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IMAGI INTERNATIONAL HOLDINGS LIMITED

意馬國際控股有限公司*

(incorporated in Bermuda with limited liability)

(stock code: 585)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

The board of directors (the “Board”) of Imagi International Holdings Limited (the “Company”) is pleased to present the condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2011, together with the comparative figures for the six months ended 30 September 2010, as follows:

FINANCIAL INFORMATION

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 September	
	Notes	2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)
Revenue	4	70,839	4,459
Cost of sales before amortisation of intangible assets		(27,209)	(3,384)
Gross profit before amortisation of intangible assets		43,630	1,075
Amortisation of intangible assets	9	(50,327)	—
Gross (loss) profit after amortisation of intangible assets		(6,697)	1,075
Other income		2,770	496
Other gains (losses)		2,053	(1,588)
Distribution and selling expenses		(2,293)	—
Administrative expenses		(46,753)	(17,960)
Share of loss of an associate		(701)	—
Loss on redemption of bridge loan		—	(57,091)
Loss on redemption of prints and advertising loan		—	(187,078)
Loss on redemption of convertible loan notes		—	(257,269)
Loss on disposal of subsidiaries		—	(66)
Finance costs		(79)	(3,316)
Loss before tax	5	(51,700)	(522,797)
Income tax credit	6	4,991	2,203
Loss for the period		(46,709)	(520,594)
Other comprehensive income representing exchange differences arising on translation of foreign operations		12,950	357
Total comprehensive expenses for the period		(33,759)	(520,237)
Loss per share			
— basic and diluted	8	(HK\$0.005)	(HK\$0.112)

* for identification purpose only

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

NOTES:

1. BASIS OF PREPARATION

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

2. SIGNIFICANT TRANSACTIONS DURING THE PERIOD

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

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

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

notes:

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

- (a) cash payment of HK\$330 million; and
- (b) Consideration shares representing 1,382,857,143 shares of the Company issued and allotted to the vendor.

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

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

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

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

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

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

- (ii) Certain intangible assets were identified as part of the Acquisition. The fair values of these intangible assets as provisionally determined by the directors with reference to valuation reports prepared by Greater China comprise:
- (a) intellectual properties in the form of trademarks and copyrights of various animation brands and related characters under the ownership of TE Group of HK\$227,019,000 (“TE Trademarks and Copyrights”);
 - (b) future economic benefits of HK\$129,448,000 arising from a consumer products and related use agreement with Disney Enterprises, Inc. (“Disney”) to promote and market TE Group’s intellectual properties (“Consumer Products Agreement”); and
 - (c) intellectual properties in the form of trademarks and copyrights of HK\$623,300,000 arising from a joint brand management agreement with Creative Power Entertaining Limited Liability Company (“CPE”), a PRC company, through which TE Group participates in the coordination of the commercial exploitation of the animations for television episodes and movies and related characters owned by CPE and TE Group (“JBM Agreement”).

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

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

- (iv) The deposits were pledged to banks for the bank loans extended to TE Group. Subsequent to the Acquisition, the bank loans were repaid and the pledged deposits were released during the period ended 30 September 2011.
- (v) The Acquisition gave rise to acquisition-related costs of HK\$11,496,000, which were recognised as an expense in the consolidated statement of comprehensive income for the year ended 31 March 2011.
- (vi) Included in the revenue and loss for the period is approximately HK\$66,647,000 and HK\$34,613,000 respectively attributable to the additional business generated by TE Group. Had the Acquisition been completed on 1 April 2011, total group revenue and loss for the period would approximate the revenue and loss for the period as presented in the condensed consolidated statement of comprehensive income.

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

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

3. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2011 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2011. In addition, as a result of the acquisition of TE Group and investment in an associate (detailed in Note 10), the Group has applied the following significant accounting policies during the current interim period.

Business combinations

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

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

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

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

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

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

Intangible assets acquired in a business combination

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

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

Investments in an associate

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

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

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

Jointly controlled operations

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

Revenue recognition

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

Adoption of new and revised HKFRSs effective in the current period

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

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

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

4. REVENUE AND SEGMENT INFORMATION

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

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

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

For the period ended 30 September 2011

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

For the period ended 30 September 2010

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

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

5. LOSS BEFORE TAX

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

6. INCOME TAX CREDIT

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

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

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

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

7. DIVIDENDS

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

8. LOSS PER SHARE

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

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

The computation of diluted loss per share does not assume the exercise of options granted under the incentive share option scheme and other outstanding options (six months ended 30 September 2010: options granted under the incentive share option scheme and other outstanding options) since their exercise would result in a decrease in loss per share for both periods. Therefore the basic and diluted loss per share is the same.

9. INTANGIBLE ASSETS

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

notes:

- (i) The Consumer Products Agreement has a term of 10 years but is renewable subject to negotiation by the parties concerned. Accordingly, it is being amortised over the contractual life of the Consumer Products Agreement.
- (ii) The TE Trademarks and Copyrights generally have finite legal lives of 10 years but are renewable at minimal cost.

