Toon Express Group's results of operations and financial position.

C SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Infoport and its subsidiaries in respect of any period subsequent to 31 December 2010.

Yours faithfully

KPMG
Certified Public Accountants
Hong Kong

Set out below is the management discussion and analysis of Toon Express Group for the three years ended 31 December 2008, 2009 and 2010.

FINANCIAL RESULTS

Turnover

Prior to July 2009, Toon Express Group's consumer products licensing business was conducted by an external third party as the master licensee. In June 2009, it terminated its relationship with its previous master licensee for its consumer products licensing business as it felt that more focus was needed to grow the merchandising business whilst it identified a new global master licensee. During the 3-year period ended 31 December 2010, Toon Express Group was able to substantially increase the turnover from approximately HK$737,000 for 2008 to approximately HK$20,821,000 for 2009 and approximately HK$85,771,000 for 2010, representing a compound annual growth rate of 979%. Toon Express Group was able to benefit from the strong consumer demand for the "Pleasant Goat and Big Big Wolf" brand, in the PRC as a result of the increase in content distribution across all its delivery channels for "Pleasant Goat and Big Big Wolf". Growth was remarkable in 2010 as it signed on a significant number of licensees in 2010 which allowed Toon Express Group to enjoy increased licensing income for the financial year. In addition, since April 2010, Toon Express Group has been able to derive income from the Joint Brand Management Agreement entered into with CPE over the commercial exploitation in areas regarding the development, production, broadcast, exhibition, packaging, marketing, sale and distribution of television programmes, movies and merchandise.

In terms of geographic segments, Toon Express Group derived all of its turnover (approximately HK$737,000) from Hong Kong in 2008. As it shifted its business model towards consumer products licensing mainly in the PRC, its turnover from the PRC increased to approximately HK$12,731,000 and HK$79,035,000 for 2009 and 2010 respectively, representing 61.1% and 92.1% respectively of total turnover.

Royalty income from consumer products licensing rose from approximately HK$737,000 for 2008 to approximately HK$17,591,000 for 2009 and approximately HK$45,980,000 for 2010, representing a compound annual growth rate of 689.9%. Toon Express Group also started to earn management fee income from CPE from the second quarter of 2010 as stipulated in the Joint Brand Management Agreement. For 2010, management fee income amounted to approximately HK$33,912,000 which represented 39.5% of total turnover for the year.

Loss/Profit before Taxation

Toon Express Group achieved a profit before taxation of approximately HK$4,420,000 for 2009, compared to a loss before taxation of approximately HK$1,986,000 recorded for 2008. The loss before taxation for 2008 was mainly due to impairment loss from inactive brands. For 2009, Toon Express Group was able to turn around its financial results significantly when it started to solicit and manage licensees on its own.

For 2010, profit before taxation rose to approximately HK$45,682,000. The increase was the result of substantially higher turnover as explained above without the corresponding increase in cost of sales and other selling expenses due to the nature of the licensing business. In August 2010, Toon Express Group appointed Disney Enterprises as its Master Licensee to administer its consumer products licensing business, effective on 1 January 2011. As Toon Express Group's management believes that the current organisational structure is able to support the new arrangement, incremental costs and capital spending would not be material in the future.

Loss/Profit for the year

Profit for the year of Toon Express Group for 2009 amounted to approximately HK$2,038,000, compared to a loss for the year of approximately HK$2,081,000 for 2008. For 2010, Toon Express Group achieved a profit for the year of approximately HK$29,124,000 which was an increase of 1,329% over that for 2009 for reasons noted above.

LIQUIDITY, CAPITAL STRUCTURE AND FINANCIAL RESOURCES

Consolidated net liabilities of Toon Express Group were approximately HK$1,579,000 as at 31 December 2008 largely representing higher liabilities over assets caused by amounts owed to related parties. Consolidated net assets were approximately HK$468,000 and HK$34,364,000 as at 31 December 2009 and 2010, respectively. Major assets of Toon Express Group as at these dates included trade and other receivables mainly from related parties. Toon Express Group did not have external borrowings as at 31 December 2008, 2009 and 2010. It was able to fulfill its working capital needs through its commercial operations and did not have to seek external funding. Accordingly, gearing was zero as at 31 December 2008, 2009 and 2010. On 22 January 2010, 449,990 ordinary shares of Infoport of US$1 each were issued to the then existing shareholders and hence Infoport's issued share capital was increased to approximately HK$3,884,000.

As at 31 December 2008, 2009 and 2010, Toon Express Group had no material contingent liabilities and no material capital commitment.

Toon Express Group conducts its business mostly in RMB while a large portion of its expenses are paid in HK$. It is therefore subject to exchange rate risk. For the past few years, the risk has largely been mitigated by the appreciating RMB. However, Toon Express Group always monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

There were no material acquisitions and disposals by Toon Express Group for 2008, 2009 and 2010. Toon Express Group expects to fund its operations mainly by its internal resources and if necessary funding from the Enlarged Group and external borrowings.

EMPLOYMENT AND REMUNERATION POLICY

For 2008, all the business activities of Toon Express Group were handled at the shareholders' level and hence there were no employees as at 31 December 2008. In line with its business expansion, Toon Express Group's headcount was 38 as at 31 December 2009 and increased to 62 as at 31 December 2010.

Management continuity is a major factor to the continued growth of Toon Express Group. The current management was instrumental in the establishment of its consumer products licensing business since July 2009 and the significant growth of popularity of its various brands. To incentivise and ensure the long term stability of the management team, a staff retention scheme and an employee share option scheme will be implemented on or around Completion Date, as detailed below.

