China Animation Group

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: 01566)

FINAL RESULTS
FOR THE YEAR ENDED 31 MARCH 2017

The Board wishes to announce the audited consolidated results of the Group for the year ended 31 March 2017 as follows:

– Revenue was HK$770.7 million for the year ended 31 March 2017, representing an increase of 41.4% compared with HK$544.9 million for the year ended 31 March 2016.

– Gross profit was HK$267.1 million for the year ended 31 March 2017, representing an increase of 58.9% compared with HK$168.1 million for the year ended 31 March 2016. Gross profit margin for the year ended 31 March 2017 was 34.7%, representing an increase of 12.7% compared with 30.8% for the year ended 31 March 2016.

– Profit attributable to the owners of the Company was HK$94.8 million, representing a decrease of 14.1% compared with HK$110.4 million for the year ended 31 March 2016.

– Basic earnings per Share amounted to 11 HK cents for the year ended 31 March 2017, representing a decrease of 15.4% compared with 13 HK cents for the year ended 31 March 2016.

– The board proposes a final cash dividend of 2 HK cent per share for the year 31 March 2017.

The board (the "**Board**") of directors (the "**Directors**") of China Animation Characters Company Limited (the "**Company**") wishes to present the audited consolidated annual results of the Company (which together with its subsidiaries, the "**Group**") for the year ended 31 March 2017, together with the comparative figures for the year ended 31 March 2016, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2017

	NOTES	2017 HK$'000	2016 HK$'000
Revenue	3	**770,651**	544,880
Cost of sales and services		**(503,571)**	(376,764)
Gross profit		**267,080**	168,116
Other income		**2,272**	2,977
Selling and distribution expenses		**(22,584)**	(19,694)
Administrative expenses		**(78,083)**	(47,474)
(Loss) gain on held-for-trading investments		**(15,680)**	17,800
Fair value gain on obligation arising from a put option to non-controlling interests		**656**	–
Exchange loss on pledged bank deposit and held-to-maturity investment		**(455)**	(5,581)
Share of result of an associate		**(16)**	–
Finance costs		**(3,175)**	(805)
Other expenses		**(22,190)**	(1,598)
Profit before taxation		**127,825**	113,741
Taxation	4	**(23,753)**	(15,351)
Profit for the year	5	**104,072**	98,390
Other comprehensive (expense) income:			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit plans		**197**	–
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign subsidiaries		**(3,745)**	1,347
Other comprehensive (expense) income for the year		**(3,548)**	1,347
Total comprehensive income for the year		**100,524**	99,737

	NOTE	2017 HK$'000	2016 HK$'000
Profit (loss) for the year attributable to:			
Owners of the Company		**94,840**	110,372
Non-controlling interests		**9,232**	(11,982)
		104,072	98,390
Total comprehensive income (expense) attributable to:			
Owners of the Company		**94,430**	110,756
Non-controlling interests		**6,094**	(11,019)
		100,524	99,737
Earnings per share	*7*		
– Basic (HK$)		**0.11**	0.13
– Diluted (HK$)		**0.11**	0.13

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2017

	NOTES	**2017** **HK$'000**	2016 *HK$'000*
Non-current assets			
Property, plant and equipment		**249,430**	227,861
Goodwill		**2,426**	–
Intangible assets		**84,486**	24,254
Held-to-maturity investment	*8*	**–**	14,626
Deposits for acquisition of property, plant and equipment		**204,786**	204,593
Deposit for acquisition of long term investment	*9*	**5,359**	5,359
Interest in an associate		**5,645**	–
Rental deposits		**33,707**	–
		585,839	476,693
Current assets			
Inventories		**8,290**	–
Trade receivables	*10*	**577,632**	208,934
Other receivables, deposits and prepayments		**22,664**	12,974
Prepayment to a game developer		**9,200**	20,000
Held-for-trading investments	*11*	**66,920**	67,560
Held-to-maturity investment	*8*	**14,171**	–
Pledged bank deposit	*12*	**95,264**	95,264
Bank balances and cash		**58,217**	81,619
		852,358	486,351
Current liabilities			
Trade and notes payables	*13*	**32,377**	16,529
Other payables and accruals	*14*	**91,278**	24,269
Amount due to a director		**16,587**	39,027
Amount due to non-controlling interests		**26,958**	–
Provision for reinstatement costs for rented premises		**2,364**	–
Tax payable		**122,003**	98,184
Secured bank borrowings	*15*	**94,550**	94,550
		386,117	272,559
Net current assets		**466,241**	213,792
Total assets less current liabilities		**1,052,080**	690,485

