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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 2019

The highlights in relation to the unaudited interim results of the Group for the six months ended 30 September 2019 are as follows:

- Revenue was HK\$236.1 million for the six months ended 30 September 2019, representing a decrease of 44.5% as compared with HK\$425.5 million for the six months ended 30 September 2018.
- Gross profit was HK\$51.1 million for the six months ended 30 September 2019, representing a decrease of 63.6% as compared with HK\$140.4 million for the six months ended 30 September 2018. Gross profit margin for the six months ended 30 September 2019 was 21.6%, representing a decrease of 34.5% as compared with 33.0% for the six months ended 30 September 2018.
- Profit attributable to the owners of the Company was HK\$24.8 million, representing a decrease of 55.2% as compared with HK\$55.4 million for the six months ended 30 September 2018.
- Basic earnings per share amounted to 3 HK cents for the six months ended 30 September 2019, representing a decrease of 50.0% as compared with 6 HK cents for the six months ended 30 September 2018.
- The adjusted EBITDA* was HK\$107.8 million, representing an increase of 1.0% as compared with HK\$106.7 million for the six months ended 30 September 2018.

* Adjusted EBITDA excluded loss on disposal of property, plant and equipment, other Japan tax expenses, define benefit plans loss, gain from changes in fair value of financial assets mandatorily measured at fair value through profit or loss and share-based payments expense.

The board (the “**Board**”) of directors (the “**Directors**”) of China Animation Characters Company Limited (the “**Company**”) announces the unaudited interim results of the Company (which together with its subsidiaries, the “**Group**”) for the six months ended 30 September 2019, together with the comparative figures for the corresponding period in 2018.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Six months ended 30 September	
		2019	2018
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Revenue	5	236,127	425,518
Cost of sales and services		(185,034)	(285,138)
Gross profit		51,093	140,380
Other income		1,500	3,400
Other gains and losses	6	71,020	(49)
Selling and distribution expenses		(20,948)	(19,563)
Administrative expenses		(50,418)	(48,384)
Research and development expenses		(7,326)	(9,028)
Exchange loss on bank borrowings		–	(203)
Finance costs		(32,692)	(27,823)
Profit before taxation		12,229	38,730
Taxation	7	10,102	14,092
Profit for the period	8	22,331	52,822
Other comprehensive (expense) income:			
<i>Item that will not be reclassified to profit or loss:</i>			
Remeasurement of defined benefit plans		418	827
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign subsidiaries		(281)	(12,594)
Fair value loss on financial assets at fair value through other comprehensive income		(17,531)	(31,587)
Other comprehensive expense for the period		(17,394)	(43,354)
Total comprehensive income for the period		4,937	9,468

		Six months ended	
		30 September	
		2019	2018
		(Unaudited)	(Unaudited)
<i>Notes</i>		HK\$'000	HK\$'000
Profit for the period attributable to:			
	Owners of the Company	24,849	55,388
	Non-controlling interests	(2,518)	(2,566)
		<u>22,331</u>	<u>52,822</u>
Total comprehensive income attributable to:			
	Owners of the Company	7,342	12,077
	Non-controlling interests	(2,405)	(2,609)
		<u>4,937</u>	<u>9,468</u>
Earnings per share			
	– Basic (HK\$)	0.03	0.06
	– Diluted (HK\$)	N/A	N/A

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2019

		30 September 2019 (Unaudited) Notes HK\$'000	31 March 2019 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment		254,113	280,752
Right-of-use assets		128,352	–
Prepaid lease payments		–	9,261
Goodwill		2,537	2,472
Intangible assets		154,530	177,996
Interest in an associate		5,813	5,813
Financial assets at fair value through other comprehensive income	11	90,369	107,900
Deposits for acquisition of property, plant and equipment		548,947	547,637
Deposit for acquisition of long term investment		5,359	5,359
Prepayment to a game developer		20,400	20,400
Rental deposits		18,813	18,172
Retirement benefit assets		1,278	–
Pledged bank deposit		14,589	14,589
		<u>1,245,100</u>	<u>1,190,351</u>
Current assets			
Inventories		681	723
Trade receivables	12	219,803	295,859
Other receivables, deposits and prepayments	13	176,477	33,992
Amount due from a director		2,413	2,408
Prepaid lease payments		–	587
Financial assets at fair value through profit or loss		574	3,903
Pledged bank deposit		99,092	96,664
Bank balances and cash		65,366	50,387
		<u>564,406</u>	<u>484,523</u>

