华夏动漫集团

China Animation Characters Company Limited
華夏動漫形象有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1566)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2015

PROPOSED INTERIM DIVIDEND BY WAY OF BONUS ISSUE

The Board wishes to announce the unaudited interim results of the Group for the six months ended 30 September 2015 as follows:

– Revenue was HK$258.6 million for the six months ended 30 September 2015, representing an increase of 20.7% compared with HK$214.3 million for the six months ended 30 September 2014.

– Gross profit was HK$62.5 million for the six months ended 30 September 2015, representing a decrease of 16.1% compared with HK$74.5 million for the six months ended 30 September 2014. Gross profit margin for the six months ended 30 September 2015 was 24.2%, representing a decrease of 30.5% compared with 34.8% for the six months ended 30 September 2014.

– Profit attributable to the owners of the Company was HK$32.1 million, representing a decrease of 10.8% compared with HK$36.0 million for the six months ended 30 September 2014.

– Basic earnings per Share amounted to 7 HK cents for the six months ended 30 September 2015, representing a decrease of 41.7% compared with 12 HK cents for the six months ended 30 September 2014.

During the six months ended 30 September 2015, the revenue of the Group experienced a significant growth mainly because of an increase in sales volume to two major customers. There was, however, a slight decrease in the profit attributable to the owners of the Company primarily due to (a) additional rental expense of HK$9.4 million for the entire floor area of Phase I of the *Shanghai JOYPOLIS* of which only about one-eight is currently open for business and (b) the exchange loss of HK$2.9 million as a result of depreciation of RMB against our reporting currency in HK$. Without taking into account of the additional rental expense of entire floor area for Phase I of the *Shanghai JOYPOLIS* and the exchange loss, the comparable profit attributable to the owners of the Company would be HK$39.8 million, representing an increase of 10.6%, as compared with HK$36.0 million for the six months ended 30 September 2014.

The Board recommended an interim dividend for the six months ended 30 September 2015 to be payable by way of Bonus Issue. The Bonus Issue, and the corresponding increase in the authorised share capital of the Company, are subject to the approval of the Shareholders at the Extraordinary General Meeting. A separate announcement will be published and a Shareholders' circular will be despatched for the purpose of seeking the approval of the Shareholders on the Bonus Issue and the increase in the authorised share capital of the Company.

The board (the "**Board**") of directors (the "**Directors**") of China Animation Characters Company Limited (the "**Company**") wishes to present the unaudited interim results of the Company (which together with its subsidiaries, the "**Group**") for the six months ended 30 September 2015, together with the comparative figures for the six months ended 30 September 2014, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2015

		Six months ended 30 September	
		2015	2014
		(Unaudited)	(Unaudited)
	NOTES	***HK$'000***	*HK$'000*
Revenue	*2*	**258,621**	214,316
Cost of sales and services		**(196,123)**	(139,796)
Gross profit		**62,498**	74,520
Other income		**1,162**	203
Selling and distribution expenses		**(6,365)**	(1,692)
Administrative expenses		**(21,422)**	(13,014)
Listing expenses		**–**	(11,642)
Finance costs		**(148)**	–
Other expense		**–**	(753)
Profit before taxation		**35,725**	47,622
Taxation	*3*	**(10,952)**	(11,666)
Profit for the period	*4*	**24,773**	35,956
Other comprehensive expense:			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign subsidiaries		**(455)**	(67)
Total comprehensive income for the period		**24,318**	35,889
Profit (loss) for the period attributable to:			
Owners of the Company		**32,124**	35,956
Non-controlling interests		**(7,351)**	–
		24,773	35,956
Total comprehensive income (expense) attributable to:			
Owners of the Company		**31,645**	35,889
Non-controlling interests		**(7,327)**	–
		24,318	35,889
Earnings per share	*6*		
– Basic (HK$)		**0.07**	0.12

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2015

	NOTES	30 September 2015 (Unaudited) HK$'000	31 March 2015 (Audited) HK$'000
Non-current assets			
Property, plant and equipment		**134,697**	102,908
Intangible assets		**25,471**	6,476
Held-to-maturity investment	7	**14,909**	–
Deposits for acquisition of property, plant and equipment		**231,635**	119,059
Deposit for acquisition of long term investment	8	**5,359**	–
		412,071	228,443
Current assets			
Trade receivables	9	**104,213**	64,940
Other receivables, deposits and prepayments		**17,416**	9,825
Prepayment to a game developer		**20,000**	–
Advances to a supplier	10	**–**	72,643
Pledged bank deposit	11	**97,696**	–
Bank balances and cash		**67,183**	339,017
		306,508	486,425
Current liabilities			
Trade payables	12	**16,233**	36,424
Other payables and accruals		**22,342**	39,640
Tax payable		**94,462**	83,594
		133,037	159,658
Net current assets		**173,471**	326,767
Net assets		**585,542**	555,210
Capital and reserves			
Share capital		**42,911**	42,911
Reserves		**546,992**	515,347
Equity attributable to owners of the Company		**589,903**	558,258
Non-controlling interests		**(4,361)**	(3,048)
Total equity		**585,542**	555,210

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2015

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

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

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

Except as described below, the accounting policies and the methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2015 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2015.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intention and ability to hold to maturity other than:

a) those that the entity upon initial recognition designates as at fair value through profit or loss;

b) those that the entity designates as available for sale; and

c) those that meet the definition of loans and receivables.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment.

2. REVENUE AND SEGMENT INFORMATION

Revenue represents revenue arising from trading of animation derivative products, licensing of animation characters, establishment and operation of indoor theme park and multimedia animation entertainment in Hong Kong and the PRC during the period.