The Company and seven key management personnel of Toon Express Group have agreed on a staff retention bonus. Each of six key managers will receive from the Seller a payment equivalent to nine months of his/her monthly base salary if he/she stays in the employment of the relevant company of Toon Express Group for one year after Completion, and each of the seven key managers will receive from the Seller another nine months of monthly base salary if he/she stays for the second year after Completion. The Company has also agreed to adopt an employee share option scheme within a reasonable period after Completion (subject to the approval of the Board, Shareholders and applicable laws and regulations as appropriate), under which the key managers will be granted share options to subscribe for Shares, to be vested in stages upon the 3rd, 4th and 5th anniversary of the Completion Date respectively, exercisable within a 3-year period immediately after vesting and subject to achievement of certain performance targets of Toon Express Group to be determined in future.

In addition, performance bonuses will be aligned with Toon Express Group's key performance indicators.

FUTURE PROSPECTS

The animation and consumer products markets present Toon Express Group with ample opportunities. The industry is characterized by high economic growth with growing entertainment consumption and strong government support.

China's economic growth has been phenomenal with 2010 GDP reaching RMB39.8 trillion representing a rise of 10.3% over that of 2009. As the economy expands and the affluence of the Chinese population rises, entertainment consumption is expected to grow. The animation industry and the derivative products market also benefit from strong demand underpinned by a 265 million population of children at 14 and under, coupled with the one-child policy which makes parents more willing to spend on their children. Meanwhile the cultural industry, in particular the animation sector, has been the Central Government's targeted industry for growth. Since 2006, favorable policies have been introduced by governments at various levels to support the industry. For instance, the "Opinions on the Promotion of the Domestic Animation Industry" (關於推動我國動漫產業的若干意見) and the "Cultural Industry Promotional Plan" (文化產業振興規劃) announced by the State Council in 2006 and 2009 respectively have established the development goals and framework for the sector as well as government support for a home-grown industry.

Toon Express Group, through its contractual relationships with CPE and Disney, has established an integrated business model that provides it with stable and diversified sources of income and is well-positioned to capitalize on the industry environment mentioned above. Its top animation brand, "Pleasant Goat and Big Big Wolf", has become a household name as a result of Toon Express Group's branding efforts through multiple delivery channels. And yet, Toon Express Group has only begun to monetize brand values from "Pleasant Goat and Big Big Wolf" and its other brands after adopting consumer products licensing as its core business in 2009. Toon Express Group is confident that plenty opportunities exist for its brands especially in the areas of branded family entertainment and consumer market.

On the other hand, the favorable industry environment also attracts new entrants which represent competition to Toon Express Group. However, Toon Express Group's first-mover position and integrated business model provide it with both short-term and long-term comparative advantages over its competitors.

(A) INTRODUCTION

The accompanying unaudited pro forma statement of assets and liabilities of the Enlarged Group ("Pro Forma Financial Information") has been prepared by the Directors in accordance with paragraph 4.29 of the Listing Rules, for illustrative purposes only, to provide information about how the proposed Acquisition and the Subscription might have affected the financial position of the Group presented.

The Pro Forma Financial Information has been prepared based on the unaudited consolidated statement of financial position of the Group as at 30 September 2010 as set out in the interim report of the Company for the six months ended 30 September 2010 and the audited consolidated statement of financial position of Toon Express Group as at 31 December 2010 as set out in the accountants' report in Appendix II to this circular after giving effect to the pro forma adjustments as described in the accompanying notes. A narrative description of the pro forma adjustments that are (i) directly attributable to the Acquisition and the Subscription; and (ii) factually supportable, is set out in the accompanying notes.

The Pro Forma Financial Information is based on a number of assumptions, estimates, uncertainties and currently available information. For this reason, the Pro Forma Financial Information does not purport to describe the financial position of the Enlarged Group that would have been attained had the Acquisition and the Subscription been completed on the date indicated herein. Furthermore, the Pro Forma Financial Information does not purport to predict the Enlarged Group's future financial position.

The Pro Forma Financial Information should be read in conjunction with the unaudited consolidated financial statements of the Group as set out in the interim report of the Company for the six months ended 30 September 2010, the audited consolidated financial information of Toon Express Group as set out in Appendix II to this circular and other financial information included elsewhere in this circular.

(B) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

	The Group as at 30 September 2010	Toon Express Group as at 31 December 2010	Subtotal	Pro Forma Adjustments		Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*
	Note (1)	*Note (2)*		*Note (3)*	*Notes*	
Non-current Assets						
Property, plant and equipment	3,132	1,012	4,144			4,144
Computer graphic imaging animation pictures	88,415	—	88,415			88,415
Prepayments	—	3,923	3,923			3,923
Deferred tax assets	—	1,541	1,541			1,541
Intangible assets	—	200	200	1,116,889	*(4)*	1,117,089
Goodwill	—	—	—	88,929	*(5)*	88,929
	91,547	6,676	98,223			1,304,041
Current Assets						
Inventories	529	366	895			895
Trade and other receivables and prepayments	1,625	53,615	55,240			55,240
Pledged deposits	—	6,061	6,061			6,061
Bank balances and cash	168,481	7,255	175,736	(330,000)	*(3(i))*	190,924
				359,188	*(6)*	
				(14,000)	*(7)*	
	170,635	67,297	237,932			253,120
Current liabilities						
Trade and other payables and accruals	6,106	29,453	35,559			35,559
Unearned revenue	266	—	266			266
Taxation payable	—	8,534	8,534			8,534
	6,372	37,987	44,359			44,359
Net current assets	164,263	29,310	193,573			208,761
Total assets less current liabilities	255,810	35,986	291,796			1,512,802
Non-current liabilities						
Promissory notes	—	—	—	172,842	*(3(iii))*	172,842
Deferred tax liabilities	—	1,622	1,622	279,222	*(8)*	280,844
	—	1,622	1,622			453,686
Net assets	255,810	34,364	290,174			1,059,116

Notes:

1. The balances are extracted from the unaudited consolidated financial statements of the Group for the period ended 30 September 2010 as set out in the interim report of the Company for the six months ended 30 September 2010.