		30 September 2019 (Unaudited) HK\$'000	31 March 2019 (Audited) HK\$'000
	<i>Notes</i>		
Current liabilities			
Trade and notes payables	14	10,993	7,221
Other payables and accruals		24,541	55,900
Contract liabilities		1,215	26,590
Lease liabilities		34,915	–
Dividend payable	9	21,161	–
Tax payable		97,192	107,620
Bonds		105,234	–
Guaranteed note		134,845	138,957
Obligation under finance leases		–	5,905
Secured bank borrowings and other borrowings	15	122,978	113,645
		553,074	455,838
Net current assets		11,332	28,685
Total assets less current liabilities		1,256,432	1,219,036
Non-current liabilities			
Bonds		221,948	257,528
Secured bank borrowings and other borrowings	15	25,444	14,160
Obligation under finance leases		–	13,845
Long term other payables		941	1,182
Lease liabilities		90,359	–
Deferred tax liabilities		3,111	3,602
Retirement benefit obligations		–	192
Provision for reinstatement costs for rented premises		32,881	31,945
Obligation arising from a put option to non-controlling interests		7,507	7,507
Put option derivatives		440	440
		382,631	330,401
Net assets		873,801	888,635
Capital and reserves			
Share capital		92,006	92,006
Reserves		777,809	790,238
Equity attributable to owners of the Company		869,815	882,244
Non-controlling interests		3,986	6,391
Total equity		873,801	888,635

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

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 Room 2905, 29th Floor, China Resources Building, No. 26 Harbour Road, Wanchai, Hong Kong.

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 2019 are consistent with the Group’s annual financial statements for the year ended 31 March 2019, which has been prepared in accordance Hong Kong Financial Reporting Standards (“**HKFRSs**”):

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 April 2019 for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 16	Leases
HK (IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKASs	Annual Improvements to HKFRSs 2015–2017 Cycle

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

4. CHANGE IN ACCOUNTING POLICIES

Other than as explained below regarding the impact of HKFRS 16 Leases, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised HKFRSs are described below:

Adoption of HKFRS 16

HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC) 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 April 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 April 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC) 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 April 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their stand-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of property and vehicles. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets; and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 April 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 April 2019.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 April 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets recognised previously under finance leases of HK\$11,537,000 that were reclassified from property, plant and equipment.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 April 2019:

- Applied the short-term leases exemptions to leases with a lease term that ends within 12 months at the date of initial application.
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.
- Used a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Excluded the initial direct costs from the measurement of the right-of-use assets at the date of initial application.

The impacts arising from the adoption of HKFRS 16 as at 1 April 2019 are as follows:

	Increase/ (decrease) (Unaudited) HK\$'000
Assets	
Right-of-use assets	137,682
Prepaid lease payments	(9,848)
Property, plant and equipment	<u>(11,537)</u>
Total assets	<u>116,297</u>
Liabilities	
Lease liabilities	136,047
Obligation under finance leases	<u>(19,750)</u>
Total liabilities	<u>116,297</u>

The lease liabilities as at 1 April 2019 reconciled to the operating lease commitments as at 31 March 2019 are as follows:

	Increase/ (decrease) (Unaudited) HK\$'000
Operating lease commitments as at 31 March 2019	167,067
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 March 2020	<u>(47,891)</u>
	<u>119,176</u>
Weighted average incremental borrowing rate as at 1 April 2019	1.07%
Lease liabilities as at 1 April 2019	<u>116,297</u>

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 March 2019 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 April 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases, to lease plant and machinery and equipment for additional terms of certain years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities and the movement during the period are as follows:

	Right-of-use assets (Unaudited) HK\$'000	Lease liabilities (Unaudited) HK\$'000
As at 1 April 2019	137,682	136,047
Additions	4,416	4,416
Depreciation	(13,746)	–
Interest expense	–	597
Payments	–	(15,786)
As at 30 September 2019	128,352	125,274

5. 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 six months ended 30 September 2019.

