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)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

The highlights in relation for the unaudited interim results of the Group for the six months ended 30 September 2017 as follows:

– Revenue was HK$475.1 million for the six months ended 30 September 2017, representing an increase of 52.0% as compared with HK$312.5 million for the six months ended 30 September 2016.

– Gross profit was HK$130.1 million for the six months ended 30 September 2017, representing an increase of 32.6% as compared with HK$98.1 million for the six months ended 30 September 2016. Gross profit margin for the six months ended 30 September 2017 was 27.4%, representing a decrease of 4.0% as compared with 31.4% for the six months ended 30 September 2016.

– Profit attributable to the owners of the Company was HK$28.7 million, representing a decrease of 34.5% as compared with HK$43.8 million for the six months ended 30 September 2016.

– Basic earnings per Share amounted to 3 HK cents for the six months ended 30 September 2017, representing a decrease of 40.0% as compared with 5 HK cents for the six months ended 30 September 2016.

– The adjusted EBITDA* was HK$101.5 million, representing an increase of 15.5% as compared with HK$87.9 million for the six months ended 30 September 2016.

* Adjusted EBITDA excluded write-off on property, plant and equipment, fair value change on financial assets at fair value through profit or loss, fair value gain on obligation arising from a put option to non-controlling interests, share-based payments expense.

The board (the "**Board**") of directors (the "**Directors**") of China Animation Characters Company Limited (the "**Company**") would like to present the unaudited interim results of the Company (which together with its subsidiaries, the "**Group**") for the six months ended 30 September 2017, together with the comparative figures for the six months ended 30 September 2016, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the six months ended 30 September	
		2017	2016
		(Unaudited)	(Unaudited)
	NOTES	***HK$'000***	*HK$'000*
Revenue	*2*	**475,114**	312,493
Cost of sales and services		**(344,999)**	(214,394)
Gross profit		**130,115**	98,099
Other income		**4,224**	938
Selling and distribution expenses		**(18,960)**	(5,153)
Administrative expenses		**(40,233)**	(33,148)
Research and development expenses		**(7,866)**	(550)
Loss on held-for-trading investments		**(25,813)**	(5,180)
Exchange loss on held-to-maturity investment and bank borrowings		**(1,147)**	(455)
Fair value gain on obligation arising from a put option to non-controlling interests		**1,988**	–
Share of result of an associate		**(23)**	–
Share of result of a joint venture		**(381)**	–
Finance costs		**(6,043)**	(1,345)
Profit before taxation		**35,861**	53,206
Taxation	*3*	**(5,473)**	(14,825)
Profit for the period	*4*	**30,388**	38,381
Other comprehensive income (expense):			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit plans		**585**	–
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign subsidiaries		**3,666**	(4,375)
Fair value loss on available-for-sale investments		**(44)**	–
Other comprehensive income (expense) for the period		**4,207**	(4,375)
Total comprehensive income for the period		**34,595**	34,006

	NOTE	For the six months ended 30 September 2017 (Unaudited) HK$'000	2016 (Unaudited) HK$'000
Profit for the period attributable to:			
Owners of the Company		**28,727**	43,826
Non-controlling interests		**1,661**	(5,445)
		30,388	38,381
Total comprehensive income attributable to:			
Owners of the Company		**31,272**	41,435
Non-controlling interests		**3,323**	(7,429)
		34,595	34,006
Earnings per share	*6*		
– Basic (HK$)		**0.03**	0.05
– Diluted (HK$)		**0.03**	0.05

