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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)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

The highlights in relation to the unaudited interim results of the Group for the six months ended 30 September 2018 are as follows:

- Revenue was HK\$425.5 million for the six months ended 30 September 2018, representing a decrease of 10.4% as compared with HK\$475.1 million for the six months ended 30 September 2017.
- Gross profit was HK\$140.4 million for the six months ended 30 September 2018, representing an increase of 7.9% as compared with HK\$130.1 million for the six months ended 30 September 2017. Gross profit margin for the six months ended 30 September 2018 was 33.0%, representing an increase of 20.4% as compared with 27.4% for the six months ended 30 September 2017.
- Profit attributable to the owners of the Company was HK\$55.4 million, representing an increase of 93.0% as compared with HK\$28.7 million for the six months ended 30 September 2017.
- Basic earnings per share amounted to 6 HK cents for the six months ended 30 September 2018, representing an increase of 100.0% as compared with 3 HK cents for the six months ended 30 September 2017.
- The adjusted EBITDA* was HK\$106.7 million, representing an increase of 3.2% as compared with HK\$103.4 million for the six months ended 30 September 2017.

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

The board (the “**Board**”) of directors (the “**Directors**”) of China Animation Characters Company Limited (the “**Company**”) is pleased to announce the unaudited interim results of the Company (which together with its subsidiaries, the “**Group**”) for the six months ended 30 September 2018, together with the comparative figures for the corresponding period in 2017.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Six months ended 30 September	
		2018	2017
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Revenue	5	425,518	475,114
Cost of sales and services		(285,138)	(344,999)
Gross profit		140,380	130,115
Other income		3,400	4,224
Selling and distribution expenses		(19,563)	(18,960)
Administrative expenses		(48,384)	(40,233)
Research and development expenses		(9,028)	(7,866)
Loss on held-for-trading investments		–	(25,813)
Exchange loss on held-to-maturity investment and bank borrowings		(203)	(1,147)
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		(27,823)	(6,043)
Other loss		(49)	–
Profit before taxation		38,730	35,861
Taxation	6	14,092	(5,473)
Profit for the period	7	52,822	30,388
Other comprehensive (expense) income:			
<i>Item that will not be reclassified to profit or loss:</i>			
Remeasurement of defined benefit plans		827	585
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign subsidiaries		(12,594)	3,666
Fair value loss on available-for-sale investments		–	(44)
Fair value loss on financial assets at fair value through other comprehensive income		(31,587)	–
Other comprehensive (expense) income for the period		(43,354)	4,207
Total comprehensive income for the period		9,468	34,595

		Six months ended	
		30 September	
		2018	2017
		(Unaudited)	(Unaudited)
<i>Notes</i>		HK\$'000	HK\$'000
Profit for the period attributable to:			
	Owners of the Company	55,388	28,727
	Non-controlling interests	(2,566)	1,661
		<u>52,822</u>	<u>30,388</u>
Total comprehensive income attributable to:			
	Owners of the Company	12,077	31,272
	Non-controlling interests	(2,609)	3,323
		<u>9,468</u>	<u>34,595</u>
Earnings per share			
	– Basic (HK\$)	0.06	0.03
	– Diluted (HK\$)	0.06	0.03

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2018

		30 September 2018 (Unaudited) <i>Notes</i> HK\$'000	31 March 2018 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment		274,771	263,333
Prepaid lease payments		9,555	10,318
Goodwill		2,569	2,569
Intangible assets		201,980	77,031
Interest in an associate		6,223	6,223
Available-for-sale investments		–	35,603
Financial assets at fair value through other comprehensive income		50,531	–
Deposits for acquisition of property, plant and equipment		451,721	213,615
Deposit for acquisition of long term investment		5,359	5,359
Prepayment to a game developer		55,100	7,850
Rental deposits		17,522	17,860
Pledged bank deposit		14,996	14,996
		1,090,327	654,757
Current assets			
Inventories		714	768
Trade receivables	10	267,965	450,626
Other receivables, deposits and prepayments		177,591	45,583
Prepaid lease payments		587	117
Held-for-trading investments		–	46,173
Pledged bank deposit		99,656	99,584
Bank balances and cash		80,602	366,970
		627,115	1,009,821