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) 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:

For the six months ended 30 September 2019 (unaudited)

	Sales 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	87,189	135,200	13,738	236,127
Inter-segment revenue				–
				236,127
Segment profit (<i>Note</i>)	<u>23,196</u>	<u>16,019</u>	<u>61,634</u>	100,849
Unallocated income				1,148
Unallocated expenses				(57,603)
Other gains and losses				527
Finance costs				(32,692)
Profit before taxation				<u>12,229</u>

Note: The segment profit for Multimedia animation entertainment segment included gain on disposal of intangible assets (*Note* 6).

For the six months ended 30 September 2018 (unaudited)

	Sales 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)
				425,518
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				(27,823)
Profit before taxation				<u>38,730</u>

Segment profit (loss) represents the profit (loss) earned (incurred) by each segment without allocation of certain administrative expenses, share-based payment expenses, share of result of an associate, 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	
	2019	2018
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
At a point of time	222,739	399,218
Over time	13,388	26,300
	236,127	425,518

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	31 March
	2019	2019
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Sales of animation derivative products	265,263	239,378
Establishment and operation of indoor theme parks	894,839	861,988
Multimedia animation entertainment	324,634	239,003
Total segment assets	1,484,736	1,340,369
Property, plant and equipment	13,816	18,502
Right-of-use assets	4,416	–
Other receivables, deposits and prepayments	25,785	31,867
Goodwill	2,537	2,472
Interest in an associate	5,813	5,813
Financial assets at fair value through profit or loss	574	3,903
Financial assets at fair value through other comprehensive income	90,369	107,900
Amount due from a director	2,413	2,408
Pledged bank deposit	113,681	111,253
Bank balances and cash	65,366	50,387
Consolidated assets	1,809,506	1,674,874

Segment liabilities

	30 September 2019 (Unaudited) HK\$'000	31 March 2019 (Audited) HK\$'000
Sales of animation derivative products	11,795	8,260
Establishment and operation of indoor theme parks	158,889	85,724
Multimedia animation entertainment	–	268
Total segment liabilities	170,684	94,252
Other payables and accruals	2,569	47,346
Lease liabilities	4,416	–
Secured bank borrowings and other borrowings	165,657	127,805
Dividend payable	21,161	–
Tax payable	97,192	107,620
Deferred tax liabilities	3,111	3,602
Bonds	327,182	257,528
Guaranteed note	134,845	138,957
Obligation arising from a put option to non-controlling interest	7,507	7,507
Put option derivatives	440	440
Long-term payable	941	1,182
Consolidated liabilities	935,705	786,239

Segment assets represent certain property, plant and equipment, certain right-of-use assets, prepaid lease payments, intangible assets, deposits for acquisition of property, plant and equipment, deposits for acquisition of long term investment, 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, contract liabilities, certain lease liabilities, deferred tax liabilities, retirement benefit obligations and provision for reinstatement costs for rented premises, 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. OTHER GAINS AND LOSSES

	Six months ended 30 September 2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Net exchange gain	349	–
Gain from changes in fair value of financial assets mandatorily measured at fair value through profit or loss	114	–
Other gain/(loss)	64	(49)
Gain on disposal of intangible assets (Note)	70,493	–
	71,020	(49)

Note: The Group disposed some of intangible assets – film rights and applications, with carrying amount of HK\$3,307,500 at a consideration of HK\$73,800,000.

