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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 2016**

The Board wishes to announce the unaudited interim results of the Group for the six months ended 30 September 2016 as follows:

- Revenue was HK\$312.5 million for the six months ended 30 September 2016, representing an increase of 20.8% compared with HK\$258.6 million for the six months ended 30 September 2015.
- Gross profit was HK\$97.5 million for the six months ended 30 September 2016, representing an increase of 56.0% compared with HK\$62.5 million for the six months ended 30 September 2015. Gross profit margin for the six months ended 30 September 2016 was 31.2%, representing an increase of 29.1% compared with 24.2% for the six months ended 30 September 2015.
- Profit attributable to the owners of the Company was HK\$43.8 million, representing an increase of 36.4% compared with HK\$32.1 million for the six months ended 30 September 2015.
- Basic earnings per Share amounted to 5 HK cents for the six months ended 30 September 2016, representing an increase of 25% compared with 4 HK cents for the six months ended 30 September 2015.

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 2016, together with the comparative figures for the six months ended 30 September 2015, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

	<i>NOTES</i>	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Revenue	2	312,493	258,621
Cost of sales and services		(214,944)	(196,123)
Gross profit		97,549	62,498
Other income		938	1,162
Selling and distribution expenses		(5,153)	(6,365)
Administrative expenses		(33,148)	(21,422)
Loss on held-for-trading investments		(5,180)	–
Exchange loss on held-to-maturity investment		(455)	–
Finance costs		(1,345)	(148)
Profit before taxation		53,206	35,725
Taxation	3	(14,825)	(10,952)
Profit for the period	4	38,381	24,773
Other comprehensive expense:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign subsidiaries		(4,375)	(455)
Total comprehensive income for the period		34,006	24,318

	2016	2015
	(Unaudited)	(Unaudited)
<i>NOTE</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit (loss) for the period attributable to:		
Owners of the Company	43,826	32,124
Non-controlling interests	(5,445)	(7,351)
	38,381	24,773
Total comprehensive income (expense) attributable to:		
Owners of the Company	41,435	31,645
Non-controlling interests	(7,429)	(7,327)
	34,006	24,318
Earnings per share	6	
– Basic (HK\$)	0.05	0.04
– Diluted (HK\$)	0.05	0.04

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2016

		30 September 2016 (Unaudited) HK\$'000	31 March 2016 (Audited) HK\$'000
	<i>NOTES</i>		
Non-current assets			
Property, plant and equipment		206,596	227,861
Intangible assets		56,620	24,254
Held-to-maturity investment	7	–	14,626
Deposits for acquisition of plant and equipment		204,786	204,593
Deposit for acquisition of long term investment		5,359	5,359
		473,361	476,693
Current assets			
Trade receivables	8	266,601	208,934
Other receivables, deposits and prepayments		15,055	12,974
Prepayment to a game developer		15,950	20,000
Held-for-trading investments	9	77,420	67,560
Held-to-maturity investment	7	14,171	–
Pledged bank deposit	10	95,264	95,264
Bank balances and cash		84,316	81,619
		568,777	486,351
Current liabilities			
Trade payables	11	5,484	16,529
Other payables and accruals		18,231	24,269
Amount due to a director		37,226	39,027
Tax payable		112,861	98,184
Secured bank borrowings	12	94,550	94,550
		268,352	272,559
Net current assets		300,425	213,792
Net assets		773,786	690,485
Capital and reserves			
Share capital		87,322	85,822
Reserves		673,830	584,600
Equity attributable to owners of the Company		761,152	670,422
Non-controlling interests		12,634	20,063
Total equity		773,786	690,485

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

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 for certain financial instruments that are measured at fair values, as appropriate.

The accounting policies and the methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2016 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2016.

In the current interim period, the Group has applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants that are mandatorily effective for the current interim period.