	2017	2016
	HK$'000	*HK$'000*
Non-current liabilities		
Deferred tax liabilities	**6,449**	–
Retirement benefit obligations	**2,957**	–
Provision for reinstatement costs for rented premises	**38,719**	–
Obligation arising from a put option to non-controlling interests	**6,383**	–
Put option derivative	**829**	–
	55,337	–
Net assets	**996,743**	690,485
Capital and reserves		
Share capital	**92,006**	85,822
Reserves	**879,886**	584,600
Equity attributable to owners of the Company	**971,892**	670,422
Non-controlling interests	**24,851**	20,063
Total equity	**996,743**	690,485

CORPORATE INFORMATION AND BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 25 September 2013 and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Its parent and ultimate holding company is Bright Rise Enterprises Limited, a private company incorporated in the British Virgin Islands. Its ultimate controlling shareholder is Mr. Zhuang Xiang Song (the "**Controlling Shareholder**"). The registered office of the Company is at Cricket Square, Hutchins Drive, PO BOX 2681, Grand Cayman, KY1-1111, Cayman Islands and the principal place of business of the Company is Suites 2808-2811, Concordia Plaza, 1 Science Museum Road, Tsim Sha Tsui East, Kowloon, Hong Kong Special Administrative Region, the People's Republic of China (the "**PRC**").

The Company is an investment holding company. The principal activities of its subsidiaries are engaged in the trading of animation derivative products, licensing of animation characters, establishment and operation of indoor theme parks and multimedia animation entertainment.

The consolidated financial statements are presented in Hong Kong dollar ("**HK$**"), which is the same as the functional currency of the Company.

2 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") for the first time in the current year:

Amendments to HKFRS 11	Accounting for Acquisitions of Interest in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle

The application of the amendments to HKFRSs has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in the Group's consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
Hong Kong (IFRIC) Interpretation 22	Foreign Currency Transactions and Advance Consideration[1]
Amendments to HKAS 7	Disclosure Initiative[4]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014–2016 Cycle[5]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2017
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

HKFRS 9 ***Financial Instruments***

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss ("**FVTPL**"), HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments as at 31 March 2017, as facts and circumstances may change during the period leading up to the initial date of application of HKFRS 9, which is expected to be 1 April 2018 as the Group does not intend to early apply the standard, the assessment of the potential impact is subject to change.

HKFRS 15 *Revenue from Contracts with Customers*

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

HKFRS 16 *"Leases"*

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Under HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows/operating cash flows respectively.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 March 2017, the Group has non-cancellable operating lease commitments of approximately HK$141,819,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

Amendments to HKAS 7 *Disclosure Initiative*

The amendments require an entity to provide disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specifically, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

Except as described above, the directors of the Company anticipate that the application of other new and amendments to HKFRSs in issue but not yet effective will have no material impact on the Group's consolidated financial statements.

3 REVENUE AND SEGMENT INFORMATION

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

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 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:

	Trading of animation derivative products *HK$'000*	Licensing of animation characters *HK$'000*	Establishment and operation of indoor theme parks *HK$'000*	Multimedia animation entertainment *HK$'000*	Total *HK$'000*
For the year ended 31 March 2017					
Segment revenue	**545,478**	**–**	**220,809**	**4,364**	**770,651**
Segment profit (loss)	**164,370**	**(714)**	**63,782**	**(8,138)**	**219,300**
Unallocated income					**2,272**
Unallocated expenses					**(75,532)**
Loss on held-for-trading investments					**(15,680)**
Share of result of an associate					**(16)**
Finance cost					**(3,175)**
Fair value gain on obligation arising from a put option to non-controlling interests					**656**
Profit before taxation					**127,825**
For the year ended 31 March 2016					
Segment revenue	508,600	–	33,362	2,918	544,880
Segment profit (loss)	159,193	(1,010)	(12,932)	(9,143)	136,108
Unallocated income					2,977
Unallocated expenses					(42,339)
Finance cost					(805)
Gain on held-for-trading investment					17,800
Profit before taxation					113,741

