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China Animation Characters Company Limited
華夏動漫形象有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01566)

ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2018

The Board refers to the profit warning announcement dated 25 June 2018 and wishes to announce the annual results of the Group for the year ended 31 March 2018 as follows:

– Revenue was HK$801.5 million for the year ended 31 March 2018, representing an increase of 4.0% as compared with HK$770.7 million for the year ended 31 March 2017.

– Gross profit was HK$222.3 million for the year ended 31 March 2018, representing a decrease of 16.8% as compared with HK$267.1 million for the year ended 31 March 2017. Gross profit margin for the year ended 31 March 2018 was 27.7%, representing a decrease of 20.2% as compared with 34.7% for the year ended 31 March 2017.

– Profit attributable to owners of the Company was HK$20.8 million, representing a decrease of 78.1% as compared with HK$94.8 million for the year ended 31 March 2017.

– Basic earnings per Share amounted to 2 HK cents for the year ended 31 March 2018, representing a decrease of 81.8% as compared with 11 HK cents for the year ended 31 March 2017.

– The adjusted EBITDA* was HK$161.3 million, representing a decrease of 24.7% as compared with HK$214.2 million for the year ended 31 March 2017.

The board proposes a final cash dividend of 2.3 HK cents per share for the year 31 March 2018.

* *Adjusted EBITDA excluded loss on disposal of property, plant and equipment, other Japanese tax expenses, defined benefit plans loss, fair value loss (gain) on obligation arising from a put option to a non-controlling interest, loss on held-for-trading investments and share-based payments expense.*

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 2018, together with the comparative figures, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2018

	NOTES	**2018** ***HK$'000***	2017 *HK$'000*
Revenue	*3*	**801,459**	770,651
Cost of sales and services		**(579,123)**	(503,571)
Gross profit		**222,336**	267,080
Other income		**6,047**	2,272
Other gains and losses		**(31,878)**	(16,918)
Selling and distribution expenses		**(39,778)**	(22,584)
Administrative expenses		**(88,937)**	(76,644)
Research and development expenses		**(17,843)**	(6,106)
Share of result of an associate		**(25)**	(16)
Finance costs		**(27,581)**	(3,175)
Other expenses		**(875)**	(16,084)
Profit before taxation		**21,466**	127,825
Taxation	*4*	**(224)**	(23,753)
Profit for the year	*5*	**21,242**	104,072
Other comprehensive income (expense):			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit plans		**690**	197
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of:			
– subsidiaries		**15,233**	(3,745)
– associate		**603**	–
Fair value gain on available-for-sale investments		**670**	–
Other comprehensive income (expense) for the year		**17,196**	(3,548)
Total comprehensive income for the year		**38,438**	100,524

	NOTE	**2018**	2017
		HK$'000	*HK$'000*
Profit for the year attributable to:			
Owners of the Company		**20,790**	94,840
Non-controlling interests		**452**	9,232
		21,242	104,072
Total comprehensive income attributable to:			
Owners of the Company		**35,769**	94,430
Non-controlling interests		**2,669**	6,094
		38,438	100,524
Earnings per share	*7*		
– Basic (HK$)		**0.02**	0.11
– Diluted (HK$)		**0.02**	0.11

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2018

	NOTES	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment		**263,333**	249,430
Prepaid lease payments		**10,318**	–
Goodwill		**2,569**	2,426
Intangible assets		**77,031**	84,486
Interest in an associate		**6,223**	5,645
Available-for-sale investments		**35,603**	–
Deposits for acquisition of property, plant and equipment		**213,615**	204,786
Deposit for acquisition of long term investment		**5,359**	5,359
Prepayment to a game developer		**7,850**	9,200
Rental deposits		**17,860**	33,707
Pledged bank deposit		**14,996**	–
		654,757	595,039
Current assets			
Inventories		**768**	8,290
Trade receivables	*8*	**450,626**	577,632
Other receivables, deposits and prepayments		**45,583**	22,664
Prepaid lease payments		**117**	–
Held-for-trading investments		**46,173**	66,920
Held-to-maturity investment		**–**	14,171
Pledged bank deposits		**99,584**	95,264
Bank balances and cash		**366,970**	58,217
		1,009,821	843,158
Current liabilities			
Trade and notes payables	*9*	**18,155**	32,377
Other payables and accruals		**82,849**	91,278
Amount due to a director		**–**	16,587
Amount due to a non-controlling interest of a subsidiary		**–**	26,958
Provision for reinstatement costs for rented premises		**9,275**	2,364
Tax payable		**124,099**	122,003
Guaranteed note		**196,773**	–
Secured bank borrowings	*10*	**116,091**	94,550
		547,242	386,117
Net current assets		**462,579**	457,041
Total assets less current liabilities		**1,117,336**	1,052,080