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	**As at 30 September 2017 (Unaudited)** ***HK$'000***	As at 31 March 2017 (Audited) *HK$'000*
Non-current assets			
Property, plant and equipment		**258,931**	249,430
Goodwill		**2,423**	2,426
Intangible assets		**81,900**	84,486
Available-for-sale investments		**9,951**	–
Deposits for acquisition of property, plant and equipment		**222,332**	204,786
Deposit for acquisition of long term investment		**5,359**	5,359
Interest in an associate		**5,856**	5,645
Interest in a joint venture		**2,032**	–
Rental deposits		**34,193**	33,707
		622,977	585,839
Current assets			
Inventories		**722**	8,290
Trade receivables	*8*	**701,584**	577,632
Other receivables, deposits and prepayments		**22,889**	22,664
Prepayment to a game developer		**9,200**	9,200
Held-for-trading investments	*9*	**47,510**	66,920
Held-to-maturity investment	*7*	**–**	14,171
Pledged bank deposit	*10*	**109,631**	95,264
Time deposits		**7,250**	–
Bank balances and cash		**146,911**	58,217
		1,045,697	852,358
Current liabilities			
Trade and notes payables	*11*	**13,880**	32,377
Other payables and accruals		**76,007**	91,278
Payable for acquisition of additional interest in a subsidiary		**55,979**	–
Amount due to a director		**–**	16,587
Amount due to a non-controlling interest		**54**	26,958
Provision for reinstatement costs for rented premises		**293**	2,364
Tax payable		**127,533**	122,003
Guaranteed note		**193,649**	–
Bank and other borrowings – due within one year	*12*	**111,908**	94,550
		579,303	386,117
Net current assets		**466,394**	466,241
Total assets less current liabilities		**1,089,371**	1,052,080

	NOTE	As at 30 September 2017 (Unaudited) HK$'000	As at 31 March 2017 (Audited) HK$'000
Non-current liabilities			
Bank and other borrowings – due after one year	*12*	**18,071**	–
Bonds		**116,616**	–
Deferred tax liabilities		**6,443**	6,449
Retirement benefit obligations		**2,069**	2,957
Provision for reinstatement costs for rented premises		**38,757**	38,719
Obligation arising from a put option to non-controlling interests		**3,574**	6,383
Put option derivatives		**1,650**	829
		187,180	55,337
Net assets		**902,191**	996,743
Capital and reserves			
Share capital		**92,006**	92,006
Reserves		**810,737**	879,886
Equity attributable to owners of the Company		**902,743**	971,892
Non-controlling interests		**(552)**	24,851
Total equity		**902,191**	996,743

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

1. BASIS OF PREPARATION

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.

2. REVENUE AND SEGMENT INFORMATION

Revenue represents revenue arising from trading of animation derivative products, establishment and operation of indoor theme parks and multimedia animation entertainment in Hong Kong, Japan and the People's Republic of China (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) establishment and operation of indoor theme parks and (iii) multimedia animation entertainment. The CODM considers the Group has three 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 six months ended 30 September 2017 (unaudited)

	Trading of animation derivative products *HK$'000*	Establishment and operation of indoor theme parks *HK$'000*	Multimedia animation entertainment *HK$'000*	Total *HK$'000*
Segment revenue	**269,399**	**202,326**	**3,389**	**475,114**
Segment profit (loss)	**80,723**	**15,351**	**(5,559)**	**90,515**
Unallocated income				**4,224**
Unallocated expenses				**(27,459)**
Loss on held-for-trading investments				**(25,813)**
Exchange loss on held-to-maturity investment and bank borrowings				**(1,147)**
Share of result of an associate				**(23)**
Share of result of a joint venture				**(381)**
Finance costs				**(6,043)**
Fair value gain on obligation arising from a put option to non-controlling interests				**1,988**
Profit before taxation				**35,861**

For the six months ended 30 September 2016 (unaudited)

	Trading of animation derivative products *HK$'000*	Establishment and operation of indoor theme parks *HK$'000*	Multimedia animation entertainment *HK$'000*	Total *HK$'000*
Segment revenue	262,524	47,917	2,052	312,493
Segment profit (loss)	82,500	4,643	(3,651)	83,492
Unallocated income				938
Unallocated expenses				(24,244)
Loss on held-for-trading investments				(5,180)
Exchange loss on held-to-maturity investment				(455)
Finance costs				(1,345)
Profit before taxation				53,206

Segment profit (loss) represents the profit (loss) earned (incurred) by each segment without allocation of certain administrative expenses, share-based payment expenses, loss on held-for-trading investments, exchange loss on held-to-maturity investments and bank borrowings, share of results of an associate and a joint venture, finance costs, fair value gain on obligation arising from a put option to non-controlling interests, 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 segments:

Segment assets

	30 September 2017 (Unaudited) ***HK$'000***	31 March 2017 (Audited) *HK$'000*
Trading of animation derivative products	**598,664**	457,620
Establishment and operation of indoor theme parks	**617,014**	623,520
Multimedia animation entertainment	**83,564**	82,398
Total segment assets	**1,299,242**	1,163,538
Property, plant and equipment	**40,680**	34,047
Other receivables, deposits and prepayments	**5,076**	3,614
Goodwill	**2,423**	2,426
Held-to-maturity investment	**–**	14,171
Held-for-trading investments	**47,510**	66,920
Available-for-sale investments	**9,951**	–
Pledged bank deposit	**109,631**	95,264
Time deposits	**7,250**	–
Bank balances and cash	**146,911**	58,217
Consolidated assets	**1,668,674**	1,438,197

Segment liabilities

	30 September 2017 (Unaudited) ***HK$'000***	31 March 2017 (Audited) *HK$'000*
Trading of animation derivative products	**129,413**	141,614
Establishment and operation of indoor theme parks	**170,193**	132,636
Multimedia animation entertainment	**217**	216
Total segment liabilities	**299,823**	274,466
Other payables and accruals	**21,138**	21,681
Amount due to a director	**–**	16,587
Amount due to a non-controlling interest	**54**	26,958
Bank and other borrowings	**129,979**	94,550
Bonds	**116,616**	–
Guaranteed note	**193,649**	–
Obligation arising from a put option to non-controlling interest	**3,574**	6,383
Put option derivatives	**1,650**	829
Consolidated liabilities	**766,483**	441,454

Segment assets represent certain property, plant and equipment, intangible assets, deposits for acquisition of property, plant and equipment, deposits for acquisition of long term investment, interest in an associate and a joint venture, inventories, trade receivables, certain other receivables, rental deposits, 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, payable for acquisition of additional interest in a subsidiary, deferred tax liabilities, retirement benefit obligations, provision for reinstatement costs for rented premises 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

	For the six months ended 30 September	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
The tax charge comprises:		
Hong Kong Profits Tax	**11,920**	14,825
Overprovision in previous year	**(6,596)**	–
The PRC Enterprise Income Tax ("**EIT**")	**149**	–
	5,473	14,825

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.

Corporate tax in Japan is calculated at 23.4% on the estimated assessable profit for both periods. 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 period as the assessable profit is wholly absorbed by tax losses brought forward.

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 30 September 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 the risk of the IRD issuing an additional assessment for year of assessment 2011/12 in respect of its offshore income claim is low. Accordingly, the tax provision of approximately HK$6,596,000 for the year of assessment 2011/12 was reversed during the six months ended 30 September 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 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 and six months ended 30 September 2017 would be HK$122,854,000 after considering the overprovision of years of assessment 2008/09 to 2010/11 (31 March 2017: HK$110,934,000). 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

	For the six months ended 30 September	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Profit for the period has been arrived at after charging (crediting):		
Staff costs:		
Directors' emoluments	**2,617**	3,113
Other staff costs		
Salaries and other benefits	**45,411**	12,393
Retirement benefits scheme contributions	**6,763**	1,041
Share-based payments expense	**641**	1,597
	55,432	18,144
Auditor's remuneration	**1,112**	804
Cost of inventories recognised as expenses	**211,769**	178,182
Depreciation of property, plant and equipment	**25,617**	20,091
Amortisation of intangible assets (included in cost of sales and services)	**7,885**	1,570
Amortisation of intangible assets (included in administrative expenses)	**114**	114
Interest income	**(397)**	(736)
Lease payments under operating leases in respect of rental premises		
Minimum lease payments	**25,753**	8,618
Contingent rents *(note)*	**1,691**	–
Net foreign exchange losses	**693**	479

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.

5. DIVIDENDS

During the current interim period, a final dividend of HK2 cents per share in respect of the year ended 31 March 2017 (31 March 2016: HK1 cent per share) was declared to the owners of the Company. The aggregate amount of the final dividend declared in the interim period amounted to HK$18,401,000 (31 March 2016: HK$8,582,000).

The directors do not recommend the payment of an interim dividend during the period ended 30 September 2017 (six months ended 30 September 2016: nil).