		30 September 2018 (Unaudited) HK\$'000	31 March 2018 (Audited) HK\$'000
	<i>Notes</i>		
Current liabilities			
Trade and notes payables	11	12,123	18,155
Other payables and accruals		65,051	82,849
Amount due to a director		3,138	–
Provision for reinstatement costs for rented premises		–	9,275
Dividend payable	8	21,161	–
Tax payable		109,170	124,099
Guaranteed note		200,000	196,773
Secured bank borrowings	12	113,573	116,091
		<u>524,216</u>	<u>547,242</u>
Net current assets		<u>102,899</u>	<u>462,579</u>
Total assets less current liabilities		<u>1,193,226</u>	<u>1,117,336</u>
Non-current liabilities			
Secured bank borrowings	12	13,775	–
Bonds		235,179	158,449
Deferred tax liabilities		4,509	5,201
Retirement benefit obligations		187	1,580
Provision for reinstatement costs for rented premises		30,221	32,212
Obligation arising from a put option to non-controlling interests		7,913	7,913
Put option derivatives		335	335
		<u>292,119</u>	<u>205,690</u>
Net assets		<u>901,107</u>	<u>911,646</u>
Capital and reserves			
Share capital		92,006	92,006
Reserves		810,653	818,976
		<u>902,659</u>	<u>910,982</u>
Equity attributable to owners of the Company		(1,552)	664
Non-controlling interests			
Total equity		<u>901,107</u>	<u>911,646</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

1. GENERAL

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, a private company incorporated in the British Virgin Island. Its ultimate controlling shareholder is Mr. CHONG Heung Chung Jason (“**Mr. CHONG**”). The registered office of the Company is at Cricket Square, Hutchins Drive, PO BOX 2681, Grand Cayman, KY1-1111, Cayman Islands and its principal place of business is Suites 2808-2811, Concordia Plaza, 1 Science Museum Road, Tsim Sha Tsui East, Kowloon, Hong Kong Special Administrative Region, the People’s Republic of China (the “**PRC**”).

The Company is an investment holding company. The principal activities of its subsidiaries are engaged in the trading of animation derivative products, establishment and operation of indoor theme parks and multimedia animation entertainment. The Company and its subsidiaries are collectively referred to as the “**Group**”.

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

2. 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 (the “**Listing Rules**”).

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as appropriate.

Save as described below, the accounting policies applied to prepare this unaudited condensed consolidated interim financial information for the six months ended 30 September 2018 are consistent with the Group’s annual financial statements for the year ended 31 March 2018, which has been prepared in accordance Hong Kong Financial Reporting Standards (“**HKFRSs**”):

- (a) Relevant new standards and amendments to existing standards effective for the financial year beginning 1 January 2018:

Effective for annual periods beginning on or after		
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 15 (Amendments)	Clarifications to HKFRS 15	1 January 2018

The impact of the adoption of those standards and new accounting policies are disclosed in Note 4 below.

- (b) The following new standards and amendments to existing standards have been published but are not yet effective and which the Group has not early adopted:

		Effective for annual periods beginning on or after
HKFRS 9 (Amendments)	Prepayment features with negative compensation	1 January 2019
HKFRS 16	Leases	1 January 2019
HK(IFRIC)-Int 23	Uncertainty over income tax treatments	1 January 2019
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate and joint venture	To be determined

The management of the Group (the “**Management**”) is in the process of making an assessment of the financial impact of adoption of these new standards and amendments to existing standards. The management will adopt the new standards and amendments to standards when they become effective.

4. CHANGE IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the Group’s financial statements and also discloses the new accounting policies that have been applied since 1 April 2018, where they are different to those applied in prior periods.

(a) Impact on the financial statements

As a result of the changes in the Group’s accounting policies, prior year financial statements had to be restated. As explained in Note 4 (b) below, HKFRS 9 is generally adopted without restating the comparative information with the exception of certain aspects of hedge accounting. The reclassifications and the adjustments arising from the new impairment rules are therefore recognised in the opening of the statement of condensed consolidated statement of financial position on 1 April 2018.

The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the subtotal and totals disclosed cannot be recalculated from the number provided. The adjustments are explained in more detail below.