	2018	2017
	HK$'000	*HK$'000*
Non-current liabilities		
Bonds	**158,449**	–
Deferred tax liabilities	**5,201**	6,449
Retirement benefit obligations	**1,580**	2,957
Provision for reinstatement costs for rented premises	**32,212**	38,719
Obligation arising from a put option to a non-controlling interest	**7,913**	6,383
Put option derivatives	**335**	829
	205,690	55,337
Net assets	**911,646**	996,743
Capital and reserves		
Share capital	**92,006**	92,006
Reserves	**818,976**	879,886
Equity attributable to owners of the Company	**910,982**	971,892
Non-controlling interests	**664**	24,851
Total equity	**911,646**	996,743

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018

1. CORPORATE INFORMATION

China Animation Characters Company Limited (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 ("**Bright Rise**"), a private company incorporated in the British Virgin Islands. Its ultimate controlling shareholder is Mr. Zhuang Xiangsong (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 the Company and its subsidiaries (collectively referred to as the "**Group**") are engaged in the sales of animation derivative products, 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 REVISED 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 HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle

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

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised 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]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[2]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[2]

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 1 January 2021
4 Effective for annual periods beginning on or after a date to be determined

3. REVENUE AND SEGMENT INFORMATION

Revenue represents revenue arising from sales of animation derivative products, 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) sales 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:

	Sales of animation derivative products *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 2018				
Segment revenue	**395,124**	**401,750**	**4,585**	**801,459**
Segment profit (loss)	**116,244**	**37,680**	**(14,055)**	**139,869**
Unallocated income				**6,047**
Unallocated expenses				**(64,966)**
Other gains and losses				**(31,878)**
Share of result of an associate				**(25)**
Finance costs				**(27,581)**
Profit before taxation				**21,466**
For the year ended 31 March 2017				
Segment revenue	545,478	220,809	4,364	770,651
Segment profit (loss)	164,370	63,782	(8,138)	220,014
Unallocated income				2,272
Unallocated expenses				(74,352)
Other gains and losses				(16,918)
Share of result of an associate				(16)
Finance costs				(3,175)
Profit before taxation				127,825

Segment profit (loss) represents the profit (loss) earned (incurred) by each segment without allocation of certain administrative expenses, share-based payment expenses, other gains and losses, share of result of an associate, finance costs, 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.

4. TAXATION

	2018	2017
	HK$'000	*HK$'000*
Hong Kong Profits Tax:		
Current tax	**13,009**	33,419
Overprovision in prior years	**(13,192)**	(9,666)
PRC Enterprise Income Tax ("**EIT**")	**2,036**	–
	1,853	23,753
Deferred taxation for the year	**(1,629)**	–
	224	23,753

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 had been made for PRC subsidiaries in last year as either the assessable profit was wholly absorbed by tax losses brought forward or no assessable profit was derived from the subsidiaries in the PRC.

Corporate tax in Japan is calculated at 23.4% 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 as the Japan subsidiary has no assessable profit for the current year.

5. PROFIT FOR THE YEAR

	2018	2017
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging:		
Staff costs:		
Directors' emoluments	**5,545**	6,545
Other staff costs		
Salaries and other benefits	**100,047**	41,729
Retirement benefits scheme contributions	**14,001**	6,541
Share-based payments expense	**5,449**	3,195
	125,042	58,010
Auditor's remuneration		
– audit services	**4,476**	4,257
– non-audit services	**1,338**	2,773
	5,814	7,030
Depreciation of property, plant and equipment	**53,477**	49,500
Release of prepaid lease payments	**49**	–
Amortisation of intangible assets (included in cost of sales and services)	**15,539**	2,845
Amortisation of intangible assets (included in administrative expenses)	**228**	3,520
Transaction costs for acquisition of subsidiaries (included in other expenses)	**–**	15,806
Minimum operating lease rentals in respect of rented vehicles	**169**	150
Lease payments under operating leases in respect of rented premises		
Minimum lease payments	**51,994**	30,301
Contingent rents *(Note)*	**2,852**	993