Information reported to the chief executive of the Company, being the chief operating decision maker ("**CODM**"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered or services provided. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

The Group's operating and reportable segments currently are: (i) trading of animation derivative products, (ii) licensing of animation characters, (iii) establishment and operation of indoor theme park and (iv) multimedia animation entertainment. The CODM considers the Group has four operating and reportable segments which are based on the internal organisation and reporting structure. This is the basis upon which the Group is organised.

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segments:

For the period ended 30 September 2015 (unaudited)

	Trading of animation derivative products *HK$'000*	Licensing of animation characters *HK$'000*	Establishment and operation of indoor theme park *HK$'000*	Multimedia animation entertainment *HK$'000*	Total *HK$'000*
Segment revenue	**252,771**	**–**	**3,945**	**1,905**	**258,621**
Segment profit (loss)	**75,018**	**(570)**	**(15,361)**	**(5,325)**	**53,762**
Unallocated income					**1,162**
Unallocated expenses					**(19,051)**
Finance costs					**(148)**
Profit before taxation					**35,725**

For the period ended 30 September 2014 (unaudited)

	Trading of animation derivative products *HK$'000*	Licensing of animation characters *HK$'000*	Establishment and operation of indoor theme park *HK$'000*	Multimedia animation entertainment *HK$'000*	Total *HK$'000*
Segment revenue	213,033	–	872	411	214,316
Segment profit (loss)	73,809	(1,300)	(1,427)	109	71,191
Unallocated income					203
Unallocated expenses					(12,130)
Listing expenses					(11,642)
Profit before taxation					47,622

Segment profit (loss) represents the profit (loss) earned (incurred) by each segment without allocation of certain administrative expenses, listing expenses and unallocated income. This is the measure reported to CODM for the purpose of resource allocation and performance assessment.

All the segment revenue reported above is from external customers.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating and reportable segments:

Segment assets

	30 September 2015 (Unaudited) ***HK$'000***	31 March 2015 (Audited) *HK$'000*
Trading of animation derivative products	**103,094**	64,940
Licensing of animation characters	**1,039**	1,484
Establishment and operation of indoor theme park	**329,216**	184,213
Multimedia animation entertainment	**55,622**	2,942
Total segment assets	**488,971**	253,579
Property, plant and equipment	**46,514**	49,254
Held-to-maturity investment	**14,909**	–
Other receivables, deposits and prepayments	**3,306**	375
Advances to a supplier	**–**	72,643
Pledged bank deposit	**97,696**	–
Bank balances and cash	**67,183**	339,017
Consolidated assets	**718,579**	714,868

Segment liabilities

	30 September 2015 (Unaudited) ***HK$'000***	31 March 2015 (Audited) *HK$'000*
Trading of animation derivative products	**112,830**	121,979
Establishment and operation of indoor theme park	**12,241**	4,334
Multimedia animation entertainment	**243**	–
Total segment liabilities	**125,314**	126,313
Other payables and accruals	**7,723**	33,345
Consolidated liabilities	**133,037**	159,658

Segment assets represent certain property, plant and equipment, deposits for acquisition of property, plant and equipment, deposit for acquisition of long term investment, intangible assets, prepayment to a game developer, trade receivables and certain other receivables, deposits and prepayments which are directly attributable to the relevant operating and reportable segments. Segment liabilities represent trade payables, certain other payables and accruals and tax payable which are directly attributable to the relevant operating and reportable segments. These are the measures reported to the CODM for the purpose of resources allocation and assessment of segment performance.

3. TAXATION

	Six months ended 30 September	
	2015	2014
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Hong Kong Profits Tax	**10,952**	11,666

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. No provision for the PRC Enterprise Income Tax has been made for PRC subsidiaries as either the assessable profit is wholly absorbed by tax losses brought forward or no assessable profit is derived during both periods.

The Group had unused tax losses of approximately HK$34,839,000 at 30 September 2015 (31 March 2015: HK$19,899,000), which is available for offset against future profits. No deferred tax asset has been recognised due to unpredictability of future profit streams. The tax losses will expire from 2016 to 2020.

The Group had not notified the Hong Kong Inland Revenue Department ("**IRD**") of its assessable profits for the years of assessment 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 on time in prior years. Instead, such notifications were only made in February 2014 that the Group had derived assessable profits since 2008. Following the notification, the IRD issued tax returns to the Group which they have completed and submitted to the IRD within the time frame as stipulated in the respective tax returns. The Group has received Notices of Assessment for the year of assessment 2008/09 in March 2014, the year of assessment 2009/10 in May 2014, the years of assessment 2010/11, 2011/12 and 2012/13 in July 2014, respectively, from the IRD which stated that tax payable for the years of assessment 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 amounting to approximately HK$4,566,000 in aggregate, which is based on the amounts reported in tax returns filed by the Group for relevant years assuming no penalty would be imposed by the IRD. Up to the date of this announcement, the IRD has not issued any penalty notice to the Group in respect of the late notification of chargeability for the relevant years as mentioned above.

In addition to making tax provision for the relevant years as discussed above, the directors have also considered possible penalty that may be imposed by the IRD on the Group as at each reporting date, if any, arising from the late notification of chargeability for the years of assessment 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 by the relevant group entity. After seeking professional advice, the directors understand that the possible penalty, if any, is likely to be at the level of 50% of the amount of tax undercharged, that is HK$2,283,000 as of 30 September 2015 and 31 March 2015. However, based on the relevant facts and circumstances and taking into account the aforesaid professional advice, the directors believe that it is not probable that such penalty will be imposed on the Group. As a result, no provision has been made against such potential penalty.

