華夏動漫

China Animation Group

China Animation Characters Company Limited

華 夏 動 漫 形 象 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01566)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 MARCH 2019

31 MARCH 2019 FINANCIAL HIGHLIGHTS

– Revenue was HK$632.9 million for the year ended 31 March 2019, representing a decrease of 21.0% as compared with HK$801.5 million for the year ended 31 March 2018.

– Gross profit was HK$158.7 million for the year ended 31 March 2019, representing a decrease of 28.6% as compared with HK$222.3 million for the year ended 31 March 2018. Gross profit margin for the year ended 31 March 2019 was 25.1%, representing a decrease of 2.6% as compared with 27.7% for the year ended 31 March 2018.

– Profit attributable to owners of the Company was HK$58.4 million, representing an increase of 180.8% as compared with HK$20.8 million for the year ended 31 March 2018.

– Basic earnings per share amounted to 6 HK cents for the year ended 31 March 2019, representing an increase of 200.0% as compared with 2 HK cents for the year ended 31 March 2018.

– The adjusted EBITDA* was HK$202.5 million, representing an increase of 25.9% as compared with HK$161.3 million for the year ended 31 March 2018.

The board proposes a final cash dividend of 2.3 HK cents per share for the year ended 31 March 2019.

* *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, impairment loss on trade and other receivables, deposits and prepayments, 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 2019, together with the comparative figures, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2019

	NOTES	**2019** *HK$'000*	2018 *HK$'000*
Revenue	*3*	**632,881**	801,459
Cost of sales and services		**(474,205)**	(579,123)
Gross profit		**158,676**	222,336
Other income		**7,515**	6,047
Other gains and losses	*4*	**78,650**	(31,878)
Selling and distribution expenses		**(22,840)**	(39,778)
Administrative expenses		**(93,129)**	(88,937)
Research and development expenses		**(17,986)**	(17,843)
Share of result of an associate		**–**	(25)
Finance costs		**(55,363)**	(27,581)
Impairment loss on trade and other receivables		**(10,614)**	–
Other expenses		**(188)**	(875)
Profit before taxation		**44,721**	21,466
Taxation	*5*	**14,843**	(224)
Profit for the year	*6*	**59,564**	21,242
Other comprehensive income (expense):			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit plans		**838**	690
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of:			
– subsidiaries		**(10,485)**	15,233
– associate		**(451)**	603
Fair value gain on available-for-sale investments		**–**	670
Fair value loss on financial assets at fair value through other comprehensive income		**(54,654)**	–
Other comprehensive (expense) income for the year		**(64,752)**	17,196
Total comprehensive (expense) income for the year		**(5,188)**	38,438

	NOTE	2019 HK$'000	2018 HK$'000
Profit for the year attributable to:			
Owners of the Company		**58,372**	20,790
Non-controlling interests		**1,192**	452
		59,564	21,242
Total comprehensive income attributable to:			
Owners of the Company		**(9,101)**	35,769
Non-controlling interests		**3,913**	2,669
		(5,188)	38,438
Earnings per share	*8*		
– Basic (HK$)		**0.06**	0.02
– Diluted (HK$)		**N/A**	0.02

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2019

	NOTES	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment		**280,752**	263,333
Prepaid lease payments		**9,261**	10,318
Goodwill		**2,472**	2,569
Intangible assets	9	**177,996**	77,031
Interest in an associate		**5,813**	6,223
Available-for-sale investments	10	**–**	35,603
Financial assets at fair value through other comprehensive income	10	**107,900**	–
Deposits for acquisition of property, plant and equipment		**547,637**	213,615
Deposit for acquisition of long term investment		**5,359**	5,359
Prepayment to a game developer		**20,400**	7,850
Rental deposits		**18,172**	17,860
Pledged bank deposit		**14,589**	14,996
		1,190,351	654,757
Current assets			
Inventories		**723**	768
Trade receivables	11	**295,859**	450,626
Other receivables, deposits and prepayments		**33,992**	45,583
Amount due from a director	12	**2,408**	–
Prepaid lease payments		**587**	117
Held-for-trading investments	10	**–**	46,173
Financial assets at fair value through profit or loss		**3,903**	–
Pledged bank deposits		**96,664**	99,584
Bank balances and cash		**50,387**	366,970
		484,523	1,009,821
Current liabilities			
Trade and notes payables	13	**7,221**	18,155
Other payables and accruals		**55,900**	82,849
Contract liabilities		**26,590**	–
Provision for reinstatement costs for rented premises		**–**	9,275
Tax payable		**107,620**	124,099
Guaranteed note		**138,957**	196,773
Obligation under finance leases		**5,905**	–
Secured bank borrowings and other borrowings	14	**113,645**	116,091
		455,838	547,242
Net current assets		**28,685**	462,579
Total assets less current liabilities		**1,219,036**	1,117,336

	NOTES	2019 HK$'000	2018 HK$'000
Non-current liabilities			
Bonds		**257,528**	158,449
Secured bank borrowings and other borrowings	*14*	**14,160**	–
Obligation under finance leases		**13,845**	–
Long term other payables		**1,182**	–
Deferred tax liabilities		**3,602**	5,201
Retirement benefit obligations		**192**	1,580
Provision for reinstatement costs for rented premises		**31,945**	32,212
Obligation arising from a put option to a non-controlling interest		**7,507**	7,913
Put option derivatives		**440**	335
		330,401	205,690
Net assets		**888,635**	911,646
Capital and reserves			
Share capital		**92,006**	92,006
Reserves		**790,238**	818,976
Equity attributable to owners of the Company		**882,244**	910,982
Non-controlling interests		**6,391**	664
Total equity		**888,635**	911,646

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

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. Chong Heung Chung Jason (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 HKFRSs and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9, Prepayment features with negative compensation which have been adopted at the same time as HKFRS 9.

HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation

HKFRS 9 replaces HKAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 April 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 April 2018. Therefore, comparative information continues to be reported under HKAS 39.

There is no impact of transition to HKFRS 9 on retained profits at 1 April 2018.

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. *Classification of financial assets and financial liabilities*

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("**FVTOCI**") and at fair value through profit or loss ("**FVTPL**"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVTPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The reclassifications made to balances recognised in the consolidated statement of financial position at the date of initial application 1 April 2018 are summarised as follows:

Consolidation financial position (extract)	Carrying amount as at 31 March 2018 under HKAS 39 *HK$'000*	Reclassification and remeasurement *HK$'000*	Carrying amount as at 1 April 2018 under HKFRS 9 *HK$'000*
Available-for-sale financial assets	35,603	(35,603)	–
Held-for-trading investments	46,173	(46,173)	–
Financial assets at FVTOCI	–	81,776	81,776

The Group's trade receivables, deposits and other receivables and bank balances and cash are reclassified from loans and receivables to financial assets carried at amortised cost under HKFRS 9.

The measurement categories for all financial liabilities remain the same.

Except for disclosed above, the measurement basis and carrying amounts for all financial assets and liabilities at 1 April 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVTPL at 1 April 2018.

b. *Impairment of financial assets*

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" ("**ECL**") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including trade receivables, deposits and other receivables and bank balances and cash).

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade receivables. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings based on debtors' aging.

For all other instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

The credit losses calculated pursuant to the new requirements are not significantly different from the amount recognised under the current practices. Having consider past payment history, subsequent settlement record and economic environment, the Group considered no adjustment is necessary upon the initial adoption of the standard.

c. *Transition*

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

- Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 April 2018. Accordingly, the information presented for 2018 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

- The assessments have been made on the basis of the facts and circumstances that existed at 1 April 2018 (the date of initial application of HKFRS 9 by the Group) for the determination of the business model within which a financial asset is held.

- If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specified the accounting for construction contracts.

The Group has elected to use the cumulative effect transition method. The cumulative effect of initial application, if any, is recognised as an adjustment to the opening balance of equity at 1 April 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 April 2018.

There is no impact of transition to HKFRS 15 on retained earnings at 1 April 2018.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

a. *Timing of revenue recognition*

Previously, revenue arising from construction contracts and provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

- When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

- When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

- When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue from sale of goods, admission tickets sold and service income and this change in accounting policy had no material impact on opening balances as at 1 April 2018.

b. *Significant financing component*

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred.

Previously, the Group only applied such a policy when payments were significantly deferred, which was not common in the Group's arrangements with its customers. The Group did not apply such a policy when payments were received in advance.

It is not common for the Group to receive payments significantly in advance of revenue recognition in the Group's arrangements with its customers.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises financing component from sale of goods and this change in accounting policy had no material impact on opening balance as at 1 April 2018.

c. Presentation of contract assets and liabilities

Under HKFRS 15, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. The impact on the Group's financial position by the application of HKFRS 15 as compared to HKAS 18 that was previously in effect before the adoption of HKFRS 15 is as follows:

Consolidation financial position (extract)	Carrying amount as at 31 March 2018 under HKAS 18 *HK$'000*	Reclassification *HK$'000*	Carrying amount as at 1 April 2018 under HKFRS 15 *HK$'000*
Advanced receipts from customers (included in other payables and accruals)	6,339	(6,339)	–
Contract liabilities	–	6,339	6,339

New and revised HKFRSs issued 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 16	Leases[1]
HKFRS 17	Insurance Contracts[2]
HK (IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of Business[4]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2021
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

Except for the new and amendments to HKFRSs and Interpretations mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 Leases

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 March 2019, the Group has non-cancellable operating lease commitments of HK$167,067,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases.

In addition, the Group currently considers refundable rental deposits paid of HK$27,864,000 and refundable rental deposit received of HK$142,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4. Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening accumulated losses without restating comparative information.

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 2019				
Segment revenue	**258,097**	**325,355**	**49,429**	**632,881**
Segment profit	**66,992**	**35,375**	**90,858**	**193,225**
Unallocated income				**5,524**
Unallocated expenses				**(98,335)**
Other gains and losses				**(330)**
Finance costs				**(55,363)**
Profit before taxation				**44,721**
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