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

	2018 *HK$'000*	2017 *HK$'000*
Dividends recognised as distributions during the year:		
– Final dividend of HK2 cents per share for the year ended 31 March 2017 (2016: HK1 cent per share for the year ended 31 March 2016)	**18,401**	8,582

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 March 2018 of HK2.3 cents (2017: final dividend in respect of the year ended 31 March 2017 of HK2 cents) per ordinary share of an aggregate amount of HK$21,161,000 has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

7. EARNINGS PER SHARE

	2018 *HK$'000*	2017 *HK$'000*
Earnings:		
Earnings for the purpose of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	**20,790**	94,840

	2018 *'000*	2017 *'000*
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**920,062**	877,979
Effect of dilutive potential ordinary shares from the Company's share option scheme	**400**	1,007
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**920,462**	878,986

8. TRADE RECEIVABLES

	2018 *HK$'000*	2017 *HK$'000*
Trade receivables	**450,626**	577,632

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 are 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:

	2018 *HK$'000*	2017 *HK$'000*
0 to 90 days	**112,907**	248,875
91 to 180 days	**48,574**	112,722
181 to 365 days	**289,039**	194,876
Over 365 days	**106**	21,159
	450,626	577,632

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 the 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. Ageing of trade receivables which are past due but not impaired is as follows:

	2018 *HK$'000*	2017 *HK$'000*
0 to 90 days	**126,183**	149,024
91 to 180 days	**68,053**	46,966
181 to 365 days	**94,824**	21,245
Over 365 days	**96**	7
	289,156	217,242

9. TRADE AND NOTES PAYABLES

	2018 *HK$'000*	2017 *HK$'000*
Trade payables	**15,039**	30,824
Notes payables	**3,116**	1,553
	18,155	32,377

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:

	2018 *HK$'000*	2017 *HK$'000*
0 to 30 days	**15,098**	30,490
31 to 60 days	**–**	951
Over 90 days	**3,057**	936
	18,155	32,377

10. SECURED BANK BORROWINGS

	2018 *HK$'000*	2017 *HK$'000*
The carrying amounts of bank borrowings that contain a repayment on demand clause (shown under current liabilities) but repayable:		
Within one year	**100,327**	94,550
Within a period of more than one year but not exceeding two years	**4,759**	–
Within a period of more than two years but not exceeding five years	**11,005**	–
	116,091	94,550

The ranges of effective interest rate on the Group's bank borrowings are as follows:

	2018	2017
Fixed-rate bank borrowings	**3.75% to 4.09%**	3.12%

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

	2018 *HK$'000*	2017 *HK$'000*
US$	**95,758**	94,550

Included in the balance as at 31 March 2018 are secured bank borrowings of HK$116,091,000 (2017: HK$94,550,000) which secured by pledged bank deposits.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in different businesses in the animation industry, with the primary focus on the development of indoor theme park business. 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) ("**CA Sega**") and hence enlarged the operations of JOYPOLIS theme parks in Japan since then. The Group is also engaged in the sales 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 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 year ended 31 March 2018 as well as the development of animation business featuring the proprietary animation characters developed by the Group.

BUSINESS REVIEW

Sales of animation-derived products

The Group is engaged in the sales business of animation-derived products features a wide range of popular third-party owned animation characters. The Group's product range includes general plastic toys and 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 customers of the Group 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. The Group has been able to maintain solid business relationship with customers.

The value-added services offered by the Group include quality control and advice on 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 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 year, the Group further expanded its theme park business by acquiring 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., ("**Huajiatai**") from 深圳市平安泰盛投資有限公司 (Shenzhen PingAn TaiSheng Investment Company Limited). Huajiatai, which operates *Shanghai JOYPOLIS* has become a wholly-owned subsidiary of the Company since 7 August 2017. 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 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, the Group plans to establish "Wonder Forest", which is smaller in size as compared with JOYPOLIS. The first "Wonder Forest" has opened on 1 January 2015 as part of the phase 1 of *Shanghai JOYPOLIS*. The Group will continue to develop "Wonder Forest" in cities in Southern China. In September 2017, another Wonder Forest was established in Shenzhen with a gross floor area of about 700 sq.m..

Wonder Forest has also been established in Jiangmen and Panyu, the PRC, in December 2017 and February 2018, respectively through licencing to investor who has strategic relation with a PRC property developer. Wonder Forest will also be established in Zhuhai in the late 2018 through licencing to the same investor.