Segment profit represents the profit earned by each segment without allocation of certain administrative expenses, share-based payment expenses, (loss) gain on held-for-trading investment, income tax expenses and unallocated income and expenses. 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 segment:

Segment assets

	2017	2016
	HK$'000	*HK$'000*
Trading of animation derivative products	**457,620**	186,995
Licensing of animation characters	**–**	594
Establishment and operation of indoor theme parks	**623,520**	416,932
Multimedia animation entertainment	**82,398**	56,511
Total segment assets	**1,163,538**	661,032
Property, plant and equipment	**34,047**	41,707
Other receivables, deposits and prepayments	**3,614**	1,236
Goodwill	**2,426**	–
Held-to-maturity investment	**14,171**	14,626
Held-for-trading investments	**66,920**	67,560
Pledged bank deposit	**95,264**	95,264
Bank balances and cash	**58,217**	81,619
Consolidated assets	**1,438,197**	963,044

Segment liabilities

	2017	2016
	HK$'000	*HK$'000*
Trading of animation derivative products	**141,614**	114,686
Establishment and operation of indoor theme parks	**132,636**	14,965
Multimedia animation entertainment	**216**	2,040
Total segment liabilities	**274,466**	131,691
Other payables and accruals	**21,681**	7,291
Amount due to a director	**16,587**	39,027
Amount due to non-controlling interests	**26,958**	–
Obligation arising from a put option to non-controlling interests	**6,383**	–
Put option derivatives	**829**	–
Secured bank borrowings	**94,550**	94,550
Consolidated liabilities	**441,454**	272,559

Segment assets represent certain property, plant and equipment, intangible assets, deposits for acquisition of plant and equipment, deposits for acquisition of long term investment, interest in an associate, inventories, 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 and notes payables, certain other payables and accruals, deferred tax liabilities, retirement benefit obligations, provision for reinstatement costs for rented premises, tax payable, obligation arising from a put option to non-controlling interests and put option derivatives 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.

Other segment information

	Trading of animation derivative products *HK$'000*	Licensing of animation characters *HK$'000*	Establishment and operation of indoor theme parks *HK$'000*	Multimedia animation entertainment *HK$'000*	Segment total *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
2017							
Amounts included in the measurement of segment profit or loss and segment assets:							
Addition to non-current assets	**–**	**–**	**4,922**	**43,073**	**47,995**	**156**	**48,151**
Depreciation and amortisation	**–**	**594**	**42,146**	**5,406**	**48,146**	**7,719**	**55,865**
Loss on disposal of property, plant and equipment	**–**	**–**	**1,392**	**–**	**1,392**	**47**	**1,439**
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss:							
Interest income	**–**	**–**	**–**	**–**	**–**	**1,392**	**1,392**
Interest expense	**–**	**–**	**–**	**–**	**–**	**3,175**	**3,175**
Taxation	**14,685**	**–**	**9,068**	**–**	**23,753**	**–**	**23,753**
2016							
Amounts included in the measurement of segment profit or loss and segment assets:							
Addition to non-current assets	–	–	265,210	26,450	291,660	333	291,993
Depreciation and amortisation	–	890	4,465	1,234	6,589	7,842	14,431
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss:							
Interest income	–	–	–	–	–	2,208	2,208
Interest expense	–	–	–	–	–	805	805
Taxation	13,311	–	2,040	–	15,351	–	15,351

Note: Addition to non-current assets excluded goodwill, held-to-maturity investment, interest in an associate and rental deposit.

Revenue from major products and services

The following is an analysis of the Group's revenue from its major products and services:

	2017	2016
	HK$'000	*HK$'000*
Trading of animation derivative products	**545,478**	508,600
Sales of admission tickets of indoor theme parks and multimedia animation entertainment	**225,173**	36,280
Total revenue	**770,651**	544,880

No further analysis is presented for animation derivative products and animation characters as such information is not regularly provided to the CODM and the cost to develop it would be excessive.

Geographical information

The Group's operations are located in Hong Kong, Japan and the PRC.

Information about the Group's revenue from external customers is presented based on the geographical locations of customers irrespective of the origin of goods/services. Information about the Group's non-current assets is presented based on the geographical location of the assets.