6. EARNINGS PER SHARE

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

	For the six months ended 30 September	
	2017	2016
	(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)	**28,727**	43,826
	'000	*'000*
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**920,062**	860,183
Effect of dilutive potential shares from the Company's share option scheme	**902**	2,790
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**920,964**	862,973

7. HELD-TO-MATURITY INVESTMENT

	As at 30 September 2017	As at 31 March 2017
	(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

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

	As at 30 September 2017	As at 31 March 2017
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Renminbi ("**RMB**")	**–**	14,171

8. TRADE RECEIVABLES

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 analysis of trade receivables by age, presented based on the invoice dates, which approximated the revenue recognition dates:

	As at 30 September 2017 (Unaudited) ***HK$'000***	As at 31 March 2017 (Audited) *HK$'000*
0 to 90 days	**166,661**	248,875
91 to 180 days	**197,125**	112,722
181 to 365 days	**254,715**	194,876
Over 365 days	**83,083**	21,159
	701,584	577,632

9. HELD-FOR-TRADING INVESTMENTS

	As at 30 September 2017 (Unaudited) ***HK$'000***	As at 31 March 2017 (Audited) *HK$'000*
Equity securities listed in Hong Kong	**47,510**	66,920

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 2017: 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.

11. TRADE AND NOTES PAYABLES

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

	As at 30 September 2017 (Unaudited) *HK$'000*	As at 31 March 2017 (Audited) *HK$'000*
0 to 30 days	**13,663**	30,490
31 to 60 days	**–**	951
Over 90 days	**217**	936
	13,880	32,377

12. BANK AND OTHER BORROWINGS

During the period, the Group has drawn new bank borrowings amounting to HK$48,311,000 (six months ended 30 September 2016: nil). The bank and other borrowings carry interest at variable market rates ranging from 3.15% to 4.09% (31 March 2017: 3.12%) per annum and are repayable on demand or having maturity from 2018 to 2022. The Group repaid bank borrowings of HK$13,614,000 during the six months ended 30 September 2017 (six months ended 30 September 2016: nil). The proceeds were mainly used to finance the acquisition of property, plant and equipment.

Included in the balance as at 30 September 2017 are secured bank borrowings of HK$117,830,000 (six months ended 30 September 2016: HK$94,550,000) which secured by pledged bank deposit.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in different businesses in the animation 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. In January 2017, the Group completed the acquisition of 85.1% equity interest in Sega Live Creation Inc. (currently known as CA Sega Joypolis Limited) and has been engaged in operations of Joypolis theme parks in Japan since then. The business objective of the Group is to establish a multi-media business in the PRC and other countries and in this connection, the Group has been actively expanding its business during the six months ended 30 September 2017 as well as the development of animation business featuring the proprietary animation characters developed by the Group.

BUSINESS REVIEW

Trading of animation-derived products

The core business of the Group is trading of animation-derived products featuring a wide range of popular third-party owned animation characters. The Group's product range includes general plastic toys, food-grade toys (toys that are sold by the Group's customers with food and are packaged with candy) procured from suppliers.

Most of the Group's customers are companies in Japan sourcing animation-derived products for toys companies in Japan market for, leading outdoor theme parks in Japan and toy distributors of other countries located in Japan. Through the provision of quality toy products and value-added 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 in accordance with their request. These services differentiate the Group from other toy traders which do not provide additional services to customers.

Indoor theme parks

The Group is currently operating four leading indoor interactive entertainment parks in the PRC and Japan, namely Shanghai, Qingdao, Tokyo and Osaka.

JOYPOLIS targets the young population and provides them with 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.

During the period, the Group further expanded its theme park business by entering into an option agreement with Jovial Century Investments Limited and 深圳市平安泰盛投資有限公司 (Shenzhen PingAn TaiSheng Investment Company Limited) to acquire the remaining 49% equity interest in 華嘉泰（上海）室內遊樂有限公司 (HuaJiaTai (Shanghai) Indoor Amusement Co., Ltd., a subsidiary which operates Shanghai Joypolis. Following the completion of acquisition on 7 August 2017, the Group owns the entire equity interest in the company operating Shanghai Joypolis. Further information is set forth in the announcement of the Company dated 7 August 2017.

This acquisition enables the Group to consolidate its equity interest in the Shanghai Joypolis and will place the Group in a better position to manage and develop Shanghai Joypolis with enhancement in the management and administration efficiency in operation and contribute greater revenue to the Group and the Shareholders. The acquisition was also consistent with the theme park development strategy and expansion plan of interactive entertainment parks of the Group.