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

2. REVENUE AND SEGMENT INFORMATION

Revenue represents revenue arising from trading of animation derivative products, licencing of animation characters, establishment and operation of indoor theme parks 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) licencing of animation characters, (iii) establishment and operation of indoor theme parks, 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 2016 (unaudited)

	Trading of animation derivative products <i>HK\$'000</i>	Licencing of animation characters <i>HK\$'000</i>	Establishment and operation of indoor theme parks <i>HK\$'000</i>	Multimedia animation entertainment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue	<u>262,524</u>	<u>–</u>	<u>47,917</u>	<u>2,052</u>	<u>312,493</u>
Segment profit (loss)	<u>82,500</u>	<u>(570)</u>	<u>4,643</u>	<u>(3,651)</u>	<u>82,922</u>
Unallocated income					938
Unallocated expenses					(23,674)
Loss on held-for-trading investments					(5,180)
Exchange loss on held-to-maturity investment					(455)
Finance costs					<u>(1,345)</u>
Profit before taxation					<u>53,206</u>

For the period ended 30 September 2015 (unaudited)

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

Segment profit (loss) represents the profit (loss) earned (incurred) by each segment without allocation of certain administrative 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 2016 (Unaudited) HK\$'000	31 March 2016 (Audited) HK\$'000
Trading of animation derivative products	240,006	186,995
Licencing of animation characters	148	594
Establishment and operation of indoor theme parks	402,633	416,932
Multimedia animation entertainment	87,401	56,511
Total segment assets	730,188	661,032
Property, plant and equipment	37,763	41,707
Other receivables, deposits and prepayments	3,016	1,236
Held-to-maturity investment	14,171	14,626
Held-for-trading investments	77,420	67,560
Pledged bank deposit	95,264	95,264
Bank balances and cash	84,316	81,619
Consolidated assets	1,042,138	963,044

Segment liabilities

	30 September 2016 (Unaudited) HK\$'000	31 March 2016 (Audited) HK\$'000
Trading of animation derivative products	116,146	114,686
Establishment and operation of indoor theme parks	8,675	14,965
Multimedia animation entertainment	4,690	2,040
Total segment liabilities	129,511	131,691
Other payables and accruals	7,065	7,291
Amount due to a director	37,226	39,027
Secured bank borrowings	94,550	94,550
Consolidated liabilities	268,352	272,559

Segment assets represent certain property, plant and equipment, intangible assets, deposits for acquisition of plant and equipment, deposit for acquisition of long term investment, trade receivables, certain other receivables, deposits and prepayments and prepayment to a game developer 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	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Hong Kong Profits Tax	14,825	10,952

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 the PRC subsidiaries as either the assessable profit is wholly absorbed by tax losses brought forward or no assessable profit is derived from the subsidiaries in the PRC during both periods.

The Group had unused tax losses of approximately HK\$46,764,000 at 30 September 2016 (31 March 2016: HK\$35,058,000), which is available to offset against future assessable profits. No deferred tax asset has been recognised due to unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK\$41,636,000 (31 March 2016: HK\$30,787,000) that will expire within 5 years from the year of origination up to 2021. Other losses may be carried forward indefinitely.

The Group had not notified the Inland Revenue Department of Hong Kong (“**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 the 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 report, 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, and after seeking professional advice, the directors believe that claim term of the years of assessment 2008/09 and 2009/10 have been expired under the six-year statutory time bar after the year ended 31 March 2016.

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\$1,632,000 as of 30 September 2016 and 31 March 2016 after considering the expired claim term of years of assessment 2008/09 and 2009/10. However, based on the relevant facts and circumstances and taking into account 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 licencing income which were derived from 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 report, 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 licencing income are accepted by the IRD, the estimated outstanding tax payable by the Group for the six years ended 31 March 2016 and six months ended 30 September 2016 would be HK\$108,943,000 (31 March 2016: HK\$96,915,000) after considering the overprovision of years of assessment 2008/09 and 2009/10. As of 30 September 2016, the Group has made accumulated provision of HK\$108,171,000 (31 March 2016: HK\$96,143,000) as tax payable in the condensed consolidated financial statements. Having taken into account 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	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit for the period has been arrived at after charging (crediting):		
Staff costs:		
Directors' emoluments	3,113	2,193
Other staff costs		
Salaries and other benefits	12,393	4,544
Retirement benefits scheme contributions	1,041	450
Share-based payments expense	1,597	–
	18,144	7,187
Auditor's remuneration	804	809
Cost of inventories recognised as expenses	178,182	174,960
Depreciation of property, plant and equipment	20,091	4,656
Amortisation of intangible assets	1,684	684
Research and development costs recognised as an expense (included in cost of sales and services)	550	866
Interest income	(736)	(838)
Operating lease rentals in respect of rented premises	8,618	11,478
Operating lease rentals in respect of rented vehicles	65	65
Net foreign exchange losses	479	2,368

5. DIVIDENDS

During the current interim period, a final dividend of HK1 cent per share in respect of the year ended 31 March 2016 (six months ended 30 September 2015: nil) was declared to the owners of the Company. The aggregate amount of the final dividend declared in the interim period amounted to HK\$8,582,000 (six months ended 30 September 2015: nil).