	As Previously stated HK\$’000	As at 1 April 2018 Impact of HKFRS 9 HK\$’000	Restated HK\$’000
Consolidated statement of financial position (extract)			
Available-for-sale financial assets	35,603	(35,603)	–
Financial assets at fair value through other comprehensive Income (“ FVOCI ”)	–	81,776	81,776
Held-for-trading investments	46,173	(46,173)	–

(b) HKFRS 9 Financial Instruments – Impact of adoption

HKFRS 9 replaces the provision of HKAS 39 that relates to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 from 1 April 2018 resulted in changes in accounting policies and adjustments to the amount recognised in the financial statements. The new accounting policies are set out in the note below. In accordance with the transitional provisions in HKFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated with the exception of certain aspects of hedge accounting.

(i) Impact of adoption

Classification and measurement

On 1 April 2018 (the date of the initial application of HKFRS 9), the Management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

	Held- for-trading investments HK\$'000	Available for sale investment HK\$'000	FVOCI HK\$'000
Financial asset – 1 April 2018			
Closing balance 31 March 2018 – HKAS39	46,173	35,603	–
Reclassify non-trading equities from AFS and held-for-trading investments to FVOCI	(46,173)	(35,603)	81,776
Opening balance 1 April 2018 – HKFRS 9	–	–	81,776

Listed equity securities classified as AFS carried at fair value: these securities qualified for designation as measured at FVOCI under HKFRS 9, however, the fair value gains or losses accumulated in the investments revaluation reserve amounting to HK\$670,000 as at 1 April 2018 will no longer be subsequently reclassified to profit or loss under HKFRS 9 and not subject to impairment assessment, which is different from the retreatment under HKAS 39. This will affect the amounts recognized in the Group's profit or loss and other comprehensive income but will not affect total comprehensive income;

The Group reassessed its investments in equity securities classified as held for trading under HKAS 39 as if the Group had purchased these investments at the date of initial application. Based on the facts and circumstances as at date of initial application, the Group's investments were no longer held for trading and are designated as investments in equity instruments as at FVOCI.

Except for financial assets which are subject to impairment assessment under expected credit loss model under HKFRS 9, all other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

The financial assets at amortised cost are after reclassifications and adjustments arising from the adoption of HKFRS 15 and include trade receivables and other financial assets at amortised cost, but exclude cash and cash equivalents.

Impairment of financial assets

The Group has the following types of financial assets that are subject to HKFRS 9's new expected credit loss model:

- trade receivables; and
- other financial assets at amortised cost

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The change in impairment methodology in the current interim period had no material impact on the impairment loss.

While cash and cash equivalents are also subject to the impairment requirement of HKFRS 9, the identified impairment loss was immaterial.

Trade receivables

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

In calculating the expected credit loss rates, the Group considers historical loss rate for each categories of its debtors, and adjusts the forward-looking macroeconomic data.

In view of the long-lasting relationship with its customers and their respective good repayment records, the Directors consider that the expected credit risk is minimal.

Trade receivables are written-off when there is no reasonable expectation of recovery. Indicators of which include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 90 days past due.

Other financial assets at amortised cost

All of the Group's other financial assets at amortised cost are considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12 months expected losses.

Significant estimates and judgements

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the past history, existing market conditions as well as forward looking estimates of the Group at the end of each reporting period.

(ii) *HKFRS 9 Financial Instruments – Accounting policies applied from 1 April 2018*

Classification

Since 1 April 2018, the Group has classified its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income (“OCI”), or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For financial assets that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the management of the Group has elected to present fair value gains and losses on equity investment in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continued to be recognised in profit or loss as other income when the right of the Group to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investment measured at FVOCI are not prepared separately from other changes in fair value.

Impairment

From 1 April 2018, the Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(c) HKFRS 15 Revenue from Contracts with Customers – Impact of adoption

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 April 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 April 2018 and has used the practical expedient for

all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11 and the related interpretations.

(i) Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

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

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress toward complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group’s right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group’s unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

(ii) Summary of effects arising from initial application of HKFRS 15

The Directors assessed that the application of HKFRS 15 in the current interim period had no material impact on the timing and amounts of revenue recognised.

5. 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 PRC during the six months ended 30 September 2018.