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 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*.

The Group had launched twelve animation games featuring "*Violet*" (紫嫣) and "*HanBaGui*" (憨八龜) as at 31 March 2018, including nine virtual reality ("**VR**") games, two mobile games and one online game via Internet.

Commercialisation of the proprietary animation characters

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 year ended 31 March 2018 with comparative figures as follows:

	For the year ended 31 March	
	2018	2017
Revenue *(HK$'000)*	**801,459**	770,651
Gross profit *(HK$'000)*	**222,336**	267,080
Gross profit margin *(%)*	**27.7**	34.7
Profit attributable to owners of the Company *(HK$'000)*	**20,790**	94,840
Adjusted EBITDA *(HK$'000)*	**161,342**	214,246

Revenue

The revenue increased by HK$30.8 million, or 4.0%, from HK$770.7 million for the year ended 31 March 2017 to HK$801.5 million for the year ended 31 March 2018. The increase was primarily due to an increase of HK$180.9 million from revenue of the operation of an indoor theme park through acquisition of CA Sega even though the revenue from sales of animation derivative products decreased by HK$150.4 million.

Sales of animation derivative products

The revenue from sales of animation derivative products decreased by 27.6% from HK$545.5 million for the year ended 31 March 2017 to HK$395.1 million for the year ended 31 March 2018 primarily due to purchase orders placed by two major customers were decreased.

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 82.0% from HK$220.8 million for the year ended 31 March 2017 to HK$401.8 million for the year ended 31 March 2018. The number of visitors based on ticket sales significantly increased by 59.1% from 2.2 million for the year ended 31 March 2017 to 3.5 million for the year ended 31 March 2018.

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

	2018	2017
	'000	*'000*
PRC	**1,127**	1,496
Japan#	**2,934**	693

The number of visitors for the year ended 31 March 2017 only include the visitors 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$0.2 million, or 4.5%, from HK$4.4 million for the year ended 31 March 2017 to HK$4.6 million for the year ended 31 March 2018. 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$75.5 million, or 15.0%, from HK$503.6 million for the year ended 31 March 2017 to HK$579.1 million for the year ended 31 March 2018. 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 decreased by HK$44.8 million, or 16.8%, from HK$267.1 million for the year ended 31 March 2017 to HK$222.3 million for the year ended 31 March 2018. The Group's gross profit margin decreased from 34.7% for the year ended 31 March 2017 to 27.7% for the year ended 31 March 2018. The decrease 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$3.7 million from HK$2.3 million for the year ended 31 March 2017 to HK$6.0 million for the year ended 31 March 2018. The increase was primarily due to the promotion service income received from organising event activities of HK$2.1 million and government grants received during the year. (2017: Nil).

Selling and distribution expenses

The selling and distribution expenses increased by HK$17.2 million, or 76.1%, from HK$22.6 million for the year ended 31 March 2017 to HK$39.8 million for the year ended 31 March 2018. The Group's selling and distribution expenses as a percentage of revenue increased from 2.9% for the year ended 31 March 2017 to 5.0% for the year ended 31 March 2018.

Research and development expenses

The research and development expenses increased by HK$11.7 million from HK$6.1 million for the year ended 31 March 2017 to HK$17.8 million for the year ended 31 March 2018. 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 owners of the Company

The profit attributable to owners of the Company decreased by HK$74.0 million, or 78.1%, from HK$94.8 million for the year ended 31 March 2017 to HK$20.8 million for the year ended 31 March 2018. The decrease was primarily due to fair value change on financial assets at fair value through profit or loss of HK$30.2 million and the decrease in the revenue of sales of animation derivative products of HK$150.4 million due to the decrease in purchase orders placed by two major customers.

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 years presented:

	Year ended 31 March	
	2018	2017
	HK$'000	*HK$'000*
Profit for the year	**21,242**	104,072
Interest income	**(933)**	(1,392)
Finance costs	**27,581**	3,175
Taxation	**224**	23,753
Depreciation	**53,477**	49,500
Amortisation	**15,767**	6,365
EBITDA	**117,358**	185,473
Loss on disposal of property, plant and equipment	**1,578**	1,439
Other Japanese tax expenses	**3,304**	263
Defined benefit plans loss	**1,829**	457
Fair value loss (gain) on obligation arising from a put option to a non-controlling interest	**1,036**	(656)
Loss on held-for-trading investments	**30,190**	15,680
Share-based payments expense	**6,047**	11,590
Adjusted EBITDA	**161,342**	214,246

BUSINESS PROSPECTS

Looking ahead, 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 shared 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 has launched twelve 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 completion of acquisition of 85.1% equity interest in CA Sega in January 2017, indoor theme park business of the Group is now the most flourishing business of the Group. The Group will continue to develop the amusement parks in major PRC cities by working with partners through licencing and cooperation with land developers. To achieve this objective, the Group will establish "*JOYPOLIS*" and "*Wonder Forest*" project fund with interested partners.