	Sales of animation derivative products HK$'000	Establishment and operation of indoor theme parks HK$'000	Multimedia animation entertainment HK$'000	Segment total HK$'000	Unallocated HK$'000	Total HK$'000
2019						
Amounts included in the measurement of segment profit or loss and segment assets:						
Additions to property, plant and equipment and intangible assets	**74,936**	**17,729**	**134,707**	**227,372**	**36**	**227,408**
Depreciation and amortisation	**1,095**	**51,406**	**25,151**	**77,652**	**7,665**	**85,317**
Gain on disposal of intangible assets	**–**	**–**	**78,655**	**78,655**	**–**	**78,655**
Loss on disposal of property, plant and equipment	**–**	**3,673**	**–**	**3,673**	**–**	**3,673**
Release of prepaid lease payments	**587**	**–**	**–**	**587**	**–**	**587**
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss:						
Interest income	**–**	**–**	**–**	**–**	**1,475**	**1,475**
Interest expense	**–**	**–**	**–**	**–**	**55,363**	**55,363**
Taxation	**(13,291)**	**(1,555)**	**–**	**(14,846)**	**3**	**(14,843)**
2018						
Amounts included in the measurement of segment profit or loss and segment assets:						
Additions to property, plant and equipment and intangible assets	15,231	35,014	6,814	57,059	87	57,146
Additions to prepaid lease payments	10,484	–	–	10,484	–	10,484
Depreciation and amortisation	5	51,246	10,273	61,524	7,720	69,244
Loss on disposal of property, plant and equipment	–	1,578	–	1,578	–	1,578
Release of prepaid lease payments	49	–	–	49	–	49
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss:						
Interest income	–	–	–	–	933	933
Interest expense	–	–	–	–	27,581	27,581
Taxation	(1,722)	1,946	–	224	–	224

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 (excluded gain on disposal of intangible assets), share of result of an associate, finance costs 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.

Revenue from contract with customers within the scope of HKFRS15

Type of goods or services:

	2019	2018
	HK$'000	*HK$'000*
Sales of animation derivative products	**258,097**	395,124
Sales of admission tickets and licensing income of indoor theme parks	**325,355**	401,750
Revenue from multimedia animation entertainment	**49,429**	4,585
	632,881	801,459

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

Timing of revenue recognition:

	2019	2018
	HK$'000	*HK$'000*
At point in time	**580,786**	796,874
Over time	**52,095**	4,585
	632,881	801,459

Note: The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18.

Transaction price allocated to the remaining performance obligation for contracts with customers:

	Establishment and operation of indoor theme park
	HK$'000
Within one year	**–**
More than one year but not more than two years	**2,719**
More than two years	**15,408**
	18,127

The other provision of goods or services are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

4. OTHER GAINS AND LOSSES

	2019	2018
	HK$'000	*HK$'000*
Net exchange gain	**39**	926
Net gain (loss) on a put option to a non-controlling interest	**301**	(1,036)
Gain from changes in fair value of financial assets mandatorily measured at FVTPL	**62**	–
Loss on disposal of property, plant and equipment	**(3,673)**	(1,578)
Loss on held-for-trading investments	**–**	(30,190)
Other gain	**3,266**	–
Gain on disposal of intangible asset	**78,655**	–
	78,650	(31,878)

5. TAXATION

The tax (credit) charge comprises:

	2019	2018
	HK$'000	*HK$'000*
Hong Kong Profits Tax:		
Current tax	**218**	13,009
Overprovision in prior years	**(13,510)**	(13,192)
PRC Enterprise Income Tax ("**EIT**")	**4**	2,036
Corporate tax in Japan		
Overprovision in prior years	**(215)**	–
	(13,503)	1,853
Deferred taxation for the year	**(1,340)**	(1,629)
	(14,843)	224

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

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. The tax rate of the PRC subsidiaries is 25% for both years.

Corporate tax in Japan is calculated at 23.2% (2018: 23.4%) on the estimated assessable profit. Pursuant to relevant laws and regulations in Japan, withholding tax is imposed at 20.42% (2018: 20.42%) and 5% (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 year.

The Group only notified the Hong Kong Inland Revenue Department ("**IRD**") of its assessable profits for the years of assessment 2008/09 to 2012/13 in February 2014. After filing the respective tax returns, the Group received Notices of Assessment for the year of assessment 2008/09 in March 2014, the year of assessment 2009/10 in May 2014, and the years of assessment 2010/11 to 2012/13 in July 2014 from the IRD which stated that tax payable for the years of assessment 2008/09 to 2012/13 amounting to HK$4,566,000 in aggregate, which is based on the amounts reported in tax returns filed by the Group for relevant years. As at 31 March 2019, 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$13,510,000 for the year of assessment 2012/13 was reversed during the year ended 31 March 2019 (2018: HK$13,192,000 for the year of assessment 2011/12).

The Group has lodged the offshore profits claims in respect of the trading income (other than trading income derived from Hong Kong affiliates of Japanese customers) and licensing income which were derived outside Hong Kong. Hence, the Group estimated the total tax payable for the years of assessment of 2008/09 to 2012/13 (on the assumption that the aforesaid offshore profit claims will be accepted by the IRD) amounted to HK$4,566,000 and has already paid such amount to the IRD based on the tax returns received. As at 31 March 2019, 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 31 March 2019 would be HK$95,956,000 after considering the overprovision of years of assessment 2008/09 to 2012/13 (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.

6. PROFIT FOR THE YEAR

	2019	2018
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging:		
Staff costs:		
Directors' emoluments	**5,260**	5,545
Other staff costs		
Salaries and other benefits	**92,446**	100,047
Retirement benefit schemes	**15,245**	14,001
Defined benefits costs	**984**	1,829
Share-based payments expense	**707**	5,450
	114,642	126,872
Auditor's remuneration		
– audit services	**3,350**	4,476
– non-audit services	**350**	1,338
	3,700	5,814
Cost of inventories recognised as expenses	**182,587**	308,565
Depreciation of property, plant and equipment		
– Cost of sales and services	**44,049**	45,333
– Administrative expenses	**11,290**	8,144
Release of prepaid lease payments	**587**	49
Amortisation of intangible assets (included in cost of sales and services)	**29,751**	15,539
Amortisation of intangible assets (included in administrative expenses)	**227**	228
Minimum operating lease rentals in respect of rented vehicles	**169**	169
Lease payments under operating leases in respect of rented premises		
Minimum lease payments	**46,546**	51,994
Contingent rents *(note)*	**3,926**	2,852

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.