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 CODM 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 2018 (unaudited)

	Trading of animation derivative products <i>HK\$'000</i>	Establishment and operation of indoor theme parks <i>HK\$'000</i>	Multimedia animation entertainment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue	201,499	197,573	29,926	428,998
Inter-segment revenue				(3,480)
				<u>425,518</u>
Segment profit	<u>55,625</u>	<u>7,170</u>	<u>16,317</u>	79,112
Unallocated income				531
Unallocated expenses				(12,838)
Other gains and losses				(252)
Finance costs				<u>(27,823)</u>
Profit before taxation				<u>38,730</u>

For the six months ended 30 September 2017 (unaudited)

	Trading of animation derivative products <i>HK\$'000</i>	Establishment and operation of indoor theme parks <i>HK\$'000</i>	Multimedia animation entertainment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue	<u>269,399</u>	<u>202,326</u>	<u>3,389</u>	<u>475,114</u>
Segment profit (loss)	<u>80,723</u>	<u>15,351</u>	<u>(5,559)</u>	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				<u>1,988</u>
Profit before taxation				<u>35,861</u>

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 investment and bank borrowings, share of result 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.

Timing of revenue recognition:

	Six months ended 30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
At a point of time	399,218	475,114
Over time	<u>26,300</u>	<u>–</u>
	<u>425,518</u>	<u>475,114</u>

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 2018 (Unaudited) HK\$'000	31 March 2018 (Audited) HK\$'000
Trading of animation derivative products	244,871	317,120
Establishment and operation of indoor theme parks	525,338	661,546
Multimedia animation entertainment	658,590	76,757
Total segment assets	1,428,799	1,055,423
Property, plant and equipment	23,997	26,480
Other receivables, deposits and prepayments	10,069	10,557
Goodwill	2,569	2,569
Interest in an associate	6,223	6,223
Financial assets at fair value through other comprehensive income	50,531	–
Held-for-trading investments	–	46,173
Available-for-sale investments	–	35,603
Pledged bank deposit	114,652	114,580
Bank balances and cash	80,602	366,970
Consolidated assets	1,717,442	1,664,578

Segment liabilities

	30 September 2018 (Unaudited) HK\$'000	31 March 2018 (Audited) HK\$'000
Trading of animation derivative products	11,907	14,133
Establishment and operation of indoor theme parks	83,080	113,500
Multimedia animation entertainment	217	216
Total segment liabilities	95,204	127,849
Other payables and accruals	12,378	16,222
Amount due to a director	3,138	–
Secured bank borrowings	127,348	116,091
Dividend payable	21,161	–
Tax payable	109,170	124,099
Deferred tax liabilities	4,509	5,201
Bonds	235,179	158,449
Guaranteed note	200,000	196,773
Obligation arising from a put option to non-controlling interest	7,913	7,913
Put option derivatives	335	335
Consolidated liabilities	816,335	752,932

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.

6. TAXATION

	Six months ended 30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
The tax charge comprises:		
Hong Kong Profits Tax	23	11,920
Overprovision in previous year	(13,423)	(6,596)
The PRC Enterprise Income Tax ("EIT")	(692)	149
	<u>(14,092)</u>	<u>5,473</u>

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 23.2% (31 March 2018: 23.4%) on the estimated assessable profit. Pursuant to relevant laws and regulations in Japan, withholding tax is imposed at 20.42% (31 March 2018: 20.42%) and 5% (31 March 2018: 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 Japan subsidiary has incurred losses for the period.

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 2018, 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 2012/13 in respect of its offshore income claim is low. Accordingly, the tax provision of approximately HK\$13,423,000 for the year of assessment 2012/13 was reversed during the period ended 30 September 2018.

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 30 September 2018, 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 as at 30 September 2018 would be HK\$95,919,000 after considering the overprovision of years of assessment 2008/09 to 2012/13 (31 March 2018: HK\$109,211,000). Having taken into account professional advice, the directors believe that the Group has made appropriate provision in respect of the possible tax liability.

Save as disclosed above, the Group is not subject to taxation in any other jurisdictions.

7. PROFIT FOR THE PERIOD

	Six months ended	
	30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit for the period has been arrived at after charging (crediting):		
Staff costs:		
Directors' emoluments	2,235	2,617
Other staff costs		
Salaries and other benefits	49,512	45,411
Retirement benefits scheme contributions	8,039	6,763
Defined benefits costs	971	902
Share-based payments expense	353	641
	61,110	56,334
Cost of inventories recognised as expenses	149,221	211,769
Depreciation of property, plant and equipment	26,249	25,617
Amortisation of intangible assets (included in cost of sales and services)	8,737	7,885
Amortisation of intangible assets (included in administrative expenses)	114	114
Interest income	(604)	(397)
Lease payments under operating leases in respect of rental premises		
Minimum lease payments	25,712	25,753
Contingent rents (<i>note</i>)	559	1,691
Loss on disposal of property, plant and equipment	2,687	198

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.