Revenue from external customers

	2017	2016
	HK$'000	*HK$'000*
PRC	**168,286**	35,246
Hong Kong	**1,933**	4,769
Japan	**600,432**	504,865
	770,651	544,880

Non-current assets by geographical location

	2017	2016
	HK$'000	*HK$'000*
PRC*	**477,234**	456,624
Hong Kong	**5,402**	5,443
Japan	**103,203**	–
	585,839	462,067

Note: Non-current assets excluded held-to-maturity investment.

* *The amount of trademark arising from acquisition of subsidiaries included of HK$25,167,000 is allocated to PRC as it is expected to be used in the PRC.*

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group, which was mainly derived from trading of animation derivative products, are as follows:

	2017	2016
	HK$'000	*HK$'000*
Customer A	**247,522**	194,740
Customer B	**220,539**	234,777

4. TAXATION

	2017	2016
	HK$'000	*HK$'000*
Hong Kong Profits Tax:		
Current tax	**33,419**	28,993
Overprovision in prior years	**(9,666)**	(13,642)
	23,753	15,351

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

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 from the subsidiaries in the PRC during both years.

Corporate tax in Japan is calculated at 25.5% on the estimated assessable profit for both years. Pursuant to relevant laws and regulations in Japan, withholding tax is imposed at 20.42% and 5% on dividends declared to local investors and foreign investors, respectively, in respect of profit generated by subsidiaries incorporated in Japan. No provision for Japan corporate income tax has been made for the year as the Japan subsidiary has incurred losses for the year.

The Group only notified the Hong Kong Inland Revenue Department ("IRD") of its assessable profits for the years of assessment 2008/09 to 2012/13 in February 2014. After filing the respective tax returns, the Group received Notices of Assessment for the year of assessment 2008/09 in March 2014, the year of assessment 2009/10 in May 2014, and the years of assessment 2010/11 to 2012/13 in July 2014 from the IRD which stated that tax payable for the years of assessment 2008/09 to 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. As at 31 March 2017, the IRD has not issued any penalty notice to the Group in respect of the late notification of chargeability for the relevant years, and after seeking professional advice, the directors believe that claim term of the year of assessment 2010/11 have been expired under the six-year statutory time bar after the year ended 31 March 2017. Accordingly, the tax provision of approximately HK$9,666,000 for the year of assessment 2010/11 was reversed during the year ended 31 March 2017.

The Group has lodged the offshore profits claims in respect of the trading income (other than trading income derived from Hong Kong affiliates of Japanese customers) and licensing 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. As at 31 March 2017, 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 six years ended 31 March 2017 would be HK$110,934,000 after considering the overprovision of years of assessment 2008/09 to 2010/11 (2016: HK$96,143,000). Having taken into account professional advice, the directors believe that the Group has made appropriate provision in respect of the possible tax liability.

5. PROFIT FOR THE YEAR

	2017	2016
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Staff costs:		
Directors' emoluments	**6,545**	5,141
Other staff costs		
Salaries and other benefits	**41,729**	16,983
Retirement benefits scheme contributions	**6,541**	1,432
Share-based payments expense	**3,195**	386
	58,010	23,942
Auditor's remuneration		
– audit services	**4,257**	2,862
– non-audit services	**2,773**	1,110
	7,030	3,972
Cost of inventories recognised as expenses	**385,492**	343,949
Depreciation of property, plant and equipment	**49,500**	12,230
Amortisation of intangible assets	**6,365**	2,201
Loss on disposal of property, plant and equipment	**1,439**	–
Transaction costs for acquisition of subsidiaries (included in other expenses)	**15,806**	–
Research and development costs recognised as an expense (included in other expenses)	**6,106**	1,541
Operating lease rentals in respect of rented premises	**–**	–
Minimum operating lease rentals in respect of rented vehicles	**150**	130
Lease payments under operating leases in respect of rented premises		
Minimum lease payments	**30,301**	7,169
Contingent rents *(note)*	**993**	–
Net foreign exchange (gains) losses	**(267)**	5,000

Note: The operating lease rentals for indoor theme parks are determined as the higher of a fixed rental or a predetermined percentage on revenue of respective indoor theme parks pursuant to the terms and conditions that are set out in the respective rental agreements.