The directors do not recommend the payment of an interim dividend during the period ended 30 September 2016 (six months ended 30 September 2015: 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).

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	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Earnings:		
Earnings for the purpose of calculating basic and diluted earnings per share (profit for the period attributable to owners of the Company)	43,826	32,124
	'000	'000
		(Restated)
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	860,183	858,216
Effect of dilutive potential shares from the Company's share option scheme	2,790	—
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	862,973	858,216

The weighted average number of ordinary shares for the purpose of basic and diluted earnings per share for both periods presented are calculated based on the new number of shares and adjusted retrospectively, assuming that the bonus issue was conducted at the beginning of the period ended 30 September 2015.

7. HELD-TO-MATURITY INVESTMENT

	30 September 2016	31 March 2016
	(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	14,171	14,626

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

	30 September 2016	31 March 2016
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Renminbi ("RMB")	14,171	14,626

8. TRADE RECEIVABLES

The Group allows a credit period ranging from 30 days to 90 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 2016 (Unaudited) HK\$'000	31 March 2016 (Audited) HK\$'000
0 to 90 days	158,707	143,194
91 to 180 days	72,536	40,448
181 to 365 days	35,336	25,289
Over 365 days	22	3
	<u>266,601</u>	<u>208,934</u>

9. HELD-FOR-TRADING INVESTMENTS

	30 September 2016 (Unaudited) HK\$'000	31 March 2016 (Audited) HK\$'000
Equity securities listed in Hong Kong	<u>77,420</u>	<u>67,560</u>

The fair value of the listed equity securities is based on their current bid prices in active markets, and therefore classified under level 1 of fair value hierarchy.

10. 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 0.55% (31 March 2016: 0.60%) 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.

11. 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 2016 (Unaudited) HK\$'000	31 March 2016 (Audited) HK\$'000
0 to 30 days	5,484	16,365
31 to 60 days	—	164
	<u>5,484</u>	<u>16,529</u>

12. SECURED BANK BORROWINGS

In the current interim period, the loans carried interest at fixed market rates of 200 basis points over 3-month or 6-month London Inter-bank Offered Rate per annum and are repayable over a period of three to six months. The average effective interest rate of the loans was approximately 2.93% (31 March 2016: 2.75%) per annum. The proceeds were mainly used to finance the acquisition of property, plant and equipment.

13. RELATED PARTY DISCLOSURES

(a) Transactions with related parties

During the current interim period, the Group entered into following transactions with related parties:

		Six months ended 30 September 2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Controlling Shareholder	Rental expense for motor vehicle	65	65
	Rental expense for premises	<u>1,140</u>	<u>475</u>

(b) Compensation of key management personnel

The remuneration of key management personnel which represent the executive directors and key executives of the Company during the period was as follows:

	Six months ended 30 September 2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Salaries and other benefits	3,589	3,121
Retirement benefit schemes contributions	131	103
Share-based payments expense	<u>2,383</u>	<u>—</u>
	<u>6,103</u>	<u>3,224</u>

14. SHARE-BASED PAYMENTS

Equity-settled share option scheme of the Company

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 16 February 2015 for the primary purpose of attracting and retaining the best available personnel, providing additional incentive to employees (full-time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers ("Eligible Participants") of the Group and promoting the success of the business of the Group and will remain in force for a period of ten years commencing on the adoption date and shall expire at 15 February 2025. The board of directors of the Company may grant options to Eligible Participants to subscribe for shares in the Company.

At 30 September 2016, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 21,455,400 (31 March 2016: 21,455,400), representing 2.46% (31 March 2016: 2.50%) of the shares of the Company in issue at that date. As at the date of this report, the number of securities of the Company available for issue under the Scheme was 65,866,200, representing approximately 7.54% of the issued share capital of the Company as at the date of this report. The total number of shares of each Eligible Participant in respect of which options that may be granted under the Scheme is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. However, the total maximum number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Scheme and any other share option scheme of the Company must not exceed 10% of the issued share capital of the Company from time to time. Options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares as stated in the daily quotation sheet issued by the Stock Exchange at the date of the grant) in excess of HK\$5 million, within any 12-month period up to and including the date of grant, are subject to shareholders' approval in advance in a general meeting.