2. The balances are extracted from the audited consolidated financial statements of Toon Express Group for the year ended 31 December 2010 as set out in Appendix II to this circular.

3. Pursuant to the Acquisition, the Company is to acquire the entire equity interest in Infoport for a total consideration at fair value of HK$960,960,000 including a contingent consideration at fair value of HK$172,842,000 (see Note 3(iii) below), detailed as follows:

   i) cash payment of HK$330 million;

   ii) Consideration Shares, representing 1,382,857,143 Shares to be issued and allotted to the Seller or its shareholder(s) or nominee(s).

   The Consideration Shares are subject to a lock-up undertaking as detailed in the circular and as such, the fair value of the Consideration Shares is determined by the Directors with reference to an external valuation report prepared by an independent valuation specialist.

   The fair value of the Consideration Shares, taken into account the lock-up period is therefore determined to be HK$458,118,000 at an adjusted price of HK$0.3313 per Share; and

   iii) an Earn-out Payment by Promissory Notes, being 9.3 times of the excess, if any, of the aggregate consolidated net profit of Toon Express Group for the financial years of 2011 and 2012 over HK$242 million, 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. They are payable in one lump sum on maturity together with all accrued interest.

   The fair value of the Promissory Notes is determined to be HK$172,842,000, arrived at by discounting the redemption amount of HK$238,313,000 (a principal amount of HK$232.5 million and an interest component of HK$5.8 million) at an effective interest rate of 13.71%, based on an external valuation report prepared by an independent valuation specialist.

4. Certain intangible assets were identified as part of the Acquisition. The fair values of these intangible assets, determined by the Directors with reference to external valuation reports prepared by an independent valuation specialist, comprise:

   i) intellectual properties in the form of trademarks and copyrights of various animation brands and related characters under the ownership of Toon Express Group of HK$337,835,000, arrived at using the Relief from Royalty approach;

   ii) future economic benefits of HK$127,406,000 arising from the CP Agreement with Disney Enterprises to promote and market Toon Express Group's intellectual properties, arrived at using the discounted cash flow approach; and

   iii) future economic benefits of HK$651,648,000 arising from the Joint Brand Management Agreement with CPE, a PRC company engaging in animation development and commercialisation, through which Toon Express Group shares the results of CPE by coordinating commercial exploitation for the animations and related characters owned by CPE. The fair value is arrived at using the discounted cash flow approach.

5. Goodwill is measured as the excess of the sum of the consideration transferred (see Note 3) over the fair value of the identifiable assets acquired less liabilities assumed.

   The amount of goodwill may change upon Completion if fair value of the assets acquired, liabilities assumed, and the contingent consideration on Completion Date are different to the amounts adopted for this Pro Forma Financial Information.

6. On 18 February 2011, the Company and the Subscribers entered into the Subscription Agreement pursuant to which the Subscribers agreed, subject to fulfillment of certain conditions including approval from the Shareholders at SGM to be held, to subscribe for 1,282,816,000 Shares at a subscription price of HK$0.28 per Share for a total amount of HK$359,188,000. The estimated related expense directly attributable to the Subscription is insignificant.

   The proceed from the Share Subscription is to finance the Acquisition, mainly for the cash payment of HK$330 million (see Note 3(i)).

7. Direct costs relating to the Acquisition of approximately HK$14,000,000 are recognised as expenses.

8. A deferred tax liability of HK$279,222,000 is recognised on the fair value of the intangible assets recognised (see Note 4), calculated at the PRC enterprise income tax rate of 25%.

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

Deloitte.
德勤

TO THE DIRECTORS OF IMAGI INTERNATIONAL HOLDINGS LIMITED

We report on the unaudited pro forma financial information of Imagi International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed acquisition of Infoport Management Limited and the subscription by certain subscribers of 1,282,816,000 shares at a subscription price of HK$0.28 each might have affected the financial information presented, for inclusion in Appendix IV of the circular dated 23 March 2011 issued by the Company (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on page 113 to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

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

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

Basis of opinion

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

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

The unaudited pro forma financial information is for illustrative purpose only, based on the judgment and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Enlarged Group as at 30 September 2010 or at any future date.

Opinion

In our opinion:

a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
23 March 2011

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS BY DIRECTORS

As at the Latest Practicable Date, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long positions in the shares and underlying shares of the Company

Name of Director	Capacity	Number of Shares	Number of underlying Shares	% of the issued share capital *(note a)*
Leung Pak To	Interest of controlled corporation	1,200,000,000 *(note b)*	—	20.96%
		—	1,500,000,000 *(note c)*	26.20%

Notes:

(a) Based on 5,724,907,577 Shares in issue as at the Latest Practicable Date.

(b) The Shares were held by Idea Talent, a company owned as to 93.75% by Grandwin Enterprises Limited which in turn is wholly and beneficially owned by Mr. Leung Pak To as at the Latest Practicable Date.

(c) The underlying Shares represented the new Shares that may be issued upon exercise of the Options by Idea Talent.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

3. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors, the following persons (other than a Director or chief executive of the Company) had an interest or a short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of the class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had options in respect of such capital:

Long positions in the shares and underlying shares of the Company

Name	**Capacity**	**Number of Shares**	**Number of underlying Shares**	**% of the issued share capital** *(note a)*
Idea Talent Limited	Beneficial owner	1,200,000,000	—	20.96%
		—	1,500,000,000 *(note c)*	26.20%
Grandwin Enterprises Limited	Interest in controlled corporation	1,200,000,000 *(note b)*	—	20.96%
		—	1,500,000,000 *(note c)*	26.20%
Better Lead Limited	Interest in controlled corporation	1,200,000,000 *(note b)*	—	20.96%
		—	1,500,000,000 *(note c)*	26.20%