7. DIVIDENDS

	2019	2018
	HK$'000	*HK$'000*
Dividends recognised as distributions during the year:		
– Final dividend of HK2.3 cents per share for the year ended 31 March 2018 (2017: HK2 cents per share for the year ended 31 March 2017)	**21,161**	18,401

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 March 2019 of HK2.3 cents (2018: final dividend in respect of the year ended 31 March 2018 of HK2.3 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.

8. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of HK$58,372,000 (2018: HK$20,790,000) and the weighted average of 920,062,000 ordinary shares (2018: 920,062,000 ordinary shares) in issue during the year.

(b) Diluted earnings per share

For the year ended 31 March 2019, diluted earnings per share attributable to owners of the Company were not presented because the impact of the exercise of the Company's share options was anti-dilutive.

For the year ended 31 March 2018, the calculation of diluted earnings per share attributable to the owners of the Company was based on the following data:

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

9. INTANGIBLE ASSETS

	Film rights and applications HK$'000 (note i)	Animation characters HK$'000 (note ii)	Indoor theme park right HK$'000 (note iii)	Exclusive distribution right HK$'000 (note iv)	Trademark HK$'000 (note v)	Total HK$'000
COST						
At 1 April 2017	33,111	5,702	2,279	30,000	25,797	96,889
Additions	6,788	–	–	–	–	6,788
Exchange adjustments	–	–	–	–	1,524	1,524
At 31 March 2018	39,899	5,702	2,279	30,000	27,321	105,201
Additions	79,100	55,000	–	–	–	134,100
Disposal	(3,675)	(179)	–	–	–	(3,854)
Exchange adjustments	–	–	–	–	(1,035)	(1,035)
At 31 March 2019	115,324	60,523	2,279	30,000	26,286	234,412
AMORTISATION						
At 1 April 2017	3,996	5,593	684	1,500	630	12,403
Charge for the year	6,543	109	228	3,000	5,887	15,767
At 31 March 2018	10,539	5,702	912	4,500	6,517	28,170
Charge for the year	14,806	6,584	228	3,000	5,360	29,978
Written back	(1,553)	(179)	–	–	–	(1,732)
At 31 March 2019	23,792	12,107	1,140	7,500	11,877	56,416
CARRYING VALUES						
At 31 March 2019	91,532	48,416	1,139	22,500	14,409	117,996
At 31 March 2018	29,360	–	1,367	25,500	20,804	77,031

Notes:

(i) Film rights and applications represent the acquisition of film rights and applications from production parties for the distribution of films and applications in various videogram formats, film exhibition, licensing and sub-licensing of film titles and mobile phone applications. Film rights and applications are stated at cost less accumulated amortisation and accumulated impairment losses. The costs of film rights and applications are amortised on a straight-line basis over their estimated useful lives starting from the completion of films and applications.

(ii) Animation characters represent the acquired intellectual properties in the form of trademarks and copyrights of various animation brands and related characters under the ownership of the Group.

(iii) Indoor theme park right represents the acquired intellectual property rights in the form of trademarks and know-how under a licensing agreement (the "**Licensing Agreement**") with SEGA Corporation, a Japanese corporation. The term of the Licensing Agreement is 10 years from the date of the Licensing Agreement which is renewable subject to negotiation among the parties concerned.

(iv) Exclusive distribution right represents the acquired virtual reality game machine and application worldwide exclusive distribution right from an independent third party. In accordance with the agreement, the exclusive distribution right has an indefinite useful life. The directors of the Company 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.

(v) The trademark acquired on acquisition of CA Sega Group under Trademark Licence Agreement (the "**Trademark Licence Agreement**") with SEGA Holdings Co., Ltd. for a non-transferrable and non-exclusive right to use and sub-license the JOYPOLIS trademark for the establishment and operation of indoor theme parks with JOYPOLIS worldwide. The term of the Trademark Licence Agreement is 5 years from the date of the Trademark Licence Agreement which is renewable for another 5 years subject to negotiation among the parties concerned.

The above intangible assets have finite useful lives. Such intangible assets are amortised on a straight-line basis over the useful lives:

Film rights and applications	2–5 years
Animation characters	5 years
Indoor theme park right	10 years
Exclusive distribution right	10 years
Trademark	5 years

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/ AVAILABLE-FOR-SALE FINANCIAL ASSETS/HELD-FOR-TRADING INVESTMENT

Available-for-sale financial assets and held-for-trading investment were reclassified to financial assets at FVTOCI (non-recycling) upon the initial application of HKFRS 9 at 1 April 2018, see Note 2(a) in details.