7. TAXATION

	Six months ended 30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
The tax charge comprises:		
Hong Kong Profits Tax	39	23
Overprovision in previous year	(10,860)	(13,423)
The PRC Enterprise Income Tax ("EIT")	–	(692)
The Japan Corporate Tax	719	–
	<u>(10,102)</u>	<u>(14,092)</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 2019: 23.2%) on the estimated assessable profit. Pursuant to relevant laws and regulations in Japan, withholding tax is imposed at 20.42% (31 March 2019: 20.42%) and 5% (31 March 2019: 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 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 2013/14 in respect of its offshore income claim is low. Accordingly, the tax provision of approximately HK\$10,860,000 for the year of assessment 2013/14 was reversed during the period ended 30 September 2019 (30 September 2018: HK\$13,423,000 for the year of assessment 2012/13).

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 2019 would be HK\$95,919,000 after considering the overprovision of years of assessment 2008/09 to 2012/13 (31 March 2019: HK\$95,919,000). 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.

8. PROFIT FOR THE PERIOD

Six months ended 30 September	
2019	2018
(Unaudited)	(Unaudited)
HK\$'000	HK\$'000

Profit for the period has been arrived at after charging (crediting):

Staff costs:

Directors' emoluments	1,433	2,235
Other staff costs		
Salaries and other benefits	36,596	49,512
Retirement benefits scheme contributions	6,265	8,039
Defined benefits costs	62	971
Share-based payments expense	1,390	353
	45,746	61,110
Cost of inventories recognised as expenses	61,542	149,221
Depreciation of property, plant and equipment	39,592	26,249
Amortisation of intangible assets (included in cost of sales and services)	20,746	8,737
Amortisation of intangible assets (included in administrative expenses)	130	114
Interest income	(593)	(604)
Lease payments under operating leases in respect of rental premises		
Minimum lease payments	8,200	25,712
Contingent rents (<i>note</i>)	85	559
Loss on disposal of property, plant and equipment	998	2,687

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.

9. DIVIDENDS

During the current interim period, a final dividend of HK\$2.3 cents per share in respect of the year ended 31 March 2019 (31 March 2018: HK\$2.3 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 2018: HK\$21,161,000).

The board of directors does not recommend the payment of an interim dividend for the six months ended 30 September 2019 (six months ended 30 September 2018: Nil).

10. EARNINGS PER SHARE

(a) Basic 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	
	2019	2018
	(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)	24,849	55,388
	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	920,062	920,062

(b) Diluted earnings per share

For the six months ended 30 September 2018 and 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.

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The amount represented listed equity securities 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.

12. 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 2019 (Unaudited) HK\$'000	31 March 2019 (Audited) HK\$'000
0 to 90 days	74,715	80,676
91 to 180 days	138,947	16,479
181 to 365 days	6,141	197,842
Over 365 days	–	862
	<u>219,803</u>	<u>295,859</u>

13. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30 September 2019 (Unaudited) HK\$'000	31 March 2019 (Audited) HK\$'000
Deposits	7,333	8,827
Other receivables and prepayments	169,144	25,165
	<u>176,477</u>	<u>33,992</u>

14. 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 2019 (Unaudited) HK\$'000	31 March 2019 (Audited) HK\$'000
0 to 30 days	10,571	7,004
31 to 60 days	422	–
Over 90 days	–	217
	<u>10,993</u>	<u>7,221</u>

15. BANK AND OTHER BORROWINGS

During the period, the Group has drawn new bank borrowings amounting to HK\$29,078,000 (six months ended 30 September 2018: HK\$13,775,000). The bank and other borrowings carry interest at variable market rates ranging from 1.92% to 4.31% (31 March 2019: 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\$8,898,000 during the six months ended 30 September 2019 (six months ended 30 September 2018: HK\$2,261,000). The proceeds were mainly used to finance the acquisition of property, plant and equipment.

Included in the balance as at 30 September 2019 are secured bank borrowings of HK\$116,436,000 (31 March 2019: HK\$111,521,000) 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 expanded 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 2019 as well as the development of animation business featuring the proprietary animation characters developed by the Group.