6. DIVIDENDS

	2017	2016
	HK$'000	*HK$'000*
Dividends recognised as distributions during the year:		
– Bonus shares issued as interim scrip dividend	**–**	42,911
– Final dividend of HK1 cent per share for the year ended 31 March 2016	**8,582**	–
	8,582	42,911

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 March 2017 of HK2 cents per ordinary share of an aggregate amount of HK$18,401,000 has been proposed by the Company and is subject to approval by the shareholders in the forthcoming general meeting.

7. EARNINGS PER SHARE

	2017	2016
	HK$'000	*HK$'000*
Earnings:		
Earnings for the purpose of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	**94,840**	110,372

	2017	2016
	'000	*'000*
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**877,979**	858,216
Effect of dilutive potential ordinary shares:		
Share options	**1,007**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**878,986**	858,216

The weighted average number of ordinary shares for the purpose of basic and diluted earnings per share for 2016 are calculated based on the number of new shares and adjusted for the bonus issue in December 2015.

The calculation of diluted earnings per share for the year ended 31 March 2016 did not assume the exercise of the Company's share options because the exercise prices of these options were higher than the average market price of the shares during that year.

8. HELD-TO-MATURITY INVESTMENT

	2017	2016
	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 the functional currency of respective group entity which it relates:

	2017	2016
	HK$'000	*HK$'000*
Renminbi ("**RMB**")	**14,171**	14,626

9. DEPOSIT FOR ACQUISITION OF LONG TERM INVESTMENT

In August 2015, the Group entered into a strategic partnership agreement and a supplemental 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 to the investors, on a priority basis, to invest or co-invest in virtual reality technology projects and the deposit is refundable.

10. TRADE RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	**577,632**	208,934

The Group generally allows a credit period ranging from 30 days to 90 days to its trade customers except certain major customers with a good track record which may be granted a longer credit period of 180 days.

The following is an aged analysis of trade receivables presented based on the invoice dates, which approximate the revenue recognition dates:

	2017	2016
	HK$'000	*HK$'000*
0 to 90 days	**248,875**	143,194
91 to 180 days	**112,722**	40,448
181 to 365 days	**194,876**	25,289
Over 365 days	**21,159**	3
	577,632	208,934

Before accepting any new customers, the Group assesses the potential customer's credit quality and defines credit limits by each customer. Limits attributed to customers are reviewed once a year. The trade receivables that are neither past due nor impaired are mainly due from those customers which have long-term relationship with the Group and the repayment history of these customers were good.

Included in Group's trade receivables are receivables with the following carrying amounts which are past due at the end of each reporting period for which the Group has not provided for impairment loss as there has not been a significant change in the credit quality and the settlements after the end of the reporting period from those debtors are satisfactory. The Group does not hold any collateral over these balances. Aging of trade receivables which are past due but not impaired is as follows:

	2017	2016
	HK\$'000	*HK\$'000*
0 to 90 days	**149,024**	40,445
91 to 180 days	**46,966**	25,294
181 to 365 days	**21,245**	5
Over 365 days	**7**	1
	217,242	65,745

The Group's trade receivables denominated in currencies other than the functional currencies of the respective group entities are set out below:

	2017	2016
	HK\$'000	*HK\$'000*
United States Dollars ("**US\$**")	**457,618**	186,995
RMB	**107,514**	15,655

11. HELD-FOR-TRADING INVESTMENTS

	2017	2016
	HK\$'000	*HK\$'000*
Equity securities listed in Hong Kong	**66,920**	67,560

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.

12. 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 0.6% (2016: 0.6%) 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.

13. TRADE AND NOTES PAYABLES

	2017	2016
	HK\$'000	*HK\$'000*
Trade payables	**30,824**	16,529
Notes payables	**1,553**	–
	32,377	16,529

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

	2017	2016
	HK$'000	*HK$'000*
0 to 30 days	**30,490**	16,365
31 to 60 days	**951**	164
Over 90 days	**936**	–
	32,377	16,529

14. OTHER PAYABLES AND ACCRUALS

	2017	2016
	HK$'000	*HK$'000*
Other payables and accruals	**47,145**	15,435
Payable for acquisition of plant and equipment	**8,611**	3,327
Advanced receipts from customers	**17,820**	2,240
Salaries payables	**9,033**	1,967
Other tax payable	**8,502**	1,300
Deferred income	**167**	–
	91,278	24,269