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

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

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

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

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

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

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

10. INTERESTS IN AN ASSOCIATE

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

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

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

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

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

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

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

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

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

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

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

11. DERIVATIVE FINANCIAL INSTRUMENTS

		30 September 2011	31 March 2011
	<i>note</i>	HK\$’000	HK\$’000
Sino Light Subscription Option	(i)	6,798	—

notes:

(i) Sino Light Subscription Option

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

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

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

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

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

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

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

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

notes:

- (i) The Group allows its trade customers a credit period in accordance with the terms specified in the contracts, normally ranging from 0 day to 90 days. The trade receivables at 30 September 2011 were aged less than 30 days based on invoice dates.
- (ii) The amount due from CPE mainly arose from the JBM Agreement and is unsecured, non-interest bearing and repayable within one year.

13. TRADE, OTHER PAYABLES AND LIABILITIES

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

notes:

- (i) Trade payables are aged less than 3 months based on the invoice date.
- (ii) The amount is unsecured, interest free, and repayable on demand.
- (iii) Amount represents the current portion of the other liabilities as at the end of the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATIONAL REVIEW

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

Consumer Products Licensing

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

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

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

- As part of the continuing partnership with Disney, *Pleasant Goat and Big Big Wolf*’s consumer products in the market have started to carry “Disney Licensed Merchandise” label on the packaging. This aims to promote greater confidence amongst consumers. In addition, the inclusion of the “Disney Licensed Merchandise” label allows for increased and concerted efforts by TE Group and our licensees to enforce anti-counterfeit initiatives.
- A major development this year is the improvement of the product quality and designs. Our licensees have been encouraged to upgrade the design and quality of the licensed products. In the short term, there will be an impact on the licensing revenue for the nine-month financial period ending 31 December 2011 (“Financial Period 2011”) as TE Group migrates to more capable and higher quality licensees. However, TE Group believes that this transition to improve product quality and designs is essential and indispensable for strengthening consumer appeal and brand equity in the long term.

- In the area of new media, the Group has managed to convert and reposition our content through different internet platforms and portals for the *Pleasant Goat and Big Big Wolf* brand to reach out to our consumers and fans. Together with our various partners, the Group has signed on with various major internet content providers and portals such as www.tiancity.com, 4399.com, China Mobile, Nokia's ovi, sohu.com, tencent.com, renren.com, PCCW, etc., to create *Pleasant Goat and Big Big Wolf* online/mobile games and video on demand, wallpaper, e-commerce, eBooks, flashcard, etc.
- As at 1 January 2011, 174 licensees were transferred to the Master Licensee under the Consumer Product Agreement. In the nine months ended 30 September 2011, the Master Licensee has achieved the following:
 - 38 new licensees
 - 16 renewal contracts
 - 1,197 new product designs
 - HK\$90.6 million of minimum guaranteed licensing fees arising from new and renewal contracts over the next 2–3 years
- In Taiwan, our *Pleasant Goat and Big Big Wolf* characters, pops and music appeared in 2 episodes of the “Watcha’ Playing” live show of the Disney Channel and achieved a positive TV ratings.
- Under the Broadcast Agreement with Disney signed on 15 October 2010, Disney has started broadcasting the *Joys of Seasons* in Taiwan, Hong Kong and the Indian Sub-Continent (in three local Indian dialects) through Disney Channel. The broadcast has built brand awareness of *Pleasant Goat and Big Big Wolf* beyond Mainland China to pave way for the introduction of consumer product licensing opportunities and diversify its economic dependency from Mainland China.
- On 29 August 2011, TE Group acquired HK\$36.4 million shares or 20.63% in Sino Light Enterprise Limited (“SLE”), which entered into a licensing agreement with Disney on 21 December 2010 to manufacture and distribute children’s apparel for kids from 0–14 years old for 3 years in China under the *Pleasant Goat & Big Big Wolf* brand through an establishment of chain stores. Disney has also granted SLE the right to formulate an e-Commerce strategy for *Pleasant Goat and Big Big Wolf*, and entered into a licensing deal with SLE on the apparel merchandise of *Pleasant Goat and Big Big Wolf* for Movie 4. Through establishing various types of sales outlets (flagship stores, shop-in-shops, franchised outlets, etc.), SLE plans to build a nationwide retail network of over 1,100 *Pleasant Goat and Big Big Wolf* points of sale in 3 years. There are also plans to build themed flagship stores in Shanghai, Beijing and Guangzhou where customers can experience a one-stop service, immersing in the animated world while shopping for quality merchandise of the *Pleasant Goat and Big Big Wolf* brand. Inside the *Pleasant Goat and Big Big Wolf* flagship stores, children can interact with the mascot characters, play, learn and shop at the same time. The first 2 stores were opened on 1 October 2011 in Zhuhai.