Financial assets at FVTOCI/Available-for-sale financial assets/Held-for trading investment include the following:

	2019	2018
	HK$'000	*HK$'000*
Equity securities listed in Hong Kong	**107,900**	81,776

The above listed equity investments represent ordinary shares of an entity listed in Hong Kong. These investments are not held for trading, instead, they are held for long-term strategic purposes. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

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

11. TRADE RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Trade Receivables	**299,264**	450,626
Less: accumulated impairment losses	**(3,405)**	–
	295,859	450,626

The Group generally allows a credit period ranging from 30 days to 90 days to its trade customers except certain distributors with strategic business relationship 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:

	2019	2018
	HK$'000	*HK$'000*
0 to 90 days	**80,676**	112,907
91 to 180 days	**16,479**	48,574
181 to 365 days	**197,842**	289,039
Over 365 days	**862**	106
	295,859	450,626

Included in trade receivables aged within 0 to 90 days and 181 to 365 days is the receivable balance of HK$Nil (2018: HK$48,301,000) and HK$67,119,000 (2018: HK$118,366,000) respectively, arose from the sales of admission tickets of the Group's indoor theme parks to the Group's two customers who act as distributors, in which billings were made semi-annually, whilst the related revenue were recognised throughout the reporting period when tickets are surrendered by end customers for the admission of indoor theme park or the tickets are expired. The invoice dates of the remaining receivables approximate the revenue recognition dates.

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.

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:

	2019	2018
	HK$'000	*HK$'000*
0 to 90 days	**104,147**	126,183
91 to 180 days	**366**	68,053
181 to 365 days	**27**	94,824
Over 365 days	**–**	96
	104,540	289,156

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

	2019	2018
	HK$'000	*HK$'000*
United States Dollars ("**US$**")	**140,354**	271,929

Impairment under HKFRS 9 for the year ended 31 March 2019

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., customer type and financial position of the customer). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

At 31 March 2019

	Expected credit loss rate *(%)*	**Gross carrying amount** ***HK$'000***	**Loss allowance** ***HK$'000***	**Net carrying amount** ***HK$'000***
Provision on collective basis				
Current	**0%**	**191,319**	**–**	**191,319**
Within 90 days past due	**3%**	**107,368**	**(3,221)**	**104,147**
91 days to 180 days past due	**30%**	**523**	**(157)**	**366**
181 days to 365 days past due	**50%**	**54**	**(27)**	**27**
Over 365 days past due	**100%**	**–**	**–**	**–**

Impairment under HKAS 39 for the year ended 31 March 2018

As at 31 March 2018, the provision for impairment of trade receivables was measured based on incurred credit losses under HKAS 39. The trade receivables that are neither past due nor impaired are mainly due from those customers which have long-term relationship and those distributors with strategic business relationship with the Group and the repayment history of these customers were good.

12. AMOUNT DUE FROM A DIRECTOR

	2019 *HK$'000*	2018 *HK$'000*	Maximum outstanding balance during the year *HK$'000*
Chong Heung Chung, Jason	**2,408**	–	2,408

The amount is unsecured, interest-free and repayable on demand.

13. TRADE AND NOTES PAYABLES

	2019 *HK$'000*	2018 *HK$'000*
Trade payables	**7,221**	15,039
Notes payables	**–**	3,116
	7,221	18,155

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:

	2019 *HK$'000*	2018 *HK$'000*
0 to 30 days	**7,004**	15,098
31 to 60 days	**–**	–
Over 90 days	**217**	3,057
	7,221	18,155

14. SECURED BANK BORROWINGS AND OTHER BORROWINGS

	2019 *HK$'000*	2018 *HK$'000*
The carrying amounts of bank borrowings that contain a repayment on demand clause (shown under current liabilities) but repayable:		
Within one year	**102,641**	100,327
Within a period of more than one year but not exceeding two years	**4,958**	4,759
Within a period of more than two years but not exceeding five years	**6,046**	11,005
	113,645	116,091
Other borrowings		
Within one year	**–**	–
Within a period of more than one year but not exceeding two years	**–**	–
Within a period of more than two years but not exceeding five years	**14,160**	–
	14,160	–

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

	2019	2018
Fixed-rate bank borrowings	**2.15%**	3.75% to 4.09%
Variable-rate bank borrowings	**3.75% to 4.49%**	–

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

	2019	2018
	HK$'000	*HK$'000*
US$	**94,687**	95,758

Included in the bank borrowings balance as at 31 March 2019 are secured bank borrowings of approximately HK$111,521,000 (2018: HK$116,091,000) which secured by pledged bank deposits.

Included in the other borrowings balance as at 31 March 2019 are secured by the long-term rental deposits.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

Continuous Growth in Animation Industry, Increasing Support for National Animation from the New Generations

Animation Industry in the PRC continued to show a positive growth trend recent years. "Animation Industry in the PRC Research Report 2018" released by IR Research indicated that the total gross value of animation industry output in the PRC has exceeded RMB150 billion, while the scale of animation users has been boosting. New generation represented by the 90's and 00's are showing greater support for ACG (Anime, Comics and the Games "二次元") and the national animation industry.

Being one of the significant growth drivers in cultural and creative industry, ACG animation industry has gained substantial support from the government, and was named as one of the key industries to develop in the "Twelfth Five-Year Plan" and "Thirteenth Five-Year Plan" announced by the Ministry of Culture, to further facilitate innovation of Chinese original animations and multimedia animation businesses (including proprietary of animation IP), as well as the development of industrial park and more.

Industry Underwent "the Elimination by the Survival for the Fittest" Pushed forward the Strategic Cooperation Upgrade between Chinese and Overseas Animations

Animation industry in the PRC has experienced industry upgrade and adjustment in the result of "elimination by the survival for the fittest" when undergoing diversified and sustainable development. The market responded favourably to the animation group possessing quality animation intellectual property ("**IP**") and multimedia industry content, which facilitated more strategic cooperation between Chinese and Overseas animations corporates to push forward the upgrade of animation industry chain, particularly the animation-derived products, theme parks and proprietary of animation IP development.