The Group will also cooperate with property developers for the opening of "Wonder Forest" theme parks in the PRC. 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 and Shenzhen which will further enhance the CA SEGA brand as well as the Group's revenue.

Commercialisation of animation characters

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 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.

In May 2018, the Group launched its first VR eSports shooting game "Tower Tag" which was developed in Germany and first exhibited in the International Cultural Industry Fairs (文博會) in Shenzhen. The Group plans to promote and commercialise this eSports game in view of the enthusiastic response in the market.

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 2018, approximately HK$235.3 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 utilised as at 31 March 2018**	**Unutilised as at 31 March 2018**
	%	*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	44.0	15.7
For working capital and general corporate purposes	10.0	29.9	29.9	–
Total	**100.0**	**298.6**	**235.3**	**63.3**

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2018, 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 31 March 2018, the cash and bank balances of the Group were HK$367.0 million (31 March 2017: HK$58.2 million). The increase was mainly due to the placing of bonds and issue of notes during the year ended 31 March 2018.

As at 31 March 2018, the Group had a gearing ratio (calculate as secured bank borrowings, amount due to a director, amount due to a non-controlling interest of a subsidiary, guaranteed note and bonds, divided by total assets) of 28.3% (31 March 2017: 9.6%).

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 consent from the Company. The bonds will become due on the date immediately following 36 months after the date of 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. The bonds will become due on the date immediately proceeding the fifth anniversary of the date of issue of the bonds. Amounting to HK$62,000,000 bonds was issued when the placing expired. On 5 February 2018, the Company, as an issuer, entered into another 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. The bonds will become due on the date immediately proceeding the third anniversary of the date of issue of the bonds. As at 31 March 2018, amount of HK$25,000,000 bonds was issued. The bonds are transferable subject to the consent from the Company. The bonds bear interest at a rate of 6% per annum, payable annually in arrears.

On 10 January 2018, the Company, as an issuer, entered into the placing agreement with Prior 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 31 March 2018, amounting to HK$3,000,000 bonds was issued. The bonds are transferable subject to the consent from the Company. The bonds will become due on a date not later than the date falling on the 90th months after issue of the relevant bonds and not earlier than the second anniversary of the issue date of the relevant bonds and if such date is not a business date, the next business date of the maturity date. The bonds bear interest at a rate of 6% per annum, payable annually in arrears.

The proceeds from the bonds were mainly utilised for the development of the indoor theme park business and general working capital of the Group.

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 held by the Controlling Shareholder of the Company and guaranteed by the Controlling Shareholder of the Company. The proceeds were 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 year ended 31 March 2018. 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 2.3 HK cents 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 2018, capital commitments of the Group amounted to HK$10.9 million (31 March 2017: HK$7.6 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 long term investment, on a priority basis, to invest or co-invest in VR technology projects.

In September 2016, the Group acquired the worldwide exclusive distribution right of VR game machine and application from an independent third party at a consideration of HK$30.0 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, development of VR game contents and VR eSports.

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 2018, a bank deposit of the Group with a carrying value of approximately HK$114.6 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 31 March 2018 (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 31 March 2018, the Group had 478 employees (31 March 2017: 503 employees). For the year ended 31 March 2018, 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$125.0 million (31 March 2017: HK$58.0 million). The increase was mainly attributable to the increase of HK$68.0 million in employee remuneration and the decrease of HK$1.0 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. During the year, 8,582,160 options granted to a consulting firm were cancelled.

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 2018.

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 2018 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 2018.

The audit committee of the Board has reviewed the Company's audited consolidated financial statements for the year ended 31 March 2018 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 2018 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 2018 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 2018.

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 24 August 2018, the register of members will be closed from 21 August 2018 to 24 August 2018, 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 20 August 2018.

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 31 August 2018 to 4 September 2018, 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 30 August 2018.

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.

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 2018 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, 27 June 2018

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.