The Group has lodged the offshore profits claims in respect of the trading income (other than trading income derived from the Hong Kong affiliates of Japanese customers) and licensing income which were derived outside Hong Kong. Hence, the Group estimated the total tax payable for the years of assessment of 2008/09 to 2012/13 (on the assumption that the aforesaid offshore profit claims will be accepted by the IRD) amounted to HK$4,566,000 and has already paid such amount to the IRD based on the tax returns received. Up to the date of this announcement, the offshore profits claims are still under review by the IRD. After seeking professional advice, the directors of the Company opined that in the event that the offshore profits claims in respect of the trading income are not accepted but the offshore profits claims in respect of the licensing income are accepted by the IRD, the estimated outstanding tax payable by the Group for the seven years ended 31 March 2015 and six months ended 30 September 2015 would be HK$84,366,000 and HK$95,234,000, respectively. As of 30 September 2015, the Group has made accumulated provision of HK$94,462,000 (31 March 2015: HK$83,594,000) as tax payable in the consolidated financial statements. Having taken into account the aforesaid professional advice, the directors believe that the Group has made appropriate provision in respect of the possible tax liability.

4. PROFIT FOR THE PERIOD

	Six months ended 30 September	
	2015	2014
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Profit for the period has been arrived at after charging (crediting):		
Staff costs:		
Directors' emoluments	**2,193**	–
Other staff costs		
Salaries and other benefits	**4,544**	3,496
Retirement benefits scheme contributions	**450**	82
	7,187	3,578
Auditor's remuneration	**809**	949
Cost of inventories recognised as expenses	**174,960**	136,671
Depreciation of property, plant and equipment	**4,656**	3,846
Amortisation of intangible assets	**684**	684
Research and development costs recognised as an expense (included in cost of sales and services)	**866**	784
Interest income	**(838)**	–
Finance costs	**148**	–
Listing expenses	**–**	11,642
Operating lease rentals in respect of rented premises	**11,478**	831
Operating lease rentals in respect of rented vehicles	**65**	65
Net foreign exchange losses	**2,368**	140

5. DIVIDENDS

No dividend has been paid or declared by the Company since its date of incorporation. Prior to the Reorganisation, China Animation Group Limited ("**China Animation BVI**") had declared dividends to its then equity owner as follows:

	Six months ended 30 September	
	2015	2014
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Controlling Shareholder	**N/A**	25,000

The rate of dividend and number of shares ranking for dividend are not presented as such information is not meaningful having regard to the purpose of this report.

The directors of the Company have determined that an interim dividend by way of 1 bonus ordinary share at par value of HK$0.1 each for every 1 existing ordinary share held, will be issued to the shareholders of the Company whose names appear in the Register of Members on 24 December 2015.

6. EARNINGS PER SHARE

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

	Six months ended 30 September	
	2015	2014
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Earnings:		
Earnings for the purpose of calculating basic earnings per share (profit for the period attributable to owners of the Company)	**32,124**	35,956
	'000	*'000*
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**429,108**	305,059

The weighted average number of ordinary shares for the purpose of basic earnings per share for the period ended 30 September 2014 was calculated based on the ordinary shares of the Company after retrospective adjustment and assuming the issuance of 300,000,000 ordinary shares of HK$0.10 pursuant to the capitalisation issue, pursuant to "Resolutions passed by our Shareholders in the general meeting held on 16 February 2015", had been effective on 1 April 2014.

No diluted earnings per share is presented for the period ended 30 September 2015 and 2014 as there is no potential ordinary share in issue during both periods.

7. HELD-TO-MATURITY INVESTMENT

	30 September 2015	31 March 2015
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Listed bond security at amortised cost		
Listed on the Singapore Exchange Limited with a fixed coupon interest at 6.25% per annum and maturity date on 22 May 2017	**14,909**	–

Held-to-maturity investment is denominated in a currency other than functional currency of the respective group entity which it relates:

	30 September 2015	31 March 2015
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Renminbi ("RMB")	**14,909**	–

8. DEPOSIT FOR ACQUISITION OF LONG TERM INVESTMENT

In August 2015, the Group entered into a strategic partnership agreement and a supplementary agreement with an independent third party to enter into a long-term strategic alliance and partnership to collaborate across virtual reality technology projects. Deposit for acquisition of long term investment represents the consideration paid by the Group for acquisition of options, on a priority basis, to invest or co-invest in virtual reality technology projects and the deposit is refundable.

9. TRADE RECEIVABLES

The Group allows a credit period ranging from 30 days to 60 days to its trade customers. The following is an aged analysis of trade receivables presented based on the invoice dates, which approximate the revenue recognition dates:

	30 September 2015 (Unaudited)	31 March 2015 (Audited)
	HK$'000	*HK$'000*
0 to 60 days	**78,277**	39,731
61 to 180 days	**25,928**	25,004
Over 180 days	**8**	205
	104,213	64,940

At 31 March 2015, included in the Group's trade receivables was trade balance with Harvest Progress International Limited, a shareholder of the Company, of HK$25,000,000.

10. ADVANCES TO A SUPPLIER

The amount as at 31 March 2015 represented the accumulated balance of the advances to an independent supplier for the expansion of its production capacity in order to cope with orders from the Group pursuant to the agreement entered in March 2015. The advances were unsecured, non-interest bearing and repayable in October 2015. Pursuant to the agreement, the Group has the right to set off the debt against trade payable to the supplier in the case at default of the settlement in October 2015.

Pursuant to a supplementary agreement entered into with the independent supplier in July 2015, the advances of approximately HK$60,143,000 were settled by offsetting trade payables to the supplier and the remaining balance was settled by cash in July 2015.