15. SECURED BANK BORROWINGS

	2017	2016
	HK$'000	*HK$'000*
Secured bank borrowings which are repayable within one year	**94,550**	94,550

	2017	2016
	%	*%*
Fixed-rate borrowings	**3.12**	2.75

The Group's bank borrowings that are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	2017	2016
	HK$'000	*HK$'000*
US$	**94,550**	94,550

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 the PRC and in this connection, it has been actively expanding its business during the year ended 31 March 2017, including indoor theme parks business through the acquisition of CA Sega Joypolis Limited ("**CA Sega**"), 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 other countries through these customers. 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 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 parks

The Group is the first licenced operator of *JOYPOLIS* in the PRC. 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 the PRC 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 parks business by entering into a share purchase agreement with Sega Sammy Holdings Inc. ("**SEGA SAMMY**") to acquire 85.1% shares of CA Sega (formerly known as Sega Live Creation Inc. ("**SLC**")) which was completed on 1 January 2017 ("**Completion Date**"). The principal activity of CA Sega 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.

The Group further entered into the shareholders agreement with SEGA SAMMY, each of SEGA SAMMY and the Group shall not transfer, dispose of, create any encumbrances over, or otherwise give any other person any rights in relation to any CA Sega share held by each of them within a period of three years from the Completion Date. In addition, the Group has been granted a right of first refusal on all CA Sega shares proposed to be sold by SEGA SAMMY to third party other than its affiliates from the third anniversary of the Completion Date to the day immediately before the ninth anniversary of the Completion Date. The Group would have 14 days to exercise its right of first refusal.

The aforesaid restrictions on transfer are designed to maintain the involvement of SEGA SAMMY in CA Sega during the three years' restricted period. Given that SEGA SAMMY is a renowned amusement machine manufacturer and video game developer, as well as the founder of *JOYPOLIS*, the Directors believe that the partnership with SEGA SAMMY will also strengthen the position of the Group as a leader of amusement parks operation business and ensure the due operation of *JOYPOLIS* during the initial period. The Directors believe that the three-year transfer restrictions imposed on SEGA SAMMY is likely to have a positive impact to the operation of CA Sega as well as business performance of the Group.

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 "*HanBaGui*" (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 31 March 2017, 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 cooperate 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 eleven animation games featuring "*Violet*" (紫嫣) and "*HanBaGui*" (憨八龜) during the year end 31 March 2017, including eight virtual reality ("**VR**") games, two mobile games and one online game via Internet.

In July 2016, the Group entered into an agreement to cooperate with InnoSharp (HK) Limited ("**InnoSharp**") 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 installation 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 InnoSharp 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 remains its core businesses, the Group is accelerating the development of animation characters and plans to expand the commercialization 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 year ended 31 March 2017 with comparative figures as follows:

	Year ended 31 March	
	2017	2016
Revenue *(HK$'000)*	**770,651**	544,880
Gross profit *(HK$'000)*	**267,080**	168,116
Gross profit margin *(%)*	**34.7**	30.8
Profit attributable to the owners of the Company *(HK$'000)*	**94,840**	110,372

Revenue

The revenue increased by HK$225.8 million, or 41.4%, from HK$544.9 million for the year ended 31 March 2016 to HK$770.7 million for the year ended 31 March 2017. The increase was primarily due to an increase of HK$36.9 million from revenue of the trading of animation derivative products, an increase of HK$187.4 million from revenue of the establishment and operation of an indoor theme parks.

Trading of animation derivative products

The revenue from trading of animation derivative products increased by 7.3% from HK$508.6 million for the year ended 31 March 2016 to HK$545.5 million for the year ended 31 March 2017 primarily due to an increase in the sales of new product mix with higher profit margin.

As at 31 March 2017, approximately HK$217 million (31 March 2016: approximately HK$65 million) of trade receivables exceed the credit period granted by the Group. These amounts are from customers with good track record and have long business relationship with the Group. In consideration of the customers have provided repayment schedules and the settlements are fulfilling with the schedules after the reporting period, the Group believes that no impairment is required.