8. DIVIDENDS

During the current interim period, a final dividend of HK\$2.3 cents per share in respect of the year ended 31 March 2018 (31 March 2017: HK\$2 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\$21,161,000 (31 March 2017: HK\$18,401,000).

The directors do not recommend the payment of an interim dividend during the six months ended 30 September 2018 (six months ended 30 September 2017: nil).

9. EARNINGS PER SHARE

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

	Six months ended	
	30 September	
	2018	2017
	(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)	55,388	28,727
	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	920,062	920,062
Effect of dilutive potential shares from the Company's share option scheme	–	902
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	920,062	920,964

The calculation of diluted earnings per share for the six months ended 30 September 2018 did not assume the exercise of the Company's share options because the exercise prices of these options were higher than the average market price of the shares during the year.

10. 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:

	30 September 2018 (Unaudited) HK\$'000	31 March 2018 (Audited) HK\$'000
0 to 90 days	219,248	112,907
91 to 180 days	48,717	48,574
181 to 365 days	–	289,039
Over 365 days	–	106
	<u>267,965</u>	<u>450,626</u>

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:

	30 September 2018 (Unaudited) HK\$'000	31 March 2018 (Audited) HK\$'000
0 to 30 days	11,907	15,098
31 to 60 days	–	–
Over 90 days	216	3,057
	<u>12,123</u>	<u>18,155</u>

12. BANK AND OTHER BORROWINGS

During the period, the Group has drawn new bank borrowings amounting to HK\$13,775,000 (six months ended 30 September 2017: HK\$48,311,000). The bank and other borrowings carry interest at variable market rates ranging from 1.92% to 4.31% (31 March 2018: 3.75% to 4.09%) per annum and are repayable on demand or having maturity from 2018 to 2022. The Group repaid bank borrowings of HK\$2,261,000 during the six months ended 30 September 2018 (six months ended 30 September 2017: HK\$13,614,000). The proceeds were mainly used to finance the acquisition of property, plant and equipment.

Included in the balance as at 30 September 2018 are secured bank borrowings of HK\$114,652,000 (six months ended 30 September 2017: HK\$117,830,000) which secured by pledged bank deposit.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in different businesses in the animation industry, with its primary focus on the development of indoor theme park business. In January 2017, the Group completed an 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 six months ended 30 September 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 business of sales of animation-derived products featuring a wide range of popular third-party owned animation characters. Products of the Group include 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 of the Group.

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 with branches located in Japan. The Group has been able to maintain solid business relationship with its customers.

The value-added services offered by the Group include quality control and advice on product design to certain customers in accordance with their requests. These services differentiate the Group from other toy traders which do not provide similar value-added services to customers.

Indoor theme parks

The Group is currently operating three indoor interactive entertainment parks located in Shanghai and Qingdao, the PRC and Tokyo, Japan, respectively.

JOYPOLIS target young population and provide them with thrilling animation amusement rides and exciting interactive experience by creating a fantasy world with intense digital animation enabled by video production through cutting-edge technology.

In view of the market potential for indoor theme park with a gross floor area of about 1,000 sq.m. and target market segment of for 2-12 years old children, the Group established *Wonder Forest* theme parks, which are smaller in size as compared with *JOYPOLIS*. The first *Wonder Forest* was opened on 1 January 2015 as part of the phase 1 of *Shanghai JOYPOLIS*. The Group currently operates two *Wonder Forest* in Yitian and Longguang in Shenzhen, the PRC. *Wonder Forest* has also been established in Jiangmen, Panyu and Zhuhai, the PRC through licencing to investor who has strategic relation with a property developer in the PRC.

The Group will continue to develop *Wonder Forest* in other cities in the PRC.

Multimedia animation entertainment

The Group uses virtual reality (“VR”) technology to create animation game environment thereby generating potential opportunities and strong development momentum. By wearing specific paired VR glasses, visitors 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 named “Mortal Blitz”, which is developed in the South Korea, in *Shanghai JOYPOLIS* and *Qingdao JOYPOLIS*.