Options granted must be taken up within 30 days from the date of grant, upon payment of a nominal consideration of HK\$1 in total by each grantee. Options may be exercised at any time for a period determined by its directors which shall not be later than the day immediately preceding the tenth anniversary of the date of grant. The exercise price of the share options must be at least the highest of (i) the closing price of the Company's shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant of the share options; and (ii) the average closing price of the Company's shares as stated in the daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of an ordinary share on the date of grant.

Details of specific categories of options are as follows:

Date of grant	Vesting period	Exercisable period	Outstanding at
			30 September 2016 and 31 March 2016
29 February 2016	29 February 2016 - 31 August 2016	1 September 2016 - 28 February 2021	4,291,080
29 February 2016	29 February 2016 - 27 February 2017	28 February 2017 - 28 February 2021	4,291,080
29 February 2016	29 February 2016 - 27 February 2018	28 February 2018 - 28 February 2021	4,291,080
29 February 2016	29 February 2016 - 27 February 2019	28 February 2019 - 28 February 2021	4,291,080
29 February 2016	29 February 2016 - 27 February 2020	28 February 2020 - 28 February 2021	4,291,080
			21,455,400

During the six months ended 30 September 2016, no option was granted.

The Group recognised the share-based payments of HK\$5,784,000 for the six months ended 30 September 2016 in relation to share options granted by the Company.

MANAGEMENT DISCUSSION AND 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 months ended 30 September 2016, including the grand opening of the of the *Shanghai JOYPOLIS*, the licencing 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. 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 licenced 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* with gross floor area of 8,239 sq.m. was opened on 6 February 2016. The *Shanghai JOYPOLIS* was further expanded to 8,499.64 sq.m. on 30 July 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.

With the successful track record of the operation of *Shanghai JOYPOLIS* after the grand opening, the Group is pursuing to further expand the theme park business by entering into a sale and purchase agreement with Sega Sammy Holdings Inc. (“SEGA”) to acquire 85.1% shares of Sega Live Creation Inc. (“SLC”) which is expected to be completed on or before 31 December 2016. The principal activity of SLC is the planning, development and operation of entertainment facilities. Upon completion, the Group will be able to broaden its participation in operating indoor amusement parks in additional cities on a global basis, namely Tokyo and Osaka in Japan, Dubai in the United Arab Emirates and Qingdao in the PRC. For further details, please refer to the announcement of the Company dated 1 November 2016.

Licencing 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 the PRC by applying three dimensional (“3D”) mixed reality (“MR”) technologies.

Multimedia animation entertainment

The Group uses VR technology to create an animation game environment, thereby generating potential opportunities and strong development momentum. As at 30 September 2016, there were approximately 1,200 game centres with VR equipment in the PRC which required our Group to provide game content for them. The Group also plans to co-operate with third parties to run the VR gaming experience centre. As part of its efforts, the Group has opened VR gaming experience centre in Shanghai, Changzhou and Shenzhen Central Book City (深圳中心書城), which provides VR games and wearable devices themed with its proprietary animation characters. These centres are adjacent to *Shanghai JOYPOLIS*, Changzhou Southern Yangtze Global Harbour and located in Futian, Shenzhen 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.

In August 2016, the Group further expanded the VR gaming experience centre business in Shanghai by opening another VR gaming experience centre, namely “V-PARK” (獵戶座).

The Group had launched eight animation games featuring “*Violet*” (紫嫣) and “*Han Ba Gui*” (憨八龜) during the six months end 30 September 2016, including five virtual reality (“VR”) games, two mobile games and one online game via Internet.

In July 2016, the Group entered into an agreement to co-operate with Inno Sharp (HK) Limited (“Inno Sharp”) which has over two decades in operating game consoles and amusement parks to open about 100 offline game spots in Hong Kong and Macau, with instalation of over 200 VR entertainment equipment. The Group will provide all these offline game spots with the equipment and self-developed game content. The Group has introduced some of these VR game equipment to our booth at Animation-Comic-Game Hong Kong (“ACGHK”).