11. PLEDGED BANK DEPOSIT

Pledged bank deposit represents deposit pledged to a bank to secure banking facilities granted to the Group. The pledged bank deposit carries interest at market rate of 2.06% (31 March 2015: nil) per annum. The deposit will be released within the next twelve months from the end of the reporting period. Accordingly, the amount is included in the current assets.

12. TRADE PAYABLES

The average credit period on purchases of goods is 30 days. The following is an aged analysis of trade payables presented based on the invoice dates at the end of the reporting period:

	30 September 2015 (Unaudited) *HK$'000*	31 March 2015 (Audited) *HK$'000*
0 to 30 days	**14,961**	26,250
31 to 60 days	**1,008**	8,862
61 to 90 days	**264**	27
Over 90 days	**–**	1,285
	16,233	36,424

13. SECURED BANK BORROWINGS

During the current interim period, the Group obtained new bank loans amounting to approximately HK$172,050,000 (31 March 2015: HK$ nil). The loans carried interest at variable market rates of London Interbank Offered Rate plus 2% per annum and are repayable over a period of one to three months. The average effective interest rate of the loans is approximately 2.22% (31 March 2015: nil) per annum. The proceeds were mainly used to finance the acquisition of property, plant and equipment. The bank loans were fully repaid in September 2015.

MANAGEMENT DISCUSSION & ANALYSIS

The Group is engaged in multi-line businesses in the animation-related industry, with the primary focus on the trading of animation-derived products (mainly toys) featuring renowned third-party owned animation characters for the Japanese market with the provision of value-added services to its customers. The business objective of the Group is to build a multimedia animation business in China and in this connection, it has been actively expanding its business during the six-month period ended 30 September 2015, including the opening of the Phase I of the *Shanghai JOYPOLIS*, the licensing of animation characters and the development of multimedia animation entertainment businesses featuring the proprietary animation characters of the Group.

BUSINESS REVIEW

Trading of animation-derived products

The core business of the Group is trading of toys featuring a wide range of popular third-party owned animation characters with the provision of value-added services to its customers. The Group's product range includes general plastic toys, food-grade toys (toys that are intended to have direct contact with food and toys that are packaged with candy) and product moulds procured from suppliers. The product moulds are designed and manufactured by suppliers for the production of animation-derived plastic toy products.

Most of the Group's customers are Japanese companies sourcing animation-derived products for toys companies in Japan, leading outdoor theme parks in Japan and Japanese companies distributing their products in Japan and the United States market. Through the provision of quality toy products and services, the Group has been able to maintain solid business relationship with customers.

The value-added services offered by the Group include quality control and product design improvements to certain customers if required by them. These services can differentiate the Group from other toy traders which do not provide additional services to customers.

Indoor theme park

The Group is the first licensed operator of *JOYPOLIS* in China. Phase I of the *Shanghai JOYPOLIS* with a gross floor area of about 1,000 sq.m. was opened on 1 January 2015 and the grand opening of the *Shanghai JOYPOLIS* of 8,239 sq.m. is scheduled in the first quarter of 2016. *Shanghai JOYPOLIS* is strategically located in a shopping complex in downtown Shanghai connected with convenient transportation network.

Shanghai JOYPOLIS targets the young population in China and provides thrilling animation amusement rides and an exciting interactive experience by creating a fantasy world presenting an intense digital animation experience enabled by video production through cutting-edge technology. We expect the comprehensive testing of the equipment and arcade game machines at the *Shanghai JOYPOLIS* will be completed at the first quarter of 2016.

Licensing of animation characters

The Group has strong research and development capabilities in the creation and development of animation characters. Through acquisitions or self-development, it owns the intellectual property rights of several popular proprietary animations such as "*Han Ba Gui*" (憨八龜), "*Violet*" (紫嫣), "*Animal Conference on the Environment*" (動物環境會議) and "*The Amazing UU*" (神奇的優悠). The most popular amongst these is "*Violet*" (紫嫣), the first virtual artist which performed bi-dialectal music animation concert in China by applying three dimensional (3D) mixed reality (MR) technologies.

Multimedia animation entertainment

The first Hong Kong concert of "*Violet*" (紫嫣), *Violet 2015 Hong Kong 3D Holographic Concert*, was successfully performed on 30 September 2015 at the Star Hall, International Trade & Exhibition Centre, Kowloon Bay. The Group used 3D MR technology in the concert, with creativity, music and animation culture, these let the concert audience feel the infinite vitality and energy of youth. The feedback from the concert audience was very encouraging. In addition, five animation games featuring "*Violet*" (紫嫣) have been launched since May 2015, including two virtual reality ("VR") games, two mobile games and one online game via Internet.

The Group opened the first VR gaming experience centre in Shanghai in June 2015. The first VR gaming experience centre includes a number of VR games and wearable devices featuring the proprietary animation characters of the Group. The first VR centre of the Group is adjacent to the location of the *Shanghai JOYPOLIS*. Visitors of the Group's VR gaming experience centre can wear VR glasses, and they will experience a 360-degree VR experience to access to the virtual three-dimensional environment and enjoy a multi-sensory interaction experience. In addition, visitors can purchase VR wearable devices and download the game applications through the Group's website, so that they can enjoy the VR interactive gaming experience at any time. In July 2015, the Group opened another VR gaming experience centre in Shenzhen Central Book City (深圳中心書城).

Commercialisation of the proprietary animation characters

While the existing animation business and animation character toys business remain as its core businesses, the Group is accelerating the development of animation characters and plans to expand the commericalisation of the animation characters into the mobile game segment through different media.