BUSINESS REVIEW

During the year under review, the Group has orderly implemented business upgrade strategy. The Group has continued to streamline its current animation-derived products sales. At the same time, the Group promoted businesses with growth potentials including multimedia animation business such as indoor theme parks named CA SEGA JOYPOLIS and Wonder Forest, propriety of animation characters and etc, to enhance the influence of the Group in the mainland China and other overseas countries and regions. Moreover, the Group introduced asset-light strategy to accelerate business expansion and develop animation business with the proprietary animation characters developed by the Group so to further demonstrate the industry leading position and investment value of the Group.

During the year under review, the Group insisted to continue to optimize the business strategy and has achieved results as follow:

1. Orderly Adjustment on the Sales Strategy 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, including general plastic toys and food-grade toys (toys that are sold by the Group's customers with food and are packaged with candy). Moreover, the Group also offers relevant value-added services, including quality control and advice on product design to certain customers in accordance with their requests, thus increase client's loyalty to the Group and create differentiative advantages among the industry.

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.

During the year under review, the Group has adopted premium client sales strategy by adjusting the client base composition to better utilize the resources to serve the clients and maintain long term and solid client relationships. The Group has moved some of the animation-derived products trading business from Mainland China to Cambodia to minimize effect caused by the external macro factors such as US-China Trade War, which in turn resulted in a temporary effect in sales revenue. But the Group believes that such business layout adjustment will enable sustainable and stable business in the long term.

2. CA SEGA JOYPOLIS and Wonder Forest Indoor Theme Park: Introduced Asset-light Model to Accelerate Strategic Layout

CA SEGA JOYPOLIS of the Group targets 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.

Despite the large indoor theme park CA SEGA JOYPOLIS, in response to the huge demand on the kid's amusement parks and children education in the PRC, the Group proactively cooperated with the property developers to operate Wonder Forest. It is an indoor theme park with the target market segment of for 2-12 years old children in the first-tier and second-tier cities in the PRC.

As for CA SEGA JOYPOLIS business, the Group is currently operating three indoor interactive entertainment parks located in Shanghai and Qingdao and Tokyo Japan, respectively. During the year, the Group has signed 2 agreements to license its CA SEGA JOYPOLIS business in the PRC and the preliminary work will be kicked off soon. It will further expand the business map of the Group. The Group adjusted its business strategy by moving the indoor theme park in Osaka to Shibuya, Tokyo, to operate a new CA SEGA JOYPOLIS Virtual Reality (VR) theme park to reach its target youth market. But since the park is still in trial operation, the revenue contribution of the Group is not fully reflected.

As for Wonder Forest business, since the space needed to install children's entertainment facilities of Wonder Forest is relatively smaller, it is easier to meet the property's condition in terms of area. During the year, the Group has operated Wonder Forest in Shenzhen Bookmall. Wonder Forest in Jiangmen, Longhua Shenzhen and Inner Mongolia have also started operations with licensed proprietary. The first Wonder Forest was opened on 1 January 2015 in Shanghai, creating business synergies with CA SEGA JOYPOLIS nearby, and inducing people's flow in that district. The Group currently operates two Wonder Forest in Yitian and Longguang in Shenzhen, the PRC.

3. VR eSports Trend Unfolded and Enhanced Synergies between Multimedia Animation Businesses

The Group proactively identified and introduced quality VR technology and game content to the Group's new amusement rides and games, including "Zero Latency", which is a VR shooting game developed in Australia, and has been launched in Tokyo JOYPOLIS. The Group has also launched another VR shooting game named "Mortal Blitz", which was developed in the South Korea, in Shanghai JOYPOLIS and Qingdao JOYPOLIS.

During the year under review, 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 the view of the enthusiastic response in the market, the Group organised its first VR eSport competition, China Animation Cup (Hong Kong District) in the eSports & Music Festival, in August 2018 and has instantly gained attention from the eSports industry.

Besides introducing quality VR games from other countries, the Group also actively launched its own animation games. In September 2018, the Group launched its own VR eSports game named "Huang Yangjie Battle 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. The game allows players to experience game adventure, and at the same time, promotes national history and culture. The Group will launch eSports game in the cities of Jinggangshan, Yan'an and Shaoshan, the PRC. As of 31 March 2019, 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 year ended 31 March 2019 with comparative figures as follows:

	For the year ended 31 March	
	2019	2018
Revenue *(HK$'000)*	**632,881**	801,459
Gross profit *(HK$'000)*	**158,676**	222,336
Gross profit margin *(%)*	**25.1**	27.7
Profit attributable to owners of the Company *(HK$'000)*	**58,372**	20,790
Adjusted EBITDA *(HK$'000)*	**202,470**	161,342

Revenue

The revenue decreased by HK$168.6 million, or 21.0%, from HK$801.5 million for the year ended 31 March 2018 to HK$632.9 million for the year ended 31 March 2019. The decrease was primarily due to the decrease of HK$137.0 million of revenue from the sales of animation derivative products and HK$76.4 million of revenue from the operation of indoor theme parks even though there was an increase of HK$44.8 million of revenue from multimedia animation entertainment.

Sales of animation derivative products

The revenue from sales of animation derivative products decreased by 34.7% from HK$395.1 million for the year ended 31 March 2018 to HK$258.1 million for the year ended 31 March 2019 primarily due to that purchase orders placed by two major customers were decreased.