INDUSTRY REVIEW

Cultural and Creative Industry in China remained stable growth. The favorable political, economic, social and technological conditions stepped up Cultural and Creative Industry under steady economic growth. Meanwhile, consumption upgrade and innovative technology have also leveraged the cultural consciousness of the people in China.

The National 13th Five-Year Plan pointed out that, by 2020, Cultural Industry will become an economic mainstay. Multiple favorable factors have pushed forward with Cultural Industry development and further stimulated market demand for entertainment industry. Moreover, BAT has gradually participated in Cultural and Entertainment Industry and thus Cultural and Entertainment Industry stands in the middle of a whirlwind followed by diversified content presentation as well as structure in youth trend. IP will be the key element to promote integration of culture and creativity, as well as development of derivative products and urban IP.

Currently, Cultural and Creative Industry is still at an early stage of development and really needs to improve and complete the industry chain and balance regional development, at the same time protect cultural intellectual property right.

BUSINESS REVIEW

Although there are many favorable external factors to support Cultural and Creative development, the macro environment is still experiencing downside pressure and facing various unknown factors. As a leading multimedia cultural and entertainment group in China, the Group continues to move forward in a conservative and cautious approach, strengthening its business structure to be prepared for potential opportunities.

During the period under review, the Group has achieved the following results:

1. Animation-derived Products Business: Cambodia Business Started to Operate to Avoid the Risk Caused by the Trade War

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 period 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.

In order to avoid the impact caused by the trade war, the Group has moved part of the derived products business from the PRC to Cambodia. The manufacturing factory has got relevant production certificates and permits, and gradually contributed revenue to the Group.

2. Indoor Park Business: Increasing Number of Franchise Stores, Effective “Low Investment with High Return” Asset-light Model Strategy

CA SEGA under the Group is the World's No. 1 theme park brand created by CA SEGA Japan team with more than 23 years' experience in R&D and operation of indoor parks. CA SEGA JOYPOLIS (under CA SEGA brand) is sited in Tokyo Japan, and Shanghai, Qingdao and Guangzhou (under construction) in the PRC, respectively. There are currently three directly-operated Wonder Forests located at Shanghai Global Harbour, Bookmall Shenzhen Longgang, Shenzhen Yitian Holiday Plaza, and besides, there are five franchised Wonder Forests located at Shenzhen Uniworld, Jiangmen Aoyuan Plaza, Zhuhai Aoyuan Plaza, Panyu Aoyuan Plaza and Boyuan Children Shop, Inner Mongolia. Moreover, the Group's VR theme park was also opened in Shibuya Japan in October 2018.

During the period under review, the Group continued to implement asset-light model with low investment and high returns to get licensing fee and fixed percentage of monthly sales revenue as royalty fee from the partners. At the same time, the Group would send staff to supervise the operation of the park.

The Group selects quality property developers or partners with park operation criteria to join as franchisers of CA SEGA park business, targeting to establish park brand in Beijing, Shanghai, Guangzhou, Shenzhen and first-tier and second-tier cities in the PRC to ensure the sustainability and profitability of the park.

The Cultural and Creative projects of China Animation have brought huge additional value to the property developers in the PRC, and at the same time, matched the political PRC direction in the government's regional planning. During the period under review, the Group has proactively developed CA SEGA indoor park business, and entered into strategic cooperation agreement with property developers in the PRC such as Guangzhou Junming, to develop cultural and creative projects with CA SEGA park brand and to kick off comprehensive business strategic cooperation.

3. Hosted the first-ever 5G+VR eSports Tournament and Achieved Wireless VR Online eSports Battle among Four Regions

As the leading international VR eSports platform in the PRC, the Group has hosted the second "China Animation Cup – 5G+VR National eSports Tournament" and has attracted various professional teams from the mainland China and overseas, and recorded over 300 thousand visits plus more than one million views on online live streaming channels. The Group has also got the exclusive operation right from China Information Industry Trade Association, Ministry of Industry and IT, to host World-class VR eSports Tournament in the 2019 World Conference on VR Industry which was held in Nanchang on 19-21 October 2019.