"*Violet*" (紫嫣) attended the *56th International Art Exhibition – La Biennale di Venezia* held at the Giardini, the Arsenide and various places within the City of Venice, Italy, in July 2015. In addition, the Group participated *Ani-Com & Games Hong Kong* in July 2015 and *Gamescom* in Cologne, Germany in August 2015 for the promotion of "*Violet*" (紫嫣) and the VR animation games and the animation characters of the Group. The Group will promote the products derived from "*Violet*" (紫嫣) outside the PRC through different media as well as virtual reality (VR) and MR technologies. The Group also continues to explore business opportunities relating to Internet business which may facilitate the development and commercialisation of its animation business and animation characters. In the PRC, the Group continues to contribute the PRC government to develop the cultural industry. The Group's efforts continue to enhance the popularity of "*Violet*" (紫嫣) and other proprietary animation characters to further penetrate the market. Leveraging its research and development team as well as implementing strategic cooperation, its product content and value will be enhanced which in turn bolster the Group's overall competitiveness in the animation entertainment business across different media. The Group's business plans and principles have been carefully evaluated and are expected to promote its business.

FINANCIAL REVIEW

The following sets forth a summary of the performance of the Group during the six-month period ended 30 September 2015 with comparative figures as follows:

	Period ended 30 September	
	2015	2014
Revenue *(HK$'000)*	**258,621**	214,316
Gross profit *(HK$'000)*	**62,498**	74,520
Gross profit margin *(%)*	**24.2**	34.8
Listing expenses *(HK$'000)*	**–**	11,642
Other expense *(HK$'000)*	**–**	753
Profit attributable to the owners of the Company *(HK$'000)*	**32,124**	35,956

Revenue

The revenue increased by HK$44.3 million, or 20.7%, from HK$214.3 million for the period ended 30 September 2014 to HK$258.6 million for period ended 30 September 2015. The increase was primarily due to a revenue increase of HK$39.8 million in the trading of animation derivative products, a revenue increase of HK$3.0 million from the establishment and operation of indoor theme park, as well as an increase of HK$1.5 million from multimedia animation entertainment.

Trading of animation derivative products

The revenue from trading of animation derivative products increased by 18.7% from HK$213.0 million for the period ended 30 September 2014 to HK$252.8 million for the six-month period ended 30 September 2015 primarily due to an increase in sales volume, which primarily resulted from increased sales to two of the major customers.

Licensing of animation characters

Due to the restructuring of the Group's business model of the licensing business by licensing the animation characters to a number of licensees, no revenue was generated during the six-month period ended 30 September 2015 (2014: no licensee).

Establishment and operation of indoor theme park segment

The revenue from establishment and operation of indoor theme park increased by 333.3% from HK$0.9 million for the period ended 30 September 2014 to HK$3.9 million for the six-month period ended 30 September 2015, which mainly ticket sales from the Phase I of *Shanghai JOYPOLIS*.

Multimedia animation entertainment

The revenue from multimedia animation entertainment increased by HK$1.5 million, or 375.0% from HK$0.4 million for the period ended 30 September 2014 to HK$1.9 million for the six-month period ended 30 September 2015. The revenue from multimedia animation entertainment included HK$0.9 million from ticket sales for VR Game Centre and HK$1.0 million concert income in respect of our animation concert of "*Violet*" (紫嫣) performed on 30 September 2015 in Hong Kong.

Cost of sales and services

The cost of sales and services increased by HK$56.3 million, or 40.3%, from HK$139.8 million for the period ended 30 September 2014 to HK$196.1 million for the six-month period ended 30 September 2015. The increase was primarily due to the increase in the purchase of manufactured animation derivative products from the Group's suppliers corresponding to increase in sales volume and the cost of relating to *Shanghai JOYPOLIS*. Phase I *Shanghai JOYPOLIS* of 1,000 sq.m. was opened on 1 January 2015 but rental expenses for 8,239 sq.m. was already incurred while the grand opening is scheduled in the first quarter of 2016.

Gross profit and gross profit margin

The Group's gross profit decreased by HK$12.0 million, or 16.1%, from HK$74.5 million for the period ended 30 September 2014 to HK$62.5 million for the six-month period ended 30 September 2015. The Group's gross profit margin decreased from 34.8% for the period ended 30 September 2014 to 24.2% for the six-month period ended 30 September 2015. The decrease in the gross profit was mainly due to the increase in the trading of animation derivative products. The decrease in gross profit margin was primarily due to the increase in cost of purchase of derivative products and Phase I *Shanghai JOYPOLIS* of 1,000 sq.m. was opened on 1 January 2015 but rental expenses for 8,239 sq.m. was recognised while the grand opening is scheduled in the first quarter of 2016. In addition, the cost incurred for the first concert of "*Violet*" (紫嫣) in Hong Kong.

Other income

Other income increased by HK$1.0 million from HK$0.2 million for the period ended 30 September 2014 to HK$1.2 million for the six-month period ended 30 September 2015. The increase in other income was primarily due to the interest income from pledged bank deposit and held to maturity investment (2014: Nil).

Selling and distribution expenses

The selling and distribution expenses increased by HK$4.7 million, or 276.5%, from HK$1.7 million for the period ended 30 September 2014 to HK$6.4 million for the six-month period ended 30 September 2015. The Group's selling and distribution expenses as a percentage of revenue increased from 0.8% for the six-month period ended 30 September 2014 to 2.5% for the six-month period ended 30 September 2015. The increase in selling and distribution expenses was primarily due to the advertising and promotion for the first concert of "*Violet*" (紫嫣) in Hong Kong, International Cultural Industry Fairs (文博會), and Ani-Com & Games Hong Kong (香港動漫節).