Establishment and operation of indoor theme parks

The revenue from establishment and operation of indoor theme parks decreased by 19.0% from HK$401.8 million for the year ended 31 March 2018 to HK$325.4 million for the year ended 31 March 2019.

The number of visitors based on ticket sales significantly decreased by 48.8% from 4.1 million for the year ended 31 March 2018 to 2.1 million for the year ended 31 March 2019.

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

	2019	2018
	'000	*'000*
PRC	**1,172**	1,127
Japan	**891**	2,934

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., was opened in Shibuya in Tokyo, Japan in October 2018.

Multimedia animation entertainment

The revenue from multimedia animation entertainment increased by HK$44.8 million, or 973.9%, from HK$4.6 million for the year ended 31 March 2018 to HK$49.4 million for the year ended 31 March 2019. The revenue from multimedia animation entertainment included income from licencing of animation characters, income for ticket sales for VR Game Centre, trading of VR gaming machines and event activities. The increase was primarily due to that licenced income was recognised upon licencing two animation characters during the year (2018: Nil).

Cost of sales and services

The cost of sales and services decreased by HK$104.9 million, or 18.1%, from HK$579.1 million for the year ended 31 March 2018 to HK$474.2 million for the year ended 31 March 2019. The decrease was in line with the decrease in the revenue of sales of animation derivative products and the operation of indoor theme parks.

Gross profit and gross profit margin

The Group's gross profit decreased by HK$63.6 million, or 28.6%, from HK$222.3 million for the year ended 31 March 2018 to HK$158.7 million for the year ended 31 March 2019. The Group's gross profit margin decreased from 27.7% for the year ended 31 March 2018 to 25.1% for the year ended 31 March 2019. The decrease in gross profit and gross profit margin were mainly due to the decrease in the business of sales of animation derivative products and establishment and operation of indoor theme park during the year ended 31 March 2019.

Other income

Other income increased by HK$1.5 million from HK$6.0 million for the year ended 31 March 2018 to HK$7.5 million for the year ended 31 March 2019. The increase was primarily due to insurance claim and compensation of HK$2.5 million for delay in the grant opening of Qingdao JOYPOLIS were recognised as income during the year (2018: Nil).

Other gains and losses

The Group recorded a significant gain of HK$78.7 million for the year ended 31 March 2019, compared to a loss of HK$31.8 million for the year ended 31 March 2018. This significant change was due to (i) the loss of HK$31.8 million in year ended 31 March 2018 was primarily due to a fair value loss of HK$30.2 million from held-for-trading investments, since the adoption of new accounting standard, the Group's held-for-trading investments were reclassified as financial assets at fair value through other comprehensive income and a fair value loss of HK$54.7 million was recognised for the year ended 31 March 2019; and (ii) the Group partially disposed the intangible assets of "**Animal Conference on the Environment**" (動物環境會議) and "**Project Egg**" (蛋計劃) during the year ended 31 March 2019 and the said disposal recognised a gain of HK$78.7 million.

Selling and distribution expenses

The selling and distribution expenses decreased by HK$17 million, or 42.7%, from HK$39.8 million for the year ended 31 March 2018 to HK$22.8 million for the year ended 31 March 2019. The Group's selling and distribution expenses as a percentage of revenue decreased from 5.0% for the year ended 31 March 2018 to 3.6% for the year ended 31 March 2019. The decreases were primarily due to the decrease in advertising and promotion expenses for JOYPOLIS.

Impairment loss on trade and other receivables

During the year under review, impairment loss of HK$10.6 million was recognised which including HK$7.2 million impairment on deposits due to the recoverability were remoted and HK$3.4 million of expected credit loss on trade receivable due to the adoption of new accounting standard.

Research and development expenses

The research and development expenses increased by HK$0.2 million from HK$17.8 million for the year ended 31 March 2018 to HK$18.0 million for the year ended 31 March 2019. The increase was primarily due to that more resource was deployed in 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 increased by HK$37.6 million, or 180.8%, from HK$20.8 million for the year ended 31 March 2018 to HK$58.4 million for the year ended 31 March 2019. The increase was primarily due to the Group partial disposed of the intangible assets rights of "Animal Conference on the Environment" (動物環境會議) and "Project Egg" (蛋計劃). A gain of HK$78.7 million was recognised during the year ended 31 March 2019.

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 years presented:

	Year ended 31 March	
	2019	2018
	HK$'000	*HK$'000*
Profit for the year	**59,564**	21,242
Interest income	**(1,475)**	(933)
Finance costs	**55,363**	27,581
Taxation	**(14,843)**	224
Depreciation	**55,339**	53,477
Amortisation	**29,978**	15,767
EBITDA	**183,926**	117,358
Loss on disposal of property, plant and equipment	**3,673**	1,578
Other Japanese tax expenses	**2,051**	3,304
Defined benefit plans loss	**984**	1,829
Fair value (gain) loss on obligation arising from a put option to a non-controlling interest	**(301)**	1,036
Loss on held-for-trading investments	**–**	30,190
Impairment loss for trade and other receivables, deposits and prepayments	**10,614**	–
Share-based payments expense	**1,523**	6,047
Adjusted EBITDA	**202,470**	161,342

BUSINESS PROSPECTS

Prospects: IP Business, CA SEGA Theme Park, "5G • VR eSports" Well-positioned for Growth

In the future, "Being proactive and aggressive but not forgetting to maintain stable and healthy growth" will be the Group's management guidelines, with indoor theme park, super IP and "5G•VR eSports" as the Group's future key growth drivers.