The Group connects to various international VR games including the large-space VR game "Mortal Blitz" invented by Korean and Japan team, the first extra large-space VR shooting game "Zero Latency" innovated by the Australian team, large-space AI VR game "Terminator" using real human face scan technology. The Group's VR theme park was also opened in Shibuya Japan in October 2018 and gradually contributed revenue to the Group.

To further promote VR eSports industry development, the Group has jointly set up no less HK\$100 million VR eSports fund with strategic partner in July 2019. And the Group has entered strategic cooperation with Shenzhen Media Group in September 2019 to establish Global Animation Base, which will be the regular eSports arena.

FINANCIAL REVIEW

The following sets forth a summary of the performance of the Group for the six months ended 30 September 2019 with comparative figures for the corresponding period as follows:

	For the six months ended	
	30 September	
	2019	2018
Revenue (HK\$'000)	236,127	425,518
Gross profit (HK\$'000)	51,093	140,380
Gross profit margin (%)	21.6	33.0
Profit attributable to owners of the Company (HK\$'000)	24,849	55,388
Adjusted EBITDA (HK\$'000)	107,752	106,656

Revenue

The revenue decreased by HK\$189.4 million, or 44.5%, from HK\$425.5 million for the six months ended 30 September 2018 to HK\$236.1 million for the six months ended 30 September 2019. The decrease was primarily due to a decrease of HK\$60.8 million from the revenue of the operation of indoor theme parks business and a decrease in sales of animation derivative products of HK\$112.4 million and a decrease of revenue from multimedia animation entertainment of HK\$16.2 million.

Sales of animation derivative products

The revenue from sales of animation derivative products decreased by 56.7%, from HK\$201.5 million for the six months ended 30 September 2018 to HK\$87.2 million for the six months ended 30 September 2019, 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 31.6% from HK\$197.6 million for the six months ended 30 September 2018 to HK\$135.2 million for the six months ended 30 September 2019. The number of visitors based on ticket sales increased by 22.2% from 0.9 million for the six months ended 30 September 2018 to 1.1 million for the six months ended 30 September 2019.

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

	2019 '000	2018 '000
PRC	703	322
Japan	372	600
	<u>1,075</u>	<u>922</u>

The decrease in revenue were primarily due to the close down of the *Osaka JOYPOLIS* in May 2018 and the absence of joining fees were recognised for the six months ended 30 September 2019.

Multimedia animation entertainment

The revenue from multimedia animation entertainment decreased by HK\$16.2 million, or 54.1%, from HK\$29.9 million for the six months ended 30 September 2018 to HK\$13.7 million for the six months ended 30 September 2019. The revenue from multimedia animation entertainment included revenue generated from licencing income, ticket sales for VR games and event activities. The significant decrease was primarily due to the partial disposal of the intangible assets rights of “The Animal Conference of the Environment” (動物環境會議) and “Project Egg” (蛋計劃) during the year ended 31 March 2019.

Cost of sales and services

The cost of sales and services decreased by HK\$100.1 million, or 35.1%, from HK\$285.1 million for the six months ended 30 September 2018 to HK\$185.0 million for the six months ended 30 September 2019. 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 decreased by HK\$89.3 million, or 63.6%, from HK\$140.4 million for the six months ended 30 September 2018 to HK\$51.1 million for the six months ended 30 September 2019. The Group's gross profit margin decreased from 33.0% for the six months ended 30 September 2018 to 21.6% for the six months ended 30 September 2019. The decrease in the gross profit was mainly due to the decrease in the revenue from the sale of derivative products, theme park business and the multimedia animation entertainment business.

Other gains and losses

For the six months ended 30 September 2019, the Group disposed some of the intangible assets – film rights and applications and a gain of HK\$70.5 million was recognised.