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

TE Group has stepped up efforts in protecting intellectual property rights of *Pleasant Goat and Big Big Wolf*. The adoption of the anti-counterfeit holograms by our sub licensees on our licensee products was kicked off together with a TV campaign commencing on 1 November 2011. Proactive raiding of *Pleasant Goat and Big Big Wolf* counterfeit products will follow suit. Currently, the Group is working on 543 legal cases, which have violated our intellectual property rights.

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

Strategic Alliance with Creative Power Entertaining

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

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

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

- Airtime increased by 10.7% from the 2nd quarter with breakdown as follows:
 - 1) National stations: increased in broadcast airtime by 86% from the 2nd quarter
 - 2) Provincial and provincial satellite stations: as compared to our commitments made to Disney, it exceeded the target by 144%
 - 3) City stations: increased in broadcast airtime by 13.6% from the 2nd quarter.
- *Pleasant Goat and Big Big Wolf's* 3+ Reach ratings grew from 75% in 2nd quarter to 86% in 3rd quarter. 3+ reach means three (3) or more minutes of continuous viewing by audiences aged between four and fourteen years, with a frequency of three or more times per month.
- In terms of *Pleasant Goat and Big Big Wolf's* audience profile, core 4–14 age group accounts for 46.6% of the total viewership.

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

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

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

Overseas Activities

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

TE Group has also registered an office in Singapore. *Pleasant Goat and Big Big Wolf* was broadcasted in Singapore under Nickelodeon in 2009 and currently under Mediacorp's Channel 8 since November 2010. With the strong interest of Singaporeans to learn Mandarin, *Pleasant Goat and Big Big Wolf* is well received by parents as a good and fun way for their children to be exposed to Chinese culture and language. TE Group is building on this foundation. In October, the Group worked with Nanyang Primary School, a top school to promote the use of Mandarin for their students. With the mounting response, TE Group aims to work more intensively with schools in Singapore on this initiative. The growing dominance of China as the world's second largest economy has brought about a strong interest internationally to learn Mandarin and *Pleasant Goat and Big Big Wolf* is well positioned to capitalize on this growing opportunity.

INCOME RECOGNITION

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

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

- a. A sub licensee enters into a contract with the Master Licensee whereby the Master Licensee is entitled to receive a licensing royalty fee based on a percentage of the sale revenue of the licensed product, subject normally to a minimum guarantee ("Sub-licensee MG") for a period of 2 to 3 years.
- b. TE Group charges the Master Licensee royalties according to the kinds of products in addition to a minimum guarantee ("Disney MG") which is adjusted periodically.
- c. TE Group recognizes the licensing royalty fee income monthly based on the accrued Sub-licensee MGs attributable to TE Group for each contract year.

- d. If the sub licensee's actual performance is higher than the Sub-licensee MG, the additional income will be recognised at the contract anniversary, the end of the contract period or other period as agreed between the licensor and licensee.
- e. There is also a cap on the level of bad debts and the Master Licensee guarantees the Group that bad debt does not exceed 4% of the aggregate royalties payable.

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

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

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

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

FINANCIAL REVIEW

Review of Results

The Group

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

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

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

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

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

TE Group

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

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

Contribution from the Joint Brand Management Agreement with Creative Power Entertaining

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

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

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

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

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

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

Material acquisition of subsidiaries and associated company

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

The shares issued as part of the consideration of the Acquisition were valued at HK\$423.5 million for accounting purpose. Together with the cash consideration of HK\$330 million, an amount of HK\$753.5 million was recorded as the initial consideration of the Acquisition paid on 13 April 2011. In exchange of this HK\$753.5 million, the Group recognised (i), based on the completion account of TE Group, the fair value of the assets and liabilities of TE Group as at

13 April 2011 amounting to HK\$17.6 million; (ii) the aggregate fair value of three intangible assets identified in the Acquisition, namely the trademarks and copyrights owned by TE Group, the CPA with Disney and the underlying assets of the JBMA with CPE amounting to HK\$979.8 million; and (iii) the associated deferred tax liabilities of the three intangible assets with an amount of HK\$243.9 million. According to the prevailing accounting policies adopted by the Group, the three intangible assets are subject to amortisation based on their respective contract life and estimated economic lives ranging from 6 to 12 years.

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

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

Liquidity and Financial Resources

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

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

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

Capital Structure

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

Charges on Assets

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

PROSPECTS

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

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

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

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

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

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

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

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

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

GENERAL INFORMATION

CODE ON CORPORATE GOVERNANCE PRACTICES

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

REVIEW OF INTERIM RESULTS

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

By order of the Board
Imagi International Holdings Limited
Soh Szu Wei
Executive Director & Chief Executive Officer

Hong Kong, 29 November 2011

As at the date of this announcement, the Board comprises Mr. Leung Pak To as the Chairman and non-executive director; Mr. Soh Szu Wei as the executive director; Mr. Chong Meng Tak, Christopher, Ms. Ma Wai Man, Catherine and Mr. Yang Fei as the non-executive directors; and Mr. Chan Yuk Sang, Mr. Cheng Yuk Wo and Dr. Lam Lee G. as the independent non-executive directors.