Name	Capacity	Number of Shares	Number of underlying Shares	% of the issued share capital *(note a)*
Chung Cho Yee, Mico	Interest in controlled corporation	1,200,000,000 *(note b)*	—	20.96%
		—	1,500,000,000 *(note c)*	26.20%
Trophy Fund	Beneficial owner	571,122,397	—	9.98%
Trophy Asset Management Limited ("Trophy Asset")	Investment manager	571,122,397 *(note d)*	—	9.98%
Winnington Capital Limited ("Winnington")	Beneficial owner	57,166,237	—	0.99%
	Investment manager	571,122,397 *(note d)*	—	9.98%
Hung Kam Biu ("Mr. Hung")	Beneficial owner	1,414,194	—	0.02%
	Interest in controlled corporation	628,288,634 *(note e)*	—	10.97%
Chu Jocelyn ("Ms. Chu")	Interest of spouse	1,414,194 *(note e)*	—	0.02%
	Interest in controlled corporation	628,288,634 *(note e)*	—	10.97%
Citigroup Inc.	Lending agent	64,600	—	0.00%
	Person having a security interest in shares	361,944,075	—	6.32%

Notes:

(a) Based on 5,724,907,577 Shares in issue as at the Latest Practicable Date.

(b) The Shares were held by Idea Talent, a company owned as to 93.75% by Grandwin Enterprises Limited, which in turn is wholly and beneficially owned by Mr. Leung Pak To, and as to 6.25% by Better Lead Limited, which in turn is wholly and beneficially owned by Mr. Chung Cho Yee, Mico as at the Latest Practicable Date.

(c) The underlying Shares represented the new Shares that may be issued upon exercise of the Options by Idea Talent.

(d) To the Directors' best knowledge, Trophy Fund is managed by Trophy Asset and is also advised by Winnington. Therefore, both Trophy Asset and Winnington were deemed to have interest in the 571,122,397 Shares beneficially owned by Trophy Fund.

(e) To the Directors' best knowledge, Trophy Asset is wholly owned by Mr. Hung whilst Winnington is 50% owned by each of Mr. Hung and his wife, Ms. Chu. Hence, both Mr. Hung and Ms. Chu were deemed to have interest in the 57,166,237 Shares held by Winnington and the 571,122,397 Shares beneficially owned by Trophy Fund.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors, no person (other than a Director or chief executive of the Company) had any interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of the class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or who had any options in respect of such capital.

4. COMPETING INTERESTS

As at the Latest Practicable Date, to the best knowledge of the Directors, none of the Directors or their respective associates (within the meaning defined in the Listing Rules) had any interests in any business which competes or might compete with the business of the Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or proposed Directors had entered into any existing or proposed service contracts with the Company or any other member of the Group save for those expiring or determinable by the relevant employer within one year without payment of compensation (other than statutory compensation).

6. LITIGATION

Set out below is a summary of the litigation or claims of material importance pending or threatened against the Enlarged Group as at the Latest Practicable Date:

- Between 18 March 2009 and 31 July 2009, Ms. Monin Ung acted as the solicitor for Infoport in the course of her employment as assistant solicitor with a firm known as Troutman Sanders in Hong Kong. The Seller commenced legal proceedings against Ms. Ung on 12 May 2010 in the High Court of Hong Kong (Case No. HCA684 of 2010) in relation to Ms. Ung's breach of fiduciary duty in registering trademarks known as "Bala Goat 法制羊羊" and "Koona Goat 律羊羊". No specific amount of damage was claimed, rather an ambit claim for an enquiry into damages has been made which is the usual practice in such litigations. The actual amount of damages to be awarded will be assessed by the High Court based on the actual loss Infoport is deemed to have suffered up to the date of judgement. To the best of the Company's knowledge, legal proceedings are currently pending further action before the High Court.

Save as disclosed above, so far as the Directors were aware, neither the Company nor any member of the Enlarged Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or the Enlarged Group as at the Latest Practicable Date.

7. DIRECTORS' INTERESTS IN CONTRACTS

So far as the Directors were aware, as at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets of material importance to the Company which had been acquired or disposed of or leased to or which were proposed to be acquired or disposed of or leased to any member of the Enlarged Group since 31 March 2010, the date to which the latest published audited consolidated financial statements of the Group were made up.

As at the Latest Practicable Date, none of the Directors is materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Enlarged Group taken as a whole.

8. MATERIAL CONTRACTS

Set out below are the material contracts (not being contracts entered into in the ordinary course of business) entered or to be entered into by any member of the Enlarged Group within the two years immediately preceding the Latest Practicable Date:

(a) the loan agreement dated 3 February 2009 entered into by the Company and Mehta-Imagi LLC in respect of a principal loan of up to US$5,000,000, at an interest rate of 9% on the amount funded and maturing on 31 March 2009, from Mehta-Imagi LLC to the Company (the "Mehta Loan Agreement");

(b) the loan agreement dated 6 February 2009 entered into between the Company and Asia CGI Investments Limited in respect of a principal loan of up to US$1,600,000, at an interest rate of 10% annualised and maturing on 31 March 2009, from Asia CGI Investments Limited to the Company ("Asia CGI Loan Agreement");

(c) the bridge loan arrangement between the Company and Evertop Capital Limited (the "Evertop Bridge Loan Arrangement") comprising:

(i) the loan agreement dated 13 February 2009 entered into among the Company, Trophy Fund, Trophy LV Master Fund and Evertop Capital Limited ("Evertop") in respect of a principal loan of up to US$10,000,000, at an interest rate of 2% per month flat on the average daily outstanding balance of the loan and maturing on 30 June 2009, with conversion rights as set out therein (the "13 Feb Loan Agreement");

(ii) the letter agreement dated 20 February 2009 entered into by the Company, Imagi Crystal Limited ("Imagi Crystal") and Evertop to amend and restate the 13 Feb Loan Agreement (the "20 Feb Letter Agreement"); and