CA SEGA Entertainment Park x Property Developers in the PRC, Asset-light Model to Enjoy Profit Share

The Group will use large playground equipment as foundation and VR experience as direction to provide research and development, conceptual planning, construction investment and operation management solutions, with stable development on its animation-derived products trading business as foundation. Its CE SEGA brand will continue to collaborate the property developers and government officials to focus on the Guangdong-Hong Kong-Macau Bay Area and some of the red cultural tourism areas. With its asset-light model, the Group will introduce CA SEGA Entertainment Park to the developer's property projects, to form complete industrial chain with upstream, middle and downstream segments. It will attract more quality cultural and creative start-up companies to station and leverage the commercial and investment value of the industry park, and thus the Group will be able to enjoy profit share.

Develops Nationwide and even World-classed Renowned IP to Contribute Continuous and Steady Profitability

As for super IP, the Group will cooperate with the international overseas animation group to cultivate and identify more quality IP to create synergy effects from the strategy alliance businesses to bring more sustainable and stable profitability to the Group. Moreover, the Group will proactively explore its VR and eSports businesses, together with media campaigns in both mainland China and overseas, the IP characters can enjoy higher commercial and investment value.

Announces "5G • VR eSports" and "Red VR eSports" Strategic Plan to Promote Business Synergy and Upgrade

The Group will continue to develop the new industry as the first mover to upgrade the Group's VR eSports game. The Group will adopt 5G technology in its dual online and offline strategy and implement its IP into VR eSports to draw market attention of the IP characters, and generate synergies with the animation-derived product business.

With the successful launch of VR eSport game "Huang Yangjie Battle (黃洋界保衛戰)", the Group will continue to develop VR games using red cultural tourism as theme, including collaborate with the national government and partners to launch these games in tourist areas in response to national cultural tourism industry development, at the same time, increase the popularity of the characters in the game to enhance marketing penetration.

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 2019, approximately HK$248.4 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 2019**	**Unutilised as at 31 March 2019**
	%	*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	57.1	2.6
For working capital and general corporate purposes	10.0	29.9	29.9	–
Total	**100.0**	**298.6**	**248.4**	**50.2**

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2019, 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 2019, the cash and bank balances of the Group were HK$50.4 million (31 March 2018: HK$367.0 million). The decrease was mainly due to the investment in the development of indoor theme parks, by setting up numerous Wonder Forest and Joypolis in first-tier and second-tier cities in the PRC and investment in multimedia animation entertainment business.

As at 31 March 2019, the Group had a gearing ratio (calculate as secured bank borrowings and other borrowings, obligation under finance leases, guaranteed note and bonds, divided by total assets) of 32.5% (31 March 2018: 28.3%).

During the year ended 31 March 2019, the Company issued bonds in par in an aggregate principal amount of HK$106.4 million (31 March 2018 HK$193.0 million). The bonds are denominated in HK$ and are unlisted. The bonds are unsecured and carry interest at a nominal rate ranging from 6% to 8.67% 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.

During the year ended 31 March 2019, the Company repaid principal amount of HK$60 million guaranteed note. The outstanding principal of HK$140 million has been renewed to mature on 26 September 2019 at a coupon rate of 9.5%. The interest on the guaranteed note is payable semi-annually in arrears and is denominated in HK$.

TREASURY POLICIES

The Group has adopted a prudent treasury policy and thus maintained a healthy liquidity position throughout the year ended 31 March 2019. 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 (2018: 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 is disclosed under the section headed "Closure of The Register of Members".

CAPITAL COMMITMENTS

As at 31 March 2019, capital commitments of the Group amounted to HK$8.2 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 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 2019, a bank deposit of the Group with a carrying value of approximately HK$111.3 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 31 March 2019 (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 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 2019, the Group had 386 employees (31 March 2018: 478 employees). The decrease in number of staff was mainly due to optimising the staffing structure for JOYPOLIS during the year. For the year ended 31 March 2019, 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$114.6 million (31 March 2018: HK$126.9 million). The decrease was mainly attributable to the decrease of HK$7.6 million in employee remuneration and the decrease of HK$0.3 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 ended 31 March 2018, 8,582,160 options granted to a consulting firm were cancelled.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Save as the repayment of guaranteed note and the placing of bonds as disclosed under the section headed "**Capital Structure, Liquidity and Financial Resources**" in this announcement, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities during the year ended 31 March 2019.

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 and have met the auditors of the Company, Messrs. KTC Partners CPA Limited, for the review of the Group's results for the year ended 31 March 2019.

The audit committee of the Board has reviewed the Company's audited consolidated financial statements for the year ended 31 March 2019 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 2019 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 2019 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. KTC Partners CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. KTC Partners CPA Limited 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. KTC Partners CPA Limited 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. CHONG is the Chairman of the Board and the Chief Executive Officer. 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 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 2019.

CLOSURE OF THE REGISTER OF MEMBERS

To determine the eligibility of the shareholders of the Company to attend the annual general meeting to be held on 28 August 2019, the register of members will be closed from 23 August 2019 to 28 August 2019, both days inclusive, during which period no transfer of shares will be effected. In order to be entitled to attend and vote at the annual general meeting, all transfer forms accompanied by the relevant Share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 22 August 2019.

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 3 September 2019 to 5 September 2019, 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 2 September 2019.

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 2019 containing 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, 26 June 2019

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.