Profit attributable to the owners of the Company

The profit attributable to the owners of the Company decreased by HK$3.9 million, or 10.8%, from HK$36.0 million for the period ended 30 September 2014 to HK$32.1 million for the six-month period ended 30 September 2015. The decrease was primarily due to that Phase I of the *Shanghai JOYPOLIS* of 1,000 sq.m. was opened on 1 January 2015 but rental expenses for 8,239 sq.m. was already incurred while the grant opening is scheduled in the first quarter of 2016 and the exchange loss arising from the assets denominated in Renminbi of held to maturity investment and pledged bank deposits due to the depreciation of the currency.

With the business plans and business initiatives undertaken by the Group, the Directors are very positive on the business prospects of the Group.

BUSINESS PROSPECTS

Looking ahead, in addition to the core business of trading toys, the Group will continue to expand its theme park business and the multimedia animation entertainment business. The multimedia animation entertainment business includes online animation games, movies and television and online entertainment programmes, online platform and other entertainment and mobile applications focusing on a series of animation characters. New technology, such as the VR technology, will be used for the purpose of promoting different business segments with synergistic benefits.

Movie and television programmes

As "*Violet*" (紫嫣) gets a lot of fans, and become more famous both in China and Hong Kong, thus the movie of *Galaxy Girl* (銀河少女) starring "*Violet*" (紫嫣) is under production and is expected to be completed in 2017, "*Violet*" (紫嫣), the Group's virtual artist, will be the movie's leading actress. In addition, a total of 20 episodes of the *Galaxy Girl* (銀河少女) animation television programmes are in the planning stage. The television programmes are expected to be completed in 2017 and will be broadcasted in China and Japan.

The Group has also invested and currently co-produces the animation movies of *The King of Tibetan Antelope* (藏羚王) which is to be launched and released in China in November 2015; *Project Egg* (蛋計劃) and *Where Are You Going, Baby?* (寶貝去哪兒), which are to be launched and released in China in the third quarter of 2016 and the fourth quarter of 2017 respectively. These plans were finalised in April and May 2015. The Directors believe that the successful listing on the Stock Exchange enables the Group to explore all these opportunities, and the Group is expected to enjoy benefits from the booming development of the film and the animation industries in China.

Online entertainment and mobile applications

On the online business, "*Violet*" (紫嫣) has successfully penetrated the animation game industry, boosting the Group's multimedia entertainment business following the new business concept of the Group of "*Internet, Animation Games & E-commerce*". The Group launched five animation games with "*Violet*" (紫嫣) as the key role from May to July 2015. Two animation games were launched at the *11th China (Shenzhen) International Cultural*

Industries Fair 2015 using the VR technology. The "*Violet*" (紫嫣) online games are to be released on the new emerging trendy e-commerce platform "Hui10". The Group will work with "Hui10" for the launch of the "Hui10 + *Violet* UnionPay Card", with "*Violet*" (紫嫣) as the theme character which fully portrays the unique trendy and high technology image of "*Violet*" (紫嫣). In addition, the game reward system of "*Violet* UnionPay Card" is expected to further expand to the Group's online animation entertainment platform with a combination of entertainment business and payment/consumption convenience. With the new business concept of "Internet + Animation Games + E-commerce" concept, the Group is planning to further expand its online business with dedicated websites for animation game development. This may involve cooperation or acquisition of Internet businesses in the target markets of the Group through different means and strategically alliances.

Promotion of VR technology

The Group uses VR technology to create an animation game environment, thereby generating potential opportunities and strong development momentum. Over the past six months, there are 600 game centers acquired VR equipment, the Group also plans to co-operate to run the VR gaming experience centre with third parties, As part of its efforts, the Group has opened a VR gaming experience centre in Shanghai and Shenzhen Central Book City (深圳中心書城) during the period, which provides VR games and wearable devices themed with its proprietary animation characters. These centres are adjacent to *Shanghai JOYPOLIS* and located in Shenzhen Futain respectively. The visitors can wear VR glasses and they can experience a 360-degree VR experience to access the virtual three-dimensional environment and enjoy a multi-sensory interaction. In addition, users can purchase VR wearable devices, upload and download the game applications through the Group's exclusive websites, enabling them to enjoy a new VR interactive experience at any time.

Indoor theme park

The grand opening of the *Shanghai JOYPOLIS* is scheduled in the first quarter of 2016. The Group has obtained the approval from SEGA for the development of another *JOYPOLIS* in China.

Commercialisation of animation characters

While the existing animation business and animation character toys business remain as its core businesses, the Group is accelerating the development of animation characters and plans to expand the commericalisation of the animation characters into the mobile game segment through different media.

The Group will continue to promote "*Violet*" (紫嫣) and the Group's virtual reality animation games and other cartoon characters of the Group. For example, we will have much more production of film and animation. The Group will promote the products derived from "*Violet*" (紫嫣) outside the PRC through different media and music as well as virtual reality (VR) and MR technologies.

The Group also continues to explore business opportunities relating to Internet business which may facilitate the development and commercialisation of its animation business and animation characters. Moreover, the Group continues supporting and cooperating with the PRC government to develop the cultural industry. The Group's efforts in this direction continue to enhance the popularity of "*Violet*" (紫嫣) and other proprietary animation characters to further penetrate the market. Leveraging its research and development team as well as implementing strategic cooperation, its product content and value will be enhanced which in turn bolster the Group's overall competitiveness in the animation entertainment business across different media. The Group's business plans and principles have been carefully evaluated and are expected to promote its business. The Directors are therefore very positive on the business prospects of the Group.