(iii) the novation agreement dated 20 February 2009 entered into by the Company, Trophy Fund, Trophy LV Master Fund, Evertop and Imagi Crystal in respect of the novation of the 13 Feb Loan Agreement resulting in Evertop becoming the lender and Imagi Crystal becoming the borrower thereunder;

(d) the security documents in relation to the Evertop Bridge Loan Arrangement comprising:

(i) the security deed dated 13 February 2009 executed by the Company in favour of Trophy LV Master Fund, Trophy Fund and Evertop in respect of the 13 Feb Loan Agreement whereby the Company created security interests over certain of its assets to secure the Liabilities (as defined therein) of the Company;

(ii) the guarantee dated 20 February 2009 entered into by the Company in favour of Evertop in respect of the 20 Feb Letter Agreement (the "20 Feb Guarantee") whereby the Company guaranteed the due and punctual performance of each and all of the Liabilities (as defined therein) of Imagi Crystal;

(iii) the security deed dated 11 March 2009 entered into by the Company in favour of Evertop in respect of the 20 Feb Letter Agreement (the "11 March Security Deed") whereby the Company created security interests over certain of its assets to secure the Liabilities (as defined therein) of Imagi Crystal;

(iv) the security deed dated 11 March 2009 entered into by Imagi Crystal in favour of Evertop in respect of the 20 Feb Letter Agreement (the "Imagi Crystal Security Deed") whereby Imagi Crystal created security interests over certain of its assets to secure the Liabilities (as defined therein) of Imagi Crystal;

(v) the guarantee dated 23 March 2009 entered into by Imagi Global Distribution Inc. in favour of Evertop in respect of the 20 Feb Letter Agreement (the "IGDI Guarantee") whereby Imagi Global Distribution Inc. guaranteed the due and punctual performance of each and all of the Liabilities (as defined therein) of Imagi Crystal;

(vi) the security deed dated 23 March 2009 entered into by Imagi Global Distribution Inc. in favour of Evertop in respect of the 20 Feb Letter Agreement (the "IGDI Security Deed") whereby Imagi Global Distribution Inc. created security interests over certain of its assets to secure the Liabilities (as defined therein) of Imagi Crystal;

(vii) the guarantee dated 1 April 2009 entered into by Imagi Character Licensing B.V. in favour of Evertop in respect of the 20 Feb Letter Agreement (the "Imagi Character Guarantee") whereby Imagi Character Licensing B.V. created security interests over certain of its assets to secure the Liabilities (as defined therein) of Imagi Crystal;

(viii) the security deed dated 1 April 2009 entered into by Imagi Character Licensing B.V. in favour of Evertop in respect of the 20 Feb Letter Agreement (the "Imagi Character Security Deed") whereby Imagi Character Licensing B.V. created security interests over certain of its assets to secure the Liabilities (as defined therein) of Imagi Crystal;

(ix) the supplemental guarantee in respect of the 20 Feb Guarantee dated 3 July 2009 entered into by the Company in favour of Evertop, whereby the Company, among other things, guaranteed the due and punctual performance of the Relevant Indebtedness (as defined therein) of Imagi Crystal to the extent that the 20 Feb Guarantee does not cover the Relevant Indebtedness;

(x) the supplemental security deed in respect of the 11 March Security Deed dated 3 July 2009 entered into by the Company in favour of Evertop, whereby the Company created a security interest over certain of its assets to secure the Relevant Indebtedness (as defined therein) of the Company;

(xi) the supplemental security deed in respect of the Imagi Crystal Security Deed dated 3 July 2009 entered into by Imagi Crystal in favour of Evertop, whereby Imagi Crystal created a security interest over certain of its assets to secure the Relevant Indebtedness (as defined therein) of Imagi Crystal;

(xii) the supplemental guarantee in respect of the IGDI Guarantee dated 3 July 2009 entered into by Imagi Global Distribution Inc. in favour of Evertop, whereby Imagi Global Distribution Inc., among other things, guaranteed the due and punctual payment of the Relevant Indebtedness (as defined therein) by Imagi Crystal to the extent that the IGDI Guarantee does not cover the Relevant Indebtedness;

(xiii) the supplemental security deed in respect of the IGDI Security Deed dated 3 July 2009 entered into by Imagi Global Distribution Inc. in favour of Evertop, whereby Imagi Global Distribution Inc. created a security interest over certain of its assets to secure the Relevant Indebtedness (as defined therein) of Imagi Global Distribution Inc.;

(xiv) the supplemental guarantee in respect of the Imagi Character Guarantee dated 3 July 2009 entered into by Imagi Character Licensing B.V. in favour of Evertop, whereby Imagi Character Licensing B.V., among other things, guaranteed the due and punctual payment of the Relevant Indebtedness (as defined therein) by Imagi Crystal to the extent that the Imagi Character Guarantee does not cover the Relevant Indebtedness; and

(xv) the supplemental security deed in respect of the Imagi Character Security Deed dated 3 July 2009 entered into by Imagi Character Licensing B.V. in favour of Evertop, whereby Imagi Character Licensing B.V. created a security interest over certain of its assets to secure the Relevant Indebtedness (as defined therein) of Imagi Character Licensing B.V.;

(e) the letter agreement dated 2 March 2009 entered into among the Company, Evertop and Imagi Crystal to extend the availability period of the working capital loan provided under 20 Feb Letter Agreement from 28 February 2009 to 30 April 2009;

(f) the security documents in relation to the HK$132 million convertible note dated 30 January 2008 issued by the Company pursuant to a subscription agreement dated 4 December 2007 between the Company and Winnington Capital Limited ("Winnington") in relation to the subscription and issue of such convertible note comprising:

(i) the guarantee dated 11 March 2009 entered into by Imagi Crystal in favour of Colour Max Limited, whereby Imagi Crystal, among other things, guaranteed the due and punctual performance of each and all the Liabilities (as defined therein) of the Company;