The Group introduced a multi-players VR shooting game named “Tower Tag”, which was developed in Germany and commercialised as a VR eSports shooting game. It was first launched in *Tokyo JOYPOLIS* in February 2018. Players of the game can be split in two teams, each accommodating one to three players, battling with each other. The Group exhibited this game in the International Cultural Industry Fairs (文博會) in Shenzhen, the PRC in May 2018 and the Animation-Comic-Game Hong Kong (“ACGHK”) in Hong Kong, the PRC in July 2018. In view of the enthusiastic response in the market, the Group organised its first VR eSport competition, China Animation Cup (Hong Kong District) in the E-Sports & Music Festival, in August 2018. In September 2018, the Group launched its own VR eSports game named “黃洋界保衛戰”. The background of this game is based on the history of one of the important battles of the PRC.

Currently, the Group has twelve animation games featuring “Violet” (紫嫣) and “HanBaGui” (憨八龜), including nine VR games, two mobile games and one online game via the Internet.

FINANCIAL REVIEW

The following sets forth a summary of the performance of the Group for the six-months ended 30 September 2018 with comparative figures for the corresponding period as follows:

	For the six months ended	
	30 September	
	2018	2017
Revenue (HK\$'000)	425,518	475,114
Gross profit (HK\$'000)	140,380	130,115
Gross profit margin (%)	33.0	27.4
Profit attributable to owners of the Company (HK\$'000)	55,388	28,727
Adjusted EBITDA (HK\$'000)	106,656	103,392

Revenue

The revenue decreased by HK\$49.6 million, or 10.4%, from HK\$475.1 million for the six months ended 30 September 2017 to HK\$425.5 million for the six months ended 30 September 2018. The decrease was primarily due to a decrease of HK\$4.8 million from revenue of the operation of indoor theme parks business and a decrease in sales of animation derivative products of HK\$67.9 million even though the revenue from multimedia animation entertainment increased by HK\$26.5 million.

Sales of animation derivative products

The revenue from sales of animation derivative products decreased by 25.2%, from HK\$269.4 million for the six month ended 30 September 2017 to HK\$201.5 million for the six months ended 30 September 2018, primarily due to a decrease in purchase orders placed by two major customers.

Establishment and operation of indoor theme parks

The revenue from establishment and operation of indoor theme parks decreased by 2.3% from HK\$202.3 million for the six months ended 30 September 2017 to HK\$197.6 million for the six months ended 30 September 2018. The number of visitors based on ticket sales decreased by 55.0% from 2.0 million for the six months ended 30 September 2017 to 0.9 million for the six months ended 30 September 2018.

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

	2018 '000	2017 '000
PRC	322	495
Japan	600	1,484

The decrease in revenue and visitors were primarily due to the close down of the *Osaka JOYPOLIS* in May 2018 and the decrease in the revenue from sales of animation amusement rides. A new indoor theme park, which is mainly equipped with VR games with gross floor area of about 370 sq.m., will be opened in Shibuya in Tokyo, Japan in October 2018.

Multimedia animation entertainment

The revenue from multimedia animation entertainment increased by HK\$26.5 million, or 779.4%, from HK\$3.4 million for the six months ended 30 September 2017 to HK\$29.9 million for the six months ended 30 September 2018. The revenue from multimedia animation entertainment included revenue generated from licencing income, ticket sales for VR games and event activities. The significant increase was primarily due to income from licencing of animation characters amounting to HK\$26.3 million (2017: nil).

Cost of sales and services

The cost of sales and services decreased by HK\$59.9 million, or 17.4%, from HK\$345.0 million for the six months ended 30 September 2017 to HK\$285.1 million for the six months ended 30 September 2018. The decrease was primarily due to the decrease in the revenue of theme park business and the trading of animation derivative products.

Gross profit and gross profit margin

The Group's gross profit increased by HK\$10.3 million, or 7.9%, from HK\$130.1 million for the six months ended 30 September 2017 to HK\$140.4 million for the six months ended 30 September 2018. The Group's gross profit margin increased from 27.4% for the six months ended 30 September 2017 to 33.0% for the six months ended 30 September 2018. The increase in the gross profit was mainly due to the income recognised from licencing of animation characters during the period.