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

On 12 March 2015, the Company has received net proceeds of HK$298.6 million after deducting the underwriting fee and commissions and relevant expenses in connection with the Listing. As of 30 September 2015, a total amount of HK$173.2 million out of the net proceeds had been used by the Group. The unutilised net proceeds from the Global Offering have been deposited with a licensed bank in Hong Kong. The following sets forth a summary of the utilisation of the net proceeds:

	Original planned allocation of net proceeds from the Global Offering		**Actual utilised as of 30 September 2015**	**Unutilised as of 30 September 2015**
	%	*HK$ 'million*	*HK$ 'million*	*HK$ 'million*
For the capital expenditure and the working capital for the *Shanghai JOYPOLIS* and for use in planning the next *JOYPOLIS*	40.0	128.5	128.5	–
For possible investment in, acquisition of, and/or formation of strategic cooperation with, domestic or international companies which operate animation-related businesses, including without limitation, animation-related event organisers, mobile and internet applications developers and animation-related multi-media platforms	30.0	96.4	5.4	91
For the development, production and technical enhancement of music animation concerts and the related promotional and marketing activities and the development of consignment sales business	20.0	64.2	7.2	57
For working capital and general corporate purposes	10.0	32.1	32.1	–
Total	**100.0**	**321.2**	**173.2**	**148**

ADVANCE TO AN ENTITY AND FULL REPAYMENT OF THE ADVANCE AMOUNT

The Directors refer to the announcement of the Company dated 29 June 2015 on advances to an entity which constitute a disclosable transaction for the Company. The amount as at 31 March 2015 represented the accumulated balance of the advances to an independent supplier for the expansion of its production capacity in order to cope with orders from the Group pursuant to the agreement entered in March 2015. The advances were unsecured, non-interest bearing and repayable in October 2015.

Pursuant to a supplementary agreement entered into with the independent supplier in July 2015, the advances to a supplier of approximately HK$60,143,000 were settled by offsetting trade payables to the supplier and the remaining balance were settled by cash in July 2015.

LIQUIDITY AND FINANCIAL RESOURCES

As of 30 September 2015, the cash and bank balances of the Group were HK$164.9 million (31 March 2015: HK$339.0 million) including pledged bank deposits of approximately HK$97.7 million (31 March 2015: Nil). Essentially the Group's working capital requirement is financed by its internal resources. The Group believes that funds generated from operations and the available banking facilities will enable the Group to meet its future working capital requirements.

During the six-month period ended 30 September 2015, the Group had a cash flow for favorable investment to enhance its business development. Therefore, the liquidity compared with the period ended 30 September 2014 was reduced during the six-month period ended 30 September 2015.

TREASURY POLICIES

The Group has adopted a prudent treasury policy and thus maintained a healthy liquidity position throughout the six-month period ended 30 September 2015. The Group strives to reduce credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage the liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

CAPITAL EXPENDITURE

The total capital expenditure of the *JOYPOLIS* in Shanghai and another city is expected to be approximately RMB175.9 million (equivalent to HK$219.9 million) and RMB252.7 million (equivalent to HK$308.5 million) as of 30 September 2015 (31 March 2015: approximately RMB175.9 million (equivalent to HK$219.9 million) and nil) respectively.

As of 30 September 2015 and 31 March 2015, the Group has paid the following deposits for acquisition of property, plant and equipment and construction in progress as included in the condensed consolidated statement of financial position:

	30 September 2015	31 March 2015
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
***JOYPOLIS*:**		
Deposits for acquisition of property, plant and equipment	**231,635**	119,059
Construction in progress	**82,079**	45,543
	313,714	164,602

CAPITAL COMMITMENTS

As of 30 September 2015, capital commitments of the Group amounted to HK$297.6 million (31 March 2015: HK$55.3 million).

GEARING RATIO

Gearing ratio is not included in the analysis because the Group did not have any borrowing as of 30 September 2015.

SIGNIFICANT INVESTMENTS HELD

As at 30 September 2015, the Group had HK14.9 million of listed bond security which is listed on the Singapore Exchange Limited with a fixed coupon interest at 6.25% per annum and maturity date on 22 May 2017.

In August 2015, the Group entered into a strategic partnership agreement with an independent third party to enter into a long-term strategic alliance and partnership to collaborate across VR technology projects. The Group paid RMB4.5 million (equivalent to HK$5.4 million) as deposit for acquisition of options, on a priority basis, to invest or co-invest in VR technology projects.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group will continue to develop the virtual reality technology projects including to set up partnerships with an independent third party for selling of VR equipment and development of VR game contents.

The Directors believe that VR technology projects will be another significant contributor to the Group's business development in the future.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the six-month period ended 30 September 2015, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies, save as disclosed in the Prospectus.

MORTGAGES AND PLEDGES

As of 30 September 2015, a bank deposit of the Group with a carrying value of approximately HK$97.7 million (31 March 2015: Nil) was pledged to a bank for banking facilities obtained.

CONTINGENT LIABILITIES

The Group did not have significant contingent liabilities as of 30 September 2015 (2014: Nil).

FOREIGN EXCHANGE EXPOSURE

There has been no significant change in the Group's policy in terms of exchange rate risks. The Group's transactions are mainly denominated in Hong Kong dollars, Renminbi or US dollars. However, management of the Group is closely monitoring foreign exchange risks and would consider the use of hedging instruments as and when appropriate.