Under this strategic cooperation, the Group will provide game content and equipment programme update and maintenance guidance to the offline sites, while Inno Sharp will be responsible for equipment investment, venue provision and daily operation. The Group is entitled to receive royalties each time a player plays the game.

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 commercialisation of the animation characters into the mobile game segment through different media.

The Group participated Shenzhen Cartoon Animation Festival, China Digital Entertainment Expo & Conference and ACGHK in July 2016 for the promotion of “*Violet*” (紫嫣) and VR animation games and the animation characters of the Group.

FINANCIAL REVIEW

The following sets forth a summary of the performance of the Group during the six-month ended 30 September 2016 with comparative figures as follows:

	Six months ended 30 September	
	2016	2015
Revenue (<i>HK\$'000</i>)	312,493	258,621
Gross profit (<i>HK\$'000</i>)	97,549	62,498
Gross profit margin (%)	31.2	24.2
Profit attributable to the owners of the Company (<i>HK\$'000</i>)	43,826	32,124

Revenue

The revenue increased by HK\$53.9 million, or 20.8%, from HK\$258.6 million for the six months ended 30 September 2015 to HK\$312.5 million for the six months ended 30 September 2016. The increase was primarily due to an increase of HK\$9.8 million from revenue of the trading of animation derivative products, an increase of HK\$44.0 million from revenue of the establishment and operation of an indoor theme park.

Trading of animation derivative products

The revenue from trading of animation derivative products increased by 3.8% from HK\$252.8 million for the six months ended 30 September 2015 to HK\$262.5 million for the six months ended 30 September 2016 primarily due to an increase in higher unit price products sold to a major customer.

Licencing of animation characters

Due to the restructuring of the Group's business model of the licencing business by licencing the animation characters to a number of licencees, no revenue was generated for each of the six months ended 30 September 2015 and 2016. The animation characters of the Group's were used by inter-company for the development of multimedia animation entertainment business.

Establishment and operation of indoor theme parks

With the effect of the grand opening of *Shanghai JOYPOLIS*, the revenue from establishment and operation of indoor theme parks increased by 1,128.2% from HK\$3.9 million for the six months ended 30 September 2015 to HK\$47.9 million for the six months ended 30 September 2016. The number of visitors based on ticket sales significantly increased by 674.9% from 50,279 for the six months ended 30 September 2015 to 389,592 for the six months ended 30 September 2016.

Multimedia animation entertainment

The revenue from multimedia animation entertainment increased by HK\$0.1 million, or 5.3%, from HK\$1.9 million for the six months ended 30 September 2015 to HK\$2.0 million for the six months ended 30 September 2016. The revenue from multimedia animation entertainment included ticket sales for VR Game Centre and event activities.

Cost of sales and services

The cost of sales and services increased by HK\$18.8 million, or 9.6%, from HK\$196.1 million for the period ended 30 September 2015 to HK\$214.9 million for the six months ended 30 September 2016. The increase was primarily due to the increase in the purchase of manufactured animation derivative products from the Group's suppliers corresponding to the increase in sales volume and the operating cost relating to *Shanghai JOYPOLIS* which was grandly opened with a gross floor area of over 8,000 sq.m., as compared with the gross floor area of about 1,000 sq.m. in operation for the six months ended 30 September 2015.

Gross profit and gross profit margin

The Group's gross profit increased by HK\$35.0 million, or 56.0%, from HK\$62.5 million for the six months ended 30 September 2015 to HK\$97.5 million for the six months ended 30 September 2016. The Group's gross profit margin increased from 24.2% for the period ended 30 September 2015 to 31.2% for the six months ended 30 September 2016. The increase in the gross profit was mainly due to the full operation of *Shanghai JOYPOLIS* during the six months ended 30 September 2016.

Other income

Other income decreased by HK\$0.3 million from HK\$1.2 million for the six months ended 30 September 2015 to HK\$0.9 million for the six months ended 30 September 2016. The decrease was primarily due to less interest income from pledged bank deposit and held to maturity investment (2015: HK\$0.8 million).

Selling and distribution expenses

The selling and distribution expenses decreased by HK\$1.2 million, or 18.8%, from HK\$6.4 million for the six months ended 30 September 2015 to HK\$5.2 million for the six months ended 30 September 2016. The Group's selling and distribution expenses as a percentage of revenue decreased from 2.5% for the six months ended 30 September 2015 to 1.6% for the six months ended 30 September 2016. The decrease in selling and distribution expenses was primarily due to the advertising and promotion for the first concert of “*Violet*” (紫嫣) in Hong Kong during the six months ended 30 September 2015.