(ii) the security deed dated 11 March 2009 entered into by the Company in favour of Colour Max Limited whereby the Company created a security interest over certain of its assets to secure the Liabilities (as defined therein) of the Company;

(iii) the security deed dated 11 March 2009 entered into by Imagi Crystal in favour of Colour Max Limited whereby Imagi Crystal created a security interest over certain of its assets to secure the Liabilities (as defined therein) of the Company;

(iv) the guarantee dated 23 March 2009 entered into by Imagi Global Distribution Inc. in favour of Colour Max Limited, whereby Global Distribution Inc. guaranteed the due and punctual performance of the obligations of the Company;

(v) the security deed dated 23 March 2009 entered into by Imagi Global Distribution Inc. in favour of Colour Max Limited whereby Imagi Global Distribution Inc. created a security interest over certain of its assets to secure the Liabilities (as defined therein) of the Company;

(vi) the guarantee dated 1 April 2009 entered into by Imagi Character Licensing B.V. in favour of Colour Max Limited, whereby Imagi Character Licensing B.V., among other things, guaranteed the due and punctual performance of the obligations of the Company; and

(vii) the security deed dated 1 April 2009 entered into by Imagi Character Licensing B.V. in favour of Colour Max Limited, whereby Imagi Character Licensing B.V. created a security interest over certain of its assets to secure the Liabilities (as defined therein) of the Company;

(g) the supplemental loan agreement dated 13 March 2009 ("Asia CGI Supplemental Loan Agreement") entered into among the Company, Imagi Crystal and Asia CGI Investments Limited to, among other things, amend and restate the Asia CGI Loan Agreement and to increase the principal loan amount up to US$6,500,000 with conversion rights as set out therein;

(h) a novation agreement dated 18 March 2009 entered into among the Company, Imagi Crystal and Asia CGI Investments Limited whereby Imagi Crystal assumed the obligations of the Company in respect of the Asia CGI Loan Agreement (as amended by the Asia CGI Supplemental Loan Agreement);

(i) the security documents in relation to the Asia CGI Loan Agreement (as amended by the Asia CGI Supplemental Loan Agreement) comprising:

(i) the guarantee dated 18 March 2009 entered into by the Company in favour of Asia CGI Investments Limited, whereby the Company, amongst other things, guaranteed the due and punctual performance of the obligations of Imagi Crystal;

(ii) the guarantee dated 18 March 2009 entered into by Imagi Global Distribution Inc. in favour of Asia CGI Investments Limited, whereby Imagi Global Distribution Inc., among other things, guaranteed the due and punctual performance of the obligations of Imagi Crystal;

(iii) the security deed dated 18 March 2009 entered by Imagi Crystal in favour of Asia CGI Investments Limited, whereby Imagi Crystal created a security interest over certain of its assets to secure the Liabilities (as defined therein) of Imagi Crystal;

(iv) the security deed dated 18 March 2009 entered by Imagi Global Distribution Inc. in favour of Asia CGI Investments Limited, whereby Imagi Global Distribution Inc. created a security interest over certain of its assets to secure the Liabilities (as defined therein) of Imagi Crystal;

(v) the guarantee dated 18 March 2009 entered into by Imagi Character Licensing B.V. in favour of Asia CGI Investments Limited, whereby Imagi Character Licensing B.V., amongst other things, guaranteed the due and punctual performance of the obligations of Imagi Crystal arising under or in connection with the Asia CGI Supplemental Loan Agreement;

(vi) the security deed dated 18 March 2009 entered by Imagi Character Licensing B.V. in favour of Asia CGI Investments Limited, whereby Imagi Character Licensing B.V. created a security interest over certain of its assets to secure the Liabilities (as defined therein) of Imagi Crystal; and

(vii) the security deed dated 18 March 2009 entered by the Company in favour of Asia CGI Investments Limited, whereby the Company created a security interest over certain of its assets to secure the Liabilities (as defined therein) of Imagi Crystal;

(j) the agreement dated 27 March 2009 entered into among the Company, Imagi Crystal and Evertop to increase the maximum aggregate of the working capital loan amount under the Evertop Bridge Loan Arrangement to US$15,000,000;

(k) the agreement dated 7 May 2009 entered into among the Company, Imagi Crystal and Asia CGI Investments Limited in relation to the waiver of default interest payment obligation under the Asia CGI Loan Agreement (as amended by the Asia CGI Supplemental Loan Agreement);

(l) the agreement dated 7 May 2009 entered into among the Company, Imagi Crystal and Evertop to amend the interest calculation method of working capital loan and waive Imagi Crystal's default interest payment obligation under the 20 Feb Letter Agreement;

(m) the agreement dated on 15 May 2009 entered into among the Company, Imagi Crystal and Evertop to increase the maximum aggregate of the bridge loan amount to US$25,000,000 and extend the availability period under the 20 Feb Letter Agreement;

(n) the bridge loan conversion agreement dated 15 May 2009 between Mehta-Imagi LLC, Asia CGI Investment Limited, Evertop, Winnington and the Company, relating to the conversion of all outstanding bridge loans under the Mehta Loan Agreement, the Asia CGI Loan Agreement and the 13 Feb Loan Agreement;

(o) the agreement for the subscription of the convertible notes in an aggregate principal amount of HK$132 million between the Company and Winnington dated 15 May 2009;

(p) the underwriting agreement dated 20 May 2009 entered into between the Company and Guotai Junan Securities (Hong Kong) Limited in relation to the Company's rights issue of not less than 432,188,463 shares of the Company at a subscription price of HK$0.25 per rights share;

(q) the supplemental agreement to the underwriting agreement dated 10 July 2009 entered into between the Company and Guotai Junan Securities (Hong Kong) Limited in relation to the underwriting agreement dated 20 May 2009;

(r) the placing agreement dated 15 June 2009 entered into between Guotai Junan Securities (Hong Kong) Limited and the Company in respect of the placing of 230,000,000 new shares of the Company for a placing price of HK$0.441 per share (amounting to a total consideration of approximately HK$101.43 million) (the "Placing");