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 year ended 31 March 2016 and 2017. 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 full operation of *Shanghai JOYPOLIS* and the acquisition of CA Sega, the revenue from establishment and operation of indoor theme parks significantly increased by 561.1% from HK$33.4 million for the year ended 31 March 2016 to HK$220.8 million for the year ended 31 March 2017. The number of visitors based on ticket sales significantly increased by 919.5% from 214,660 for the year ended 31 March 2016 to 2,188,532 for the year ended 31 March 2017.

The number of visitors can be analysis as below:

	Year ended 2017	2016
PRC	**1,495,636**	214,660
Japan#	**692,896**	N/A

Only include the vistors from 1 January 2017 (completion of acquisition of CA Sega) to 31 March 2017.

Multimedia animation entertainment

The revenue from multimedia animation entertainment increased by HK$1.5 million, or 51.7%, from HK$2.9 million for the year ended 31 March 2016 to HK$4.4 million for the year ended 31 March 2017. The revenue from multimedia animation entertainment included trading of VR gaming machines, ticket sales for VR Game Centre and event activities.

Cost of sales and services

The cost of sales and services increased by HK$126.8 million, or 33.7%, from HK$376.8 million for the year ended 31 March 2016 to HK$503.6 million for the year ended 31 March 2017. 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 new product mix; the operating cost relating to full operation of *Shanghai JOYPOLIS* after the grand opening in February 2016 and the acquisition of CA Sega during the year 2017.

Gross profit and gross profit margin

The Group's gross profits lightly increased by HK$99.0 million, or 58.9%, from HK$168.1 million for the year ended 31 March 2016 to HK$267.1 million for the year ended 31 March 2017. The Group's gross profit margin increased from 30.8% for the year ended 31 March 2016 to 34.7% for the year ended 31 March 2017. The increase in the gross profit was mainly due to the full operation of *Shanghai JOYPOLIS* and the acquisition of CA Sega during the year ended 31 March 2017.

Other income

Other income decreased by HK$0.7 million from HK$3 million for the year ended 31 March 2016 to HK$2.3 million for the year ended 31 March 2017. The decrease was primarily due to less interest income from pledged bank deposit and held to maturity investment.

Selling and distribution expenses

The selling and distribution expenses increased by HK$2.9 million, or 14.7%, from HK$19.7 million for the year ended 31 March 2016 to HK$22.6 million for the year ended 31 March 2017. The Group's selling and distribution expenses as a percentage of revenue decreased from 3.6% for the year ended 31 March 2016 to 2.9% for the year ended 31 March 2017. The increase in selling and distribution expenses was primarily due to the acquisition of CA Sega.

Profit attributable to the owners of the Company

The profit attributable to the owners of the Company decreased by HK$15.6 million, or 14.1%, from HK$110.4 million for the year ended 31 March 2016 to HK$94.8 million for the year ended 31 March 2017. The decrease was primarily due to:

(a) During the year ended 31 March 2017, there was a loss on the Group's investments in certain listed securities on The Stock Exchange of Hong Kong Limited of HK$15.7million (2016: a gain of HK$17.8 million). The investments are held for long term and mainly for strategic cooperation purpose in which one of them already started indoor theme parks business with the Group during the year. The Directors believe that the strategic investment can generate future benefit to the Group.

(b) The transaction cost of HK$15.8 million incurred for the acquisition of CA Sega which has been included in "other expenses".

BUSINESS PROSPECTS

Looking ahead, in addition to the core business of trading toys, the Group will continue to expand its theme parks 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 the PRC and Japan.

The Group also invested and co-produced the animation movies of *Project Egg* (蛋計劃) which had been 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 eleven 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 parks

After the completion of acquisition of CA Sega together with the full operation of *Shanghai JOYPOLIS*, indoor theme parks business is now the most flourishing business in the Group. As SEGA SAMMY will remain a shareholder holding 14.9% of the equity interest in CA Sega, the Group believes that the partnership with SEGA SAMMY will also strengthen the position of the Group as a leader of amusement parks operation business.

Looking ahead, the Group will continue to develop the amusement parks in major cities of the PRC by working with partners through licencing and cooperation with land developers. To achieve this objective, the Group will setup 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 commercialization 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 commercialization 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 31 March 2017, approximately HK$211.3 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 utilized as at 31 March 2017	Unutilised as at 31 March 2017
	%	*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	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	25.4	34.3
For working capital and general corporate purposes	10.0	29.9	29.9	–
Total	**100.0**	**298.6**	**211.3**	**87.3**

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2017, the authorized 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$92.0 million divided into 920,062,000 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 1 September 2016, 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$51.9 million. For further details, please refer to the announcement of the Company dated 24 August 2016.