Profit attributable to the owners of the Company

The profit attributable to the owners of the Company increased by HK\$11.7 million, or 36.4%, from HK\$32.1 million for the six months ended 30 September 2015 to HK\$43.8 million for the six months ended 30 September 2016. The increase was primarily due to the full operation of *Shanghai JOYPOLIS* during the six months ended 30 September 2016.

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 fan, and becomes more famous both in the PRC and Hong Kong, the movie of *Galaxy Girl* (銀河少女) starring “*Violet*” (紫嫣) is under production and is expected to be completed in 2018, “*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 2018 and will be broadcasted in China and Japan.

The Group has also invested and currently co-produces the animation movies of *Project Egg* (蛋計劃) which are to be launched and released in the PRC in the first quarter of 2017. The Group is expected to enjoy benefits from the booming development of the film and the animation industries in the PRC.

Online entertainment and mobile applications

On the online business, the Group had launched eight animation games using the VR technology. 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.

Indoor theme park

The *Shanghai JOYPOLIS* has been in full operation and the Group has obtained the approval from SEGA for the development of another *JOYPOLIS* in the PRC.

The Directors are of the view that the acquisition of 85.1% shares of SLC presents an excellent opportunity for the Group to (i) bring in a much stronger revenue source; (ii) leverage on the expertise and resources of the SLC group to broaden its participation in the amusement parks operation business.; and (iii) establish an all-around strategic planning for its amusement parks operation business. As SEGA will remain a shareholder holding 14.9% of the equity interest in SLC, the Group believes that the partnership with SEGA will also strengthen the position of the Group as a leader of amusement park operation business.

Upon completion of the SLC acquisition, the Group will develop the amusement parks in North-West and major cities of the PRC by working with partners through licencing and co-operation with land developers. To achieve this objective, the Group will set up of “*JOYPOLIS*” project fund with interested partners.

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 commercialisation of the animation characters into the mobile game segment through different media.

The Group will continue to promote “*Violet*” (紫嫣) and its virtual reality animation games and other cartoon characters. For example, the Group will produce more films and animation. The Group will promote the products derived from “*Violet*” (紫嫣) outside the PRC through different media and music as well as 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 business. 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 and in turn bolster the Group’s overall competitiveness in the animation entertainment business across different media. The Group’s business plans have been carefully evaluated and are expected to continue to promote its businesses. The Directors are therefore very positive on the business prospects of the Group.

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

The Company has received net proceeds of approximately HK\$298.6 million after deducting the underwriting fee and commissions and relevant expenses in connection with the global offering on 12 March 2015. As at 30 September 2016, approximately HK\$198.8 million of the net proceeds had been used by the Group. The unutilised net proceeds were deposited with a licenced 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 at 30 September 2016	Unutilised as at 30 September 2016
	%	HK\$'million	HK\$'million	HK\$'million
For the capital expenditure and the working capital for the <i>Shanghai JOYPOLIS</i> and for use in planning the next <i>JOYPOLIS</i>	40.0	119.4	119.4	–
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	89.6	36.6	53.0
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	59.7	12.9	46.8
For working capital and general corporate purposes	10.0	29.9	29.9	–
Total	100.0	298.6	198.8	99.8

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2016, the authorised share capital of the Company was HK\$500.0 million divided into 5,000,000,000 shares of HK\$0.1 each and the issued share capital of the Company was approximately HK\$87.3 million divided into 873,216,000 shares of HK\$0.1 each.

On 24 August 2016, Bright Rise Enterprises Limited (“**Bright Rise**”), the Company and China Galaxy International Securities (Hong Kong) Co., Ltd (“**Sole Placing Agent**”) entered into a placing agreement. On 1 September 2016, the sole placing agent successfully placed 15,000,000 shares to not less than six placees who and whose ultimate beneficial owners are independent of the Company and its connected persons at the price of HK\$3.60 per share. On 7 September 2017, the Company completed the top-up subscription and issued 15,000,000 ordinary shares to Bright Rise and raised a net proceeds of approximately HK\$52.1 million. For further details, please refer to the announcement of the Company dated 24 August 2016.