(s) the supplemental agreement dated 16 June 2009 entered into between the Company and Guotai Junan Securities (Hong Kong) Limited in respect of the Placing;

(t) the fee letter dated 9 September 2009 issued by the Company to Fortunate City Investment Limited ("FCI") pursuant to which the Company agreed to pay to FCI a fixed fee of US$1.5 million and certain bonus payments which FCI would be entitled to and which would be determined by, among other things, the box office performance of Astro Boy;

(u) the indemnity letter dated 9 September 2009 provided by the Company in favour of FCI pursuant to which the Company agreed to indemnify FCI against losses and claims in relation to the provision of the cash collateral of US$10 million by FCI in favour of Standard Chartered Bank (Hong Kong) Limited in connection with a letter of credit (the "Collateral");

(v) the security deed dated 9 September 2009 entered into between the Company and FCI pursuant to which Imagi Crystal charged all exploitation rights, distribution agreement and receipts from the exploitation of Astro Boy in China and Hong Kong in favour of FCI to secure the Collateral;

(w) the security deed dated 9 September 2009 entered into between Imagi Crystal and FCI pursuant to which Imagi Crystal charged all exploitation rights, distribution agreement and receipts from the exploitation of Astro Boy in Japan in favour of FCI to secure the Collateral;

(x) the facility letter dated 2 February 2010 entered into between Trophy Fund and the Company pursuant to which Trophy Fund advanced an unsecured loan of HK$3,500,000 to the Company;

(y) the exclusivity agreement dated 2 February 2010 entered into between the Company and Idea Talent whereby Idea Talent was granted exclusivity to conduct due diligence on the Group;

(z) the loan agreement dated 10 February 2010 in relation to the bridge loan facility of up to HK$20 million provided to the Company by Idea Talent;

(aa) the Share Subscription Agreement;

(bb) the intercreditors' agreement dated 10 February 2010 entered into between the Company, certain core creditors of the Group and Idea Talent in relation to the standstill and compromise of the indebtedness owed or otherwise payable by the Group to such core creditors. The aggregate amount of such indebtedness was approximately HK$241.1 million and would be settled by cash payment of HK$69.75 million, issue of 790,000,000 new Shares and grant of options to subscribe for 400,000,000 new Shares at an exercise price of HK$0.08 per Share;

(cc) the various option agreements entered into on 10 February 2010 each between the Company and certain core creditors of the Group and the Investor Option Agreement pursuant to which the Company granted to each of them separately option to subscribe an aggregate 1,900,000,000 Shares at an exercise price of HK$0.08 per Share;

(dd) the underwriting agreement dated 10 February 2010 entered into between the Company and Get Nice Securities Limited in relation to a rights issue of not less than 1,440,607,352 Shares at a subscription price of HK$0.07 per rights Share as supplemented by a supplemental underwriting agreement;

(ee) the Joint Brand Management Agreement dated 15 April 2010 and:

(i) the supplemental agreement to the Joint Brand Management Agreement dated 27 August 2010 between Infoport, CPE and Toon Express GZ;

(ii) the supplemental agreement to the Joint Brand Management Agreement dated 10 December 2010 between Infoport, CPE and Toon Express GZ;

(iii) the amendment to Joint Brand Management Agreement dated 17 February 2011 between Infoport, CPE and Toon Express GZ;

(iv) the memorandum of understanding dated 8 March 2011 relating to the Joint Brand Management Agreement dated 15 April 2010 between Infoport, Toon Express GZ and CPE; and

(v) the letter dated 15 March 2011 entered into between Infoport, Toon Express GZ and CPE to clarify the Joint Brand Management Agreement, the key terms of which are described in this circular, and no consideration is involved;

(ff) the banking facility letter dated 29 December 2010 issued by Agricultural Bank of China Limited, Hong Kong branch to Toon Express HK, granting an uncommitted revolving loan facility of HK$6 million for general corporate funding requirements of Toon Express HK;

(gg) the Sale and Purchase Agreement, the key terms of which are described in this circular;

- including a list of intellectual property rights used by Toon Express Group in its business, as attached as an appendix to the Sale and Purchase Agreement;

(hh) the Subscription Agreement, the key terms of which are described in this circular; and

(ii) the IDG Option Agreement, the key terms of which are described in this circular.

9. EXPERTS AND CONSENTS

The following is the qualification of the experts who have given opinions or advices contained in this circular:

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountants
KPMG	Certified Public Accountants

As at the Latest Practicable Date, none of the above experts had direct or indirect shareholdings in any member of the Enlarged Group, or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group, or any direct or indirect interest in any assets of material importance to the Company which had been acquired or disposed of or leased to or which were proposed to be acquired or disposed of or leased to any member of the Enlarged Group since 31 March 2010, the date to which the latest published audited consolidated financial statements of the Group were made up.

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its reports or opinions and references to its name in the form and context in which they appear.

10. MISCELLANEOUS

(a) The branch share registrar of the Company in Hong Kong is Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.

(b) The company secretary of the Company is Ms. Lau Siu Mui. She is a member of the Hong Kong Institute of Chartered Secretaries.

(c) The English text of this circular shall prevail over the Chinese text in the case of any inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong at 22nd Floor, Eight Commercial Tower, 8 Sun Yip Street, Chai Wan, Hong Kong up to and including the date of the SGM:

(a) The memorandum of association and bye-laws of the Company;

(b) the annual reports of the Company for each of the two years ended 31 March 2009 and 31 March 2010, and the interim report of the Company for the six months ended 30 September 2010;

(c) the accountants' report on Toon Express Group prepared by KPMG, the text of which is set out in Appendix II to this circular;

(d) the accountants' report on the unaudited pro forma financial information of the Enlarged Group prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix IV to this circular;

(e) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix; and

(f) the written consents of the experts referred to in the paragraph headed "Experts and Consents" in this appendix.