In view of the market potential for indoor theme park with a gross floor area of about 1,000 sq.m and targets for 2-12 years old children, we plan to establish "Wonder Forest", which is smaller in size as compared with Joypolis. The first "Wonder Forest" has opened on 1 January 2015 as phase 1 of Shanghai Joypolis. The Group will continue to cooperate with a land developer to develop "Wonder Forest" in cities in Southern China. A joint venture has been set up to operate the first Wonder Forest in Shenzhen with a gross floor area of about 700 sq.m.

The Group plan to continue the expansion of "Wonder Forest" in other PRC cities, such as Tianjin and Wuxi.

The Group has launched new amusement rides and games using the VR technology. In addition, "Zero Latency" which is a VR shooting game developed in Australia, has been launched in Tokyo Joypolis. The Group has also launched another VR shooting game "Mortal Blitz" which is developed in South Korea in Shanghai Joypolis and Qingdao Joypolis.

Multimedia animation entertainment

The Group uses VR technology to create an animation game environment, thereby generating potential opportunities and strong development momentum. The Group plans to cooperate with third parties to run the VR gaming centre and develop game content. As part of its efforts, the Group has opened VR gaming centres in Shanghai and Shenzhen which provides VR games and wearable devices themed with its proprietary animation characters. These centres are adjacent to *Shanghai JOYPOLIS* and located in Central Book City (深圳中心書城), 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.

The Group had launched eleven animation games featuring "*Violet*" (紫嫣) and "*HanBaGui*" (憨八龜) as at 30 September 2017, including eight virtual reality ("**VR**") games, two mobile games and one online game via Internet.

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 2017 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 for the six-month ended 30 September 2017 with comparative figures as follows:

	For the six months ended 30 September	
	2017	2016
Revenue *(HK$'000)*	**475,114**	312,493
Gross profit *(HK$'000)*	**130,115**	98,099
Gross profit margin *(%)*	**27.4**	31.4
Profit attributable to the owners of the Company *(HK$'000)*	**28,727**	43,826
Adjusted EBITDA *(HK$'000)*	**101,451**	87,936

Revenue

The revenue increased by HK$162.6 million, or 52.0%, from HK$312.5 million for the six months ended 30 September 2016 to HK$475.1 million for the six months ended 30 September 2017. The increase was primarily due to an increase of HK$154.4 million from revenue of the operation of an indoor theme park through acquisition of CA Sega.

Trading of animation derivative products

The revenue from trading of animation derivative products increased by 2.6% from HK$262.5 million for the six months ended 30 September 2016 to HK$269.4 million for the six months ended 30 September 2017 primarily due to an increase in higher unit price products sold to a major customer.

Establishment and operation of indoor theme parks

With the effect of the completion of acquisition CA Sega and *Shanghai JOYPOLIS*, the revenue from establishment and operation of indoor theme parks increased by 322.3% from HK$47.9 million for the six months ended 30 September 2016 to HK$202.3 million for the six months ended 30 September 2017. The number of visitors based on ticket sales significantly increased by 408.0% from 389,592 for the six months ended 30 September 2016 to 1,979,191 for the six months ended 30 September 2017.

The analysis of the number of visitors is set out below:

	2017	2016
PRC	**495,105**	389,592
Japan	**1,484,086**	N/A

Multimedia animation entertainment

The revenue from multimedia animation entertainment increased by HK$1.3 million, or 61.9%, from HK$2.1 million for the six months ended 30 September 2016 to HK$3.4 million for the six months ended 30 September 2017. The revenue from multimedia animation entertainment included ticket sales for VR Game Centre, trading of VR gaming machines and event activities.

Cost of sales and services

The cost of sales and services increased by HK$130.6 million, or 60.9%, from HK$214.4 million for the period ended 30 September 2016 to HK$345.0 million for the six months ended 30 September 2017. The increase was primarily due to the increase in the operating cost relating to theme park business after completion of acquisition of a majority equity interest in CA Sega on 1 January 2017 and further acquisition of *Shanghai JOYPOLIS* on 7 August 2017.

Gross profit and gross profit margin

The Group's gross profit increased by HK$32.0 million, or 32.6%, from HK$98.1 million for the six months ended 30 September 2016 to HK$130.1 million for the six months ended 30 September 2017. The Group's gross profit margin decreased from 31.4% for the period ended 30 September 2016 to 27.4% for the six months ended 30 September 2017. The decreased in the gross profit was mainly due to the increase in the operating cost relating to theme park business after completion of acquisition of a majority equity interest in CA Sega and *Shanghai JOYPOLIS* as mentioned above.