As at 30 September 2016, the cash and bank balances of the Group were HK\$84.3 million (31 March 2016: HK\$81.6 million). Essentially the Group’s working capital requirement is financed by its internal resources. The Directors believe that funds generated from operations and the available banking facilities will enable the Group to meet its future working capital requirements.

As at 30 September 2016, the Group had a net gearing ratio of 5.8% (31 March 2016: 7.0%). The net liabilities of the Group included interest-bearing bank borrowings, amount due to a director less cash and cash equivalents. The decrease in net gearing ratio in 2016 was mainly attributable to the fund raised through issuance new shares in September 2016 as mentioned above.

As indicated in the above figures, the Group has maintained stable financial resources to execute its future commitments and future expansion plan.

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 2016. 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 structure of the Group’s assets, liabilities and other commitments can meet its funding requirements from time to time.

CAPITAL COMMITMENTS

As at 30 September 2016, capital commitments of the Group amounted to HK\$53.3 million (31 March 2016: HK\$42.1 million).

SIGNIFICANT INVESTMENTS HELD

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.

In September 2016, the Group acquired the worldwide exclusive distribution right of VR game machine and application from an independent third party at a consideration of HK\$30 million. In accordance with the agreement, the exclusive distribution right has an infinite useful life. The Directors are of the opinion that the useful life of the exclusive distribution right should be no more than 10 years based on the studies performed by the management of the Group on product life cycle, market, competitors and environmental trends.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group will continue to develop the virtual reality technology projects including setting 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 months ended 30 September 2016, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

MORTGAGES AND PLEDGES

As at 30 September 2016, a bank deposit of the Group with a carrying value of approximately HK\$95.3 million (31 March 2016: HK\$95.3 million) was pledged to a bank for banking facilities obtained.

CONTINGENT LIABILITIES

The Group did not have significant contingent liabilities as at 30 September 2016 (31 March 2016: 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. Management of the Group is closely monitoring foreign exchange risks and would consider the use of hedging instruments as and when appropriate.

ENVIRONMENTAL POLICY

The Group is committed to the protection of the environment. The Group adheres to the principle of recycling and energy saving. The Group has encouraged and motivated our staff to be environmentally friendly in the office including the use of recycled papers for printing and photocopying and reducing electricity consumption by switching off idle lighting and electrical appliances when they are not in use.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2016, the Group had 173 employees (30 September 2015: 81 employees). For the six months ended 30 September 2016, 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\$18,144,000 (six months ended 30 September 2015: HK\$7,187,000). The increase was mainly attributable to the increase of HK\$10.0 million in employee remuneration and the increment of HK\$0.9 million 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. On 29 February 2016, 21,455,400 options have been granted to the eligible Directors, employees and two consulting firms pursuant to the share option scheme adopted by the Company on 16 February 2015.

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 six months ended 30 September 2016.

AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

The audit committee of the Company 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 2016 have been reviewed by the audit committee. The audit committee 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 Rules Governing the Listing of Securities on Stock Exchange of Hong Kong Limited (the "**Listing Rules**") throughout the period, except for the following deviation:

Code provision A.2.1

The Code provision A.2.1 of the Corporate Governance Code in Appendix 14 of the Listing Rules stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. ZHUANG is the Chairman of the Board and the Chief Executive Officer. As Mr. ZHUANG is the founder of the Group and has extensive experience in corporate operations and management, the Directors believe that it is in the best interest of the Group to have Mr. ZHUANG taking up both roles for effective management and business development.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTION

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set forth in Appendix 10 of the Listing Rules (the "**Model Code**") as its own code of conduct regarding securities transaction by Director of the Company. 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 2016.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this interim results announcement, the Company has maintained sufficient prescribed public float of the issued shares as required under the Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

On 31 October 2016, China Theme Park Limited (“CTP”), a wholly owned subsidiary of the Company, entered into a sale and purchase agreement with SEGA, pursuant to which SEGA conditionally agreed to sell and CTP conditionally agreed to acquire 85.1% equity interests of SLC for an aggregate cash consideration of Japan Yen 600.0 million (equivalent to approximately HK\$44.5 million). The Directors are still assessing the financial impact of this transaction. Further details of the proposed acquisition of SLC are set out in the announcement of the Company dated 1 November 2016.

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

This 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 2016 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, 28 November 2016

As at 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.