Pursuant to the subscription agreements entered between the Company and Subscribers on 16 December 2016 and 6 January 2017, an aggregate of 46,846,000 subscription shares of HK$0.1 each of the Company were subscribed by Subscribers for a cash consideration of HK$152,249,500. All Subscribers are independent third parties.

As at 31 March 2017, the cash and bank balances of the Group were HK$58.2 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 31 March 2017, the Group had a gearing ratio (calculate as total loans divided by total assets) of 9.6% (31 March 2016: 13.9%). The total loans of the Group included interest-bearing bank borrowings, amount due to a director and amount due to non-controlling interests. The decrease in gearing ratio in 2017 was mainly attributable to the fund raised through issuance new shares during the year 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 year ended 31 March 2017. 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.

FINAL DIVIDEND

The Board recommends the payment of a final cash dividend of 2 HK cent per share to the shareholders of the Company whose names appear on the register of members of the Company at the closure day of the register of members, subject to the approval of the shareholders of the Company at the forthcoming annual general meeting. Further information on the closure date for the final cash dividend will be set forth in the notice of the annual general meeting.

CAPITAL COMMITMENTS

As at 31 March 2017, capital commitments of the Group amounted to HK$61.2 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 investor 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 amusement parks in major cities in the PRC and 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.

MORTGAGES AND PLEDGES

As at 31 March 2017, 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 31 March 2017 (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, Japanese Yen 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 31 March 2017, the Group had 503 employees (31 March 2016: 240 employees). For the year ended 31 March 2017, 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$58.0 million (31 March 2016: HK$23.9 million). The increase was mainly attributable to the increase of HK$24.7 million in employee remuneration and the increment of HK$1.4 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 year ended 31 March 2017.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL INFORMATION

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 audited consolidated financial statements and annual results for the year ended 31 March 2017 have been reviewed by the audit committee of the Board, the members of which have met the auditors of the Company, Messrs. Deloitte Touche Tohmatsu, for the review of the Group's results for the year ended 31 March 2017.

The audit committee of the Board has reviewed the Company's audited consolidated financial statements for the year ended 31 March 2017 and the accounting principles and practices adopted by the Group and has discussed auditing, risk management, internal controls and financial reporting matters for the year ended 31 March 2017 with the management. They have also reviewed and approved the engagement of external auditors for providing non-audit services, the remuneration in respect of audit and non-audit services provided by external auditors, risk management and internal control systems and the effectiveness of the internal audit function.

SCOPE OF WORK ON PRELIMINARY ANNOUNCEMENT OF RESULTS BY THE INDEPENDENT AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 March 2017 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

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 year, 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 year ended 31 March 2017.

CLOSURE OF THE REGISTER OF MEMBERS

To determine the eligibility of the shareholders of the Company to attend the annual general meeting to be held on 28 August 2017, the register of members will be closed from 23 August 2017 to 28 August 2017, both days inclusive, during which period no transfer of shares will be effected. In order to be entitled to attend and vote at the annual general meeting, all transfer forms accompanied by the relevant Share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 22 August 2017.

To determine entitlement to the proposed final cash dividend (subject to the passing of an ordinary resolution by the shareholders of the Company at the annual general meeting), the register of members of the Company will be closed from 1 September 2017 to 5 September 2017, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 31 August 2017.

GENERAL INFORMATION

A circular containing, inter alia, the information required by the Listing Rules, together with the notice of the upcoming annual general meeting, will be despatched to the Shareholders in due course.

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 annual 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 29 May 2017, the Company entered into a placing agreement for placing bonds in an aggregate principal amount up to HK$100,000,000. The bonds denominated in HK$ and bear a fixed annual interest rate of 6% with a maturity period of 3 years, and the interest will be on the first date after the bonds issuance date.

Further details of the bond placing are set out in the announcement of the Company dated 29 May 2017.

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 annual report of the Company for the year ended 31 March 2017 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, 30 June 2017

As at the date of this announcement, the Board comprise 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.