Other income

Other income increased by HK$3.3 million from HK$0.9 million for the six months ended 30 September 2016 to HK$4.2 million for the six months ended 30 September 2017. The increase was primarily due to the advertising income received from organising event activities of HK$2.0 million (2016: nil).

Selling and distribution expenses

The selling and distribution expenses increased by HK$13.8 million, or 265.4%, from HK$5.2 million for the six months ended 30 September 2016 to HK$19.0 million for the six months ended 30 September 2017. The Group's selling and distribution expenses as a percentage of revenue increased from 1.7% for the six months ended 30 September 2016 to 4.0% for the six months ended 30 September 2017.

Research and development expenses

The research and development expenses increased by HK$7.3 million from HK$0.6 million for the six months ended 30 September 2016 to HK$7.9 million for the six months ended 30 September 2017. The increase was primarily due to the completion of acquisition of CA Sega which is the main centre for researching and developing new amusement rides and games for indoor theme parks.

Profit attributable to the owners of the Company

The profit attributable to the owners of the Company decreased by HK$15.1 million, or 34.5%, from HK$43.8 million for the six months ended 30 September 2016 to HK$28.7 million for the six months ended 30 September 2017. The decrease was primarily due to fair value change on financial assets at fair value through profit or loss of HK$25.8 million.

Non-HKFRS measures

To supplement the result in this announcement which are presented in accordance with HKFRS, adjusted EBITDA are used as additional financial measures. The Group also believes that these non-HKFRS measures provide useful information to investors and others to understand and evaluate the Group's consolidated results for the purpose of comparing financial results across accounting periods and to those of our peer companies.

The following table sets forth the Group's non-HKFRS financial data for the periods presented:

	Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
Profit for the period	**30,388**	38,381
Interest income	**(397)**	(736)
Finance cost	**6,043**	1,345
Taxation	**5,473**	14,825
Depreciation	**25,617**	20,091
Amortisation	**7,999**	1,684
EBITDA	**75,123**	75,590
Write-off on property, plant and equipment	**198**	1,382
Fair value change on financial assets at fair value through profit or loss	**25,813**	5,180
Fair value gain on obligation arising from a put option to non-controlling interests	**(1,988)**	–
Share-based payments expense	**2,305**	5,784
Adjusted EBITDA	**101,451**	87,936

BUSINESS PROSPECTS

Looking ahead, in addition to the core business of trading of animation derivative products of the Group, 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 continue to be used for the purpose of promoting different business segments with synergistic benefits.

Movie and television programmes

In April 2017, the Group invested and participated in production of an animation series of "The Reflection" and the Group can share 22% of the net profit generated from the series. It has been launched and released in Japan in July 2017 and will continue to pursuit to be launched in other countries including the PRC. The Group has the right to manufacture and distribute the toys of all the animation characters in the series in the Greater China.

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 Sega Live Creation Inc., (currently known as CA Sega Joypolis Limited) ("**CA Sega**") in January 2017 and the full operation of *Shanghai Joypolis*, indoor theme park business of the Group is now the most flourishing business in the Group. As SEGA SAMMY Group remains a shareholder holding 14.9% of the equity interest in CA Sega, the Directors believe that the partnership with SEGA SAMMY Group will strengthen the position of the Group.

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*" and "*Wonder Forest*" project fund with interested partners.

The Group will also cooperate with land developers for the opening of "Wonder Forest" theme parks. The Group plans to open 150 "Wonder Forest" theme parks in first-tier and second-tier cities in the PRC, with key focus on the following regions: the Beijing-Tianjin-Hebei region covering Beijing, Tianjin and Xiongan New Area; the Yangtze River Delta covering core cities namely Shanghai, Wuxi, Changzhou, Suzhou, Nanjing and Zhejiang; and the Guangdong-Hong Kong-Macau Bay Area covering Hong Kong, Shenzhen, Dongguan, Guangzhou, Zhongshan, Zhuhai and Macau. In particular, the Group will open flagship Wonder Forest in Tianjin, Wuxi and Shenzhen which will further enhance the CA SEGA brand as well as the Group's revenue.

Commercialisation of animation characters

While the existing animation business and animation character toys business remain as its core businesses, the Group is also 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 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, the Group will enhance its product content and value 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.