Other income

Other income decreased by HK\$0.8 million from HK\$4.2 million for the six months ended 30 September 2017 to HK\$3.4 million for the six months ended 30 September 2018. The decrease was primarily due to no promotion service income received from organising event activities for the six months ended 30 September 2018 (2017: HK\$2.1 million).

Selling and distribution expenses

The selling and distribution expenses increased by HK\$0.6 million, or 3.2%, from HK\$19.0 million for the six months ended 30 September 2017 to HK\$19.6 million for the six months ended 30 September 2018. The Group's selling and distribution expenses as a percentage of revenue increased from 4.0% for the six months ended 30 September 2017 to 4.6% for the six months ended 30 September 2018.

Research and development expenses

The research and development expenses increased by HK\$1.1 million from HK\$7.9 million for the six months ended 30 September 2017 to HK\$9.0 million for the six months ended 30 September 2018. The increase was primarily due to increase in the spending for research and development in new amusement rides and games for indoor theme parks.

Profit attributable to owners of the Company

The profit attributable to owners of the Company increased by HK\$26.7 million, or 93.0%, from HK\$28.7 million for the six months ended 30 September 2017 to HK\$55.4 million for the six months ended 30 September 2018. The increase was primarily due to : (i) the adoption of new accounting standard in which the held-for-trading investments and available for sale investment were classified as financial assets at fair value through other comprehensive income during the period. The impact of the fair value changes were directly reflected in other comprehensive income; (ii) income recognised from licencing of animation characters; (iii) tax provision was provided only on the onshore profit portion; and (iv) the written back of over provision of tax in previous years.

Non-HKFRS measures

To supplement the result in this announcement which is 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	
	2018	2017
	HK\$'000	HK\$'000
Profit for the period	52,822	30,388
Interest income	(604)	(397)
Finance costs	27,823	6,043
Taxation	(14,092)	5,473
Depreciation	26,249	25,617
Amortisation	8,851	7,999
EBITDA	101,049	75,123
Loss on disposal of property, plant and equipment	2,687	198
Other Japanese tax expenses	1,188	1,039
Defined benefit plans loss	971	902
Fair value gain on obligation arising from a put option to a non-controlling interest	–	(1,988)
Loss on held-for-trading investments	–	25,813
Share-based payments expense	761	2,305
Adjusted EBITDA	106,656	103,392

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.

Online entertainment and mobile applications

On the online business, the Group has launched twelve animation games using the VR technology. The Group plans 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 the acquisition of CA Sega, indoor theme park business of the Group is now the most flourishing business of the Group. The Group will continue to develop amusement parks in major cities in the PRC 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* in the PRC. The Group plans to open *Wonder Forest* 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.

Commercialisation of animation characters

The Group will continue to invest and promote its characters including “Violet” (紫嫣), “Hanbagui” (憨八龜) and “The King of Tibetan Antelope” (藏羚羊) and its VR animation games and other cartoon characters. The Group plans to establish indoor theme parks by using these characters.

The Group will also continue to explore business opportunities relating to internet business which may facilitate the development and commercialisation of its animation business and animation characters business. Moreover, the Group will continue to support and cooperate with the PRC government to develop the cultural industry by enhancing the popularity of the animation characters to further penetrate the market. Through 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 therefore have positive views 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 eSports businesses, 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 September 2018, the Group launched the VR eSports shooting game named “黃洋界保衛戰” of which the background is based on one of the important battles of the PRC in its history. The game will be launched in the cities of Jinggangshan, Yan’an and Shaoshan, the PRC. Through playing this game, tourists can have a taste of the historical development of the cities. The Group will continue to develop VR games and cooperate with partners to launch these games in tourist areas.

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 2018, approximately HK\$247.8 million of the net proceeds had been used by the Group. The unutilised net proceeds were deposited with a licenced bank in Hong Kong. The following sets forth a summary of the utilisation of the net proceeds:

	Original planned allocation of net proceeds from the Global Offering		Actual utilised as at 30 September 2018	Unutilised as at 30 September 2018
	%	HK\$'million	HK\$'million	HK\$'million
For the capital expenditure and the working capital for the <i>Shanghai JOYPOLIS</i> and for use in planning the next <i>JOYPOLIS</i>	40.0	119.4	119.4	–
For possible investment in, acquisition of, and/or formation of strategic cooperation with, domestic or international companies which operate animation-related businesses, including without limitation, animation-related event organisers, mobile and internet applications developers and animation-related multi-media platforms	30.0	89.6	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	56.5	3.2
For working capital and general corporate purposes	10.0	29.9	29.9	–
Total	100.0	298.6	247.8	50.8

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2018, the authorised share capital of the Company was HK\$500.0 million divided into 5,000,000,000 shares of HK\$0.1 each and the issued share capital of the Company was approximately HK\$92.0 million divided into 920,062,000 shares of HK\$0.1 each.