EMPLOYEES AND REMUNERATION POLICIES

As of 30 September 2015, the Group had 81 employees (2014: 43 employees). For the six-month period ended 30 September 2015, the employees' remuneration and benefits in kind and contribution to the pension scheme (including the Directors' remuneration and benefits in kind and contribution to the pension scheme) amounted to HK$7,187,000 (2014: HK$3,578,000). The increase was mainly attributable to the increment of HK$1,048,000 in employee remuneration and the increment of HK$2,193,000 in the Directors' remuneration. The Group's remuneration package is determined with reference to the experience and qualification of the individual employees and the general market conditions. The Group also ensures that all employees are provided with adequate training and continued professional opportunities according to their needs. A share option scheme has been established to provide incentives and remuneration to eligible Directors and employees of the Group in recognition of their contributions. As of 30 September 2015, no option has been granted.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

The audit committee of the Board consists of three independent non-executive Directors, namely Mr. TSANG Wah Kwong (Chairman), Mr. HUNG Muk Ming and Mr. NI Zhenliang. The Company's interim results for the six months ended 30 September 2015 have been reviewed by the audit committee. The audit committee of the Board is of the view that the applicable accounting standards and requirements have been complied with by the Company and that appropriate disclosures have been made.

The results for the current interim period have been reviewed by our auditor, Messrs. Deloitte Touche Tohmatsu, Certified Public Accountants in Hong Kong, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the Corporate Governance Code as stated in Appendix 14 of the Listing Rules of Stock Exchange throughout the period.

COMPLIANCE WITH MODEL CODE OF LISTING RULES

The Company has adopted the Model Code contained in Appendix 10 of the Listing Rules (the "**Model Code**"). Having made specific enquiry with the directors, all directors confirmed that they have fully complied with the required standard as set out in the Model Code throughout the six months ended 30 September 2015.

RECOMMENDED INTERIM DIVIDEND

In view of the continuous business growth of the Group, the Board intends to maintain sufficient cash for its future business development, including the capital expenditure leading to the grand opening of the *Shanghai JOYPOLIS* and the second *JOYPOLIS* in the PRC. Nevertheless, the Board recommends, subject to the approval of the shareholders at an extraordinary general meeting (the "**Extraordinary General Meeting**"), an interim dividend to be payable by way of a bonus issue (the "**Bonus Issue**") in recognition of the continual support of the shareholders of the Company. The recommended Bonus Issue includes a propose allotment and issue of one bonus share (the "**Bonus Share**") for each existing share held by the shareholders whose names appear on the register of members on the Record Date (as set forth in the paragraphs under "Closure of the register of members for the entitlement of the Bonus Issue").

The Directors are of the view that the Bonus Issue will allow the shareholders of the Company to participate in the business growth of the Company by way of distributing a portion of the retained earnings of the Group without affecting the cash available for the future business development of the Group. In addition, the Bonus Issue will decrease the market value and trading price for each share of the Company trading after ex-entitlement to Bonus Shares with the increased number of shares of the Company in issue. The increase in the number of shares of the Company will enlarge the issued share capital of the Company and improve the liquidity in the trading of the shares of the Company, as the decrease in market value for each share trading after ex-entitlement will help reduce transaction costs and expenses incurred by the investors for acquiring each board lot of shares of the Company, thereby enabling the Company to attract more investors and broaden its shareholder base.

The Bonus Issue, and the corresponding increase in the authorised share capital of the Company, are subject to the approval of the Shareholders at the Extraordinary General Meeting. A separate announcement will be published and a circular will be despatched for the purpose of seeking the approval of the shareholders of the Company on the Bonus Issue and the increase in the authorised share capital of the Company at the Extraordinary General Meeting. The Extraordinary General Meeting is proposed to be held on 16 December 2015, further information will be included in the Shareholders' circular to be despatched by the Company.

CLOSURE OF THE REGISTER OF MEMBERS FOR THE ENTITLEMENT TO ATTEND AND VOTE AT THE EXTRAORDINARY GENERAL MEETING

In order to determine the entitlement to attend and vote at the Extraordinary General Meeting, the register of members will be closed from 14 December 2015 to 16 December 2015 (both dates inclusive), during which period no transfer of Shares can be registered. In order to qualify for attending and voting at the Extraordinary General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Friday, 11 December 2015.

CLOSURE OF THE REGISTER OF MEMBERS FOR THE ENTITLEMENT OF THE BONUS ISSUE

In order to determine the entitlement of the bonus issue, the register of members will be closed from 22 December 2015 to 24 December 2015, both dates inclusive), during which period no transfer of shares can be registered. In order to qualify for the Bonus Issue (if it is approved by the shareholders of the Company at the Extraordinary General Meeting), all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Monday, 21 December 2015. The Bonus Issue is subject to the approval of the shareholders of the Company at the Extraordinary General Meeting and if it is approved, it will be payable to the shareholders of the Company whose names appear on the Register of Members on Thursday, 24 December 2015, being the record date (the "**Record Date**").

PUBLICATION OF INFORMATION ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This results announcement is published on the Company's website (*www.animatechina.com*) and the website of the Stock Exchange (*www.hkexnews.hk*). The interim report of the Company for the six months ended 30 September 2015 containing all information required by the Listing Rules will be despatched to the Shareholders and published on the above websites in due course.

By order of the Board
CHINA ANIMATION CHARACTERS COMPANY LIMITED
ZHUANG Xiangsong
Chief Executive Officer and Executive Director

Hong Kong, 20 November 2015

As of the date of this announcement, the Board comprises six Directors. Mr. ZHUANG Xiangsong (Chief Executive Officer), Mr. TING Ka Fai Jeffrey and Ms. LIU Moxiang are executive Directors and Mr. NI Zhenliang, Mr. TSANG Wah Kwong and Mr. HUNG Muk Ming are independent non-executive Directors.