Multimedia entertainment

In view of the increasing demand in the animation and multimedia industry, the Group is actively exploring its VR and mobile games electronic sports (eSports) business, under its dual online and offline strategy. eSports is offered under mobile gaming and online gaming to capture market share. For the offline segment, VR and mobile games eSports are launched at the indoor animation amusement parks of CA SEGA JOYPOLIS, where participants can have first-person experience in combat and have a taste of the overwhelming attractiveness of VR eSports.

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 2017, approximately HK$225.6 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 2017	Unutilised as at 30 September 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	42.0	47.6
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	34.3	25.4
For working capital and general corporate purposes	10.0	29.9	29.9	–
Total	**100.0**	**298.6**	**225.6**	**73.0**

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 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.

As at 30 September 2017, the cash and bank balances of the Group were HK$161.0 million (31 March 2017: HK$58.2 million). The increase was mainly due to the placing of bonds and issue of notes during the six months ended 30 September 2017.

As at 30 September 2017, the Group had a gearing ratio (calculate as total bank loans, amount due to a director, amount due to non-controlling interest, guaranteed note and bonds, divided by total assets) of 26.4% (31 March 2017: 9.6%). The total loans of the Group included interest-bearing bank borrowings, amount due to a director, amount due to non-controlling interests, guaranteed note and bonds.

On 29 May 2017, the Company, as an issuer, entered into the placing agreement with Pacific Foundation Securities Limited who acted as the placing agent. The placing agent has conditionally agreed to procure, on a best effort basis, independent placees in cash for the bonds of an aggregate principal amount of HK$103,000,000. The placing was completed on 11 August 2017. The bonds are transferable subject to the concent from the Company. The bonds will become due on the date immediately following 36 months after the date issue of the bonds. The bonds bear interest at a rate of 6% per annum, payable annually in arrears.

On 11 July 2017, the Company, as an issuer, entered into the placing agreement with Crosby Securities Limited who acted as the placing agent. The placing agent has conditionally agreed to procure, on a best effort basis, independent placees in cash for the bonds of an aggregate principal amount of HK$100,000,000. As at 30 September 2017, amounting to HK$39,000,000 bonds was issued. The bonds are transferable subject to the consent from the Company. The bonds will become due on the date immediately proceeding the fifth anniversary of the date issue of the bonds. The bonds bear interest at a rate of 6% per annum, payable annually in arrears.

On 27 September 2017, the Company issued HK$200,000,000 of 7.5% secured guaranteed note (the "**Guaranteed Note**") to Wan Tai Investments Limited (萬鈦投資有限公司), a limited liability company incorporated in the British Virgin Islands. It is indirectly and wholly-owned by CCB International (Holdings) Limited. CCB International (Holdings) Limited is an investment services flagship which is indirectly and wholly-owned by China Construction Bank Corporation, a joint-stock company incorporated in the PRC and listed on the Main Board of the Stock Exchange (stock code: 0939) and the Shanghai Stock Exchange (stock code: 601939). The Guaranteed Note would mature on 27 September 2018 and is denominated in HK$. The interest on the Guaranteed Note is payable semi-annually in arrears.

The Guaranteed Note was secured by the shares pledged and guaranteed by controlling shareholder of the Company. The proceeds will be utilised for general corporate purpose and other investment opportunities.

TREASURY POLICIES

The Group has adopted a prudent treasury policy and thus maintained a healthy liquidity position throughout the six months ended 30 September 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.

CAPITAL COMMITMENTS

As at 30 September 2017, capital commitments of the Group amounted to HK$61.6 million (31 March 2017: HK$61.2 million).

SIGNIFICANT INVESTMENTS HELD

In August 2015, the Group entered into a strategic partnership agreement with an independent third party to establish 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$30.0 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 30 September 2017, a bank deposit of the Group with a carrying value of approximately HK$109.6 million (31 March 2017: 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 2017 (31 March 2017: 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 30 September 2017, the Group had 439 employees (30 September 2016: 173 employees). For the six months ended 30 September 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$55.4 million (six months ended 30 September 2016: HK$18.1 million). The increase was mainly attributable to the increase of HK$37.8 million in employee remuneration and the decrease of HK$0.5 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 2017.

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 2017 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 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 six months ended 30 September 2017.

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.

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 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, 28 November 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.