As at 30 September 2018, the cash and bank balances of the Group were HK\$80.6 million (31 March 2018: HK\$367.0 million). The decrease was mainly due to the developments of indoor theme parks, animation characters and VR eSport games during the six months ended 30 September 2018.

As at 30 September 2018, the Group had a gearing ratio (calculate as secured bank borrowings, amount due to a director, guaranteed note and bonds, divided by total assets) of 32.9% (31 March 2018: 28.3%).

During the six months period ended 30 September 2018, the Company issued bonds in par in an aggregate principal amount of HK\$88.7 million. The bonds are denominated in HK\$ and are unlisted. The bonds are unsecured and carry interest at a nominal rate ranging from 6% to 7.0% per annum, payable semi-annually and annually in arrears with a maturity period ranging from 3 to 7.5 years. The proceeds were mainly utilised for the development of indoor theme park business and as general working capital of the Group.

TREASURY POLICIES

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

CAPITAL COMMITMENTS

As at 30 September 2018, capital commitments of the Group amounted to HK\$9.4 million (31 March 2018: HK\$10.9 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 Renminbi 4.5 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 VR 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 30 September 2018, a bank deposit of the Group with a carrying value of approximately HK\$114.7 million (31 March 2018: HK\$114.6 million) was pledged to a bank for banking facilities obtained.

CONTINGENT LIABILITIES

The Group did not have significant contingent liabilities as at 30 September 2018 (31 March 2018: 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 dollar, Renminbi, Japanese Yen or US dollar. The Management monitors foreign exchange risks closely 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 its staff to be environmentally friendly in the office including the use of recycled papers for printing and photocopying and to reduce electricity consumption by switching off idle lights and electrical appliances when they are not in use.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2018, the Group had 706 employees (30 September 2017: 478 employees). For the six months ended 30 September 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\$61.1 million (six months ended 30 September 2017: HK\$56.3 million). The increase was mainly attributable to the increase of HK\$4.8 million in employee remuneration and the decrease of HK\$0.4 million in the Directors' remuneration. The Group's remuneration package is determined with reference to the experience and qualification of the individual employees and the general market conditions. The Group also ensures that all employees are provided with adequate training and continued professional opportunities according to their needs. A share option scheme has been established to provide incentives and remuneration to eligible Directors, employees and business partners of the Group in recognition of their contributions. On 29 February 2016, 21,455,400 options have been granted to 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 2018.

AUDIT COMMITTEE AND REVIEW OF INTERIM FINANCIAL RESULTS

Pursuant to Rule 3.21 of the Listing Rules, the Company established an audit committee (the **"Audit Committee"**) with written terms of reference aligned with the Corporate Governance Code as stated in Appendix 14 of the Listing Rules (the **"CG Code"**). The Audit Committee comprises three independent non-executive Directors, namely Mr. Tsang Wah Kwong, Mr. Hung Muk Ming, and Mr. Zhenliang and is chaired by Mr. Tsang Wah Kwong.

The Audit Committee has discussed with the management of the Group and reviewed the unaudited interim financial results of the Group for the six months ended 30 September 2018, including the accounting principles and practices adopted by the Group, and discussed financial related matters. The unaudited interim financial information of the Group for the six months ended 30 September 2018 has been reviewed by the Audit Committee.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the CG Code throughout the year, except for the following deviation:

Code provision A.2.1

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. CHONG is the chairman of the Board and the chief executive officer of the Company. As Mr. CHONG 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. CHONG 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 the Directors. 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 2018.

PUBLIC FLOAT

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

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 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
CHONG Heung Chung Jason
Chief Executive Officer and Executive Director

Hong Kong, 28 November 2018

As at the date of this announcement, the Board comprise six Directors. Mr. CHONG Heung Chung Jason (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.