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

(incorporated in Bermuda with limited liability)

(Stock Code: 585)

NOTICE IS HEREBY GIVEN THAT a special general meeting (the ***SGM***) of Imagi International Holdings Limited (the ***Company***) will be held at The Atrium, Island Shangri-La, Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong, on Tuesday, 12 April 2011 at 3:30 p.m. or any adjournment thereof (as the case may be) for the purpose of considering and, if thought fit, passing, with or without modification, the following resolutions of the Company:

ORDINARY RESOLUTIONS

1. **"THAT:**

(a) the acquisition of the 499,990 ordinary shares of Infoport Management Limited (***Infoport***) representing the entire issued share capital of Infoport pursuant to the Sale and Purchase Agreement (as defined in the circular of the Company dated 23 March 2011 (the ***Circular***)), which has been entered into between the Company (as purchaser), PGBBW Limited (as seller), Mr. Lo Wing Keung, Mr. So Wing Lok, Jonathan, Medianew Consultants Limited and Sure Wealth Holdings Limited (each as a guarantor) on 17 February 2011, a copy of which has been produced to the meeting marked "A" and initialed by the chairman of this meeting for the purpose of identification, more particularly described in the Circular, and all transactions contemplated thereunder be and are hereby approved, ratified and/or confirmed;

(b) any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all such documents, instruments, agreements and deeds and do all such acts, matters and things as he/she may in his/her absolute discretion consider necessary or desirable for the purpose of and in connection with the implementation of the Sale and Purchase Agreement and the transactions contemplated thereunder and to agree to such variations of the terms of the Sale and Purchase Agreement as he/she may in his/her absolute discretion consider necessary or desirable; and

(c) subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the Consideration Shares (as defined in the Circular), the allotment and issue of the Consideration Shares pursuant to the Sale and Purchase Agreement upon the terms and subject to the conditions therein contained be and is hereby approved; and that the directors of the Company be and are hereby authorised, for and on behalf of the Company, to do all such acts and things and to sign, seal and execute and deliver all such documents and take all such steps which they may in their discretion consider necessary, desirable or expedient for the implementation of and giving effect to the allotment and issue of the Consideration Shares."

* *For identification purposes only*

2. "THAT:

(a) the subscription of 1,282,816,000 shares of the Company by the Subscribers (as defined in the circular of the Company dated 23 March 2011 (the ***Circular***)) pursuant to the subscription agreement entered into between the Company and the Subscribers on 18 February 2011 (the ***Subscription Agreement***), a copy of which has been produced to the meeting marked "B" and initialed by the chairman of this meeting for the purpose of identification, more particularly described in the Circular, and all transactions contemplated thereunder be and are hereby approved, ratified and/or confirmed;

(b) any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all such documents, instruments, agreements and deeds and do all such acts, matters and things as he/she may in his/her absolute discretion consider necessary or desirable for the purpose of and in connection with the implementation of the Subscription Agreement and the transactions contemplated thereunder and to agree to such variations of the terms of the Subscription Agreement as he/she may in his/her absolute discretion consider necessary or desirable; and

(c) subject to and conditional upon the passing of the resolution numbered 1 and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the Subscription Shares (as defined in the Circular), the allotment and issue of the Subscription Shares pursuant to the Subscription Agreement upon the terms and subject to the conditions therein contained be and is hereby approved; and that the directors of the Company be and are hereby authorised, for and on behalf of the Company, to do all such acts and things and to sign, seal and execute and deliver all such documents and take all such steps which they may in their discretion consider necessary, desirable or expedient for the implementation of and giving effect to the allotment and issue of the Subscription Shares."

3. "THAT:

(a) the option agreement relating to the grant of an option to Sevena Holdings Ltd by the Company to subscribe for 50,000,000 shares of the Company at HK$0.35 each entered into between the Company and Sevena Holdings Ltd on 18 March 2011 (the ***IDG Option Agreement***), a copy of which has been produced to the meeting marked "C" and initialed by the chairman of the meeting for the purpose of identification, more particularly described in the circular of the Company dated 23 March 2011 (the ***Circular***), and all transactions contemplated thereunder be and are hereby approved, ratified and/or confirmed;

(b) any one director of the Company be and is hereby authorised to do all such things and acts as he/she may in his/her discretion consider necessary, expedient or desirable for the purpose of or in connection with the implementation of the IDG Option Agreement and the transactions contemplated thereunder; and

(c) subject to and conditional upon the passing of the resolutions numbered 1 and 2 and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the IDG Option Shares (as defined in the Circular), the allotment and issue of the IDG Option Shares pursuant to the IDG Option Agreement upon the terms and subject to the conditions therein contained be and is hereby approved; and that the directors of the Company be and are hereby authorised, for and on behalf of the Company, to do all such acts and things and to sign, seal and execute and deliver all such documents and take all such steps which they may in their discretion consider necessary, desirable or expedient for the implementation of and giving effect to the allotment and issue of the IDG Option Shares."

By order of the Board
Imagi International Holdings Limited
Leung Pak To
Chairman

Hong Kong, 23 March 2011

Notes:

1. Any member of the Company entitled to attend and vote at the meeting may appoint one or, if he is holder of more than one share, more than one proxy to attend and to vote on his behalf. A proxy need not be a member of the Company.

2. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

3. To be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a certified copy thereof must be delivered to the office of the branch share registrar of the Company in Hong Kong, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

4. Whether or not you propose to attend the meeting in person, you are strongly urged to complete and return the form of proxy in accordance with the instructions printed thereon. Completion and return of the form of proxy will not preclude you from attending the meeting and voting in person if you so wish. In the event that you attend the meeting after having lodged the form of proxy, it will be deemed to have been revoked.

5. The resolutions to be proposed at the meeting will be decided by poll.