Selling and distribution expenses

The selling and distribution expenses increased by HK\$1.3 million, or 6.6%, from HK\$19.6 million for the six months ended 30 September 2018 to HK\$20.9 million for the six months ended 30 September 2019. The Group's selling and distribution expenses as a percentage of revenue increased from 4.6% for the six months ended 30 September 2018 to 8.9% for the six months ended 30 September 2019. The increase was due to the Group hosted the second "China Animation Cup – 5G+VR National eSports Tournament" in Shenzhen.

Research and development expenses

The research and development expenses decreased by HK\$1.7 million from HK\$9.0 million for the six months ended 30 September 2018 to HK\$7.3 million for the six months ended 30 September 2019. The decrease was primarily due to decrease 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 decreased by HK\$30.6 million, or 55.1%, from HK\$55.4 million for the six months ended 30 September 2018 to HK\$24.8 million for the six months ended 30 September 2019. The decrease was primarily due to the decrease in the revenue from the sale of derivative products, theme park business and the multimedia animation entertainment business.

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	
	2019	2018
	HK\$'000	HK\$'000
Profit for the period	22,331	52,822
Interest income	(593)	(604)
Finance costs	32,692	27,823
Taxation	(10,102)	(14,092)
Depreciation	39,592	26,249
Amortisation	20,876	8,851
EBITDA	104,796	101,049
Loss on disposal of property, plant and equipment	998	2,687
Other Japanese tax expenses	682	1,188
Defined benefit plans loss	–	971
Gain from changes in fair value of financial assets		
mandatorily measured at fair value through profit or loss	(114)	–
Share-based payments expense	1,390	761
Adjusted EBITDA	107,752	106,656

BUSINESS PROSPECTS

To better reflect the current business development strategy of the Group, on 9th October 2019, the board of directors proposed to rename the Company's name from "China Animation Characters Company Limited" to "CA Cultural Technology Group Limited" to provide the Group with a more appropriate image and identity for the best interests of the Group and the Shareholders.

With "Theme park + animated-derived products" businesses as basis, the Group cultivates business model with a combination of "VR Technology + Culture and Creative + light asset with the integration of Park and Land Resources" to further boost the power and profitability of the Group.

Establish a Gaming and Social Platform based on VR Cloud Technology

Being the world-class leader of VR eSports, the Group is equipped with strong offline marketing and online marketing capabilities as well as hundred million of offline users basis. Together with the world-class R&D team – CA SEGA Japan under the Group, the Group connects to the World’s cutting-edge VR resources to provide quality game software content.

The Group has also entered into a strategic cooperation agreement with Huawei to jointly develop 5G+VR Cloud technology, hardware and platform operation support. The Group is considering to collaborate with a platform of entrepreneurship and innovation initiated by the Ministry of Education which can reach over 2,000 colleges in the PRC to organize national VR eSports Tournament.

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 self-owned IP as theme and cooperate with partners to launch these games in tourist areas.

Collaborate with Large Property Developers to Accelerate Strategic Layout of Indoor Theme Park in the Guangdong-Hong Kong-Macau Greater Bay Area

The Group will collaborate with property developers via franchise to continue park business development in the key cities in the PRC. Meanwhile, 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.

Explore “Cultural + Land Resources” Cooperation Business Model

Since the Group’s cultural and creative industry matches government’s industry development trend, the Group proactively cooperates with the government to introduce its cultural and creative industry as well as IP to operate in the key first-tier and second-tier cities’ land projects. The Group will jointly invest and construct with different top property developers and strategic partners in the PRC, ultimately share profits by selling the projects.

In the future, the Group will use large amusement equipment as business foundation, VR experience as business guideline, to provide R&D, conceptual planning, construction investment and operation management solutions. Leveraging the Group’s R&D team and the implementation of strategic cooperation, the Group will further enhance its product content and value, thus strengthen the Group’s overall competitiveness in animation entertainment business.

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 2019, approximately HK\$251.0 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 2019	Unutilised as at 30 September 2019
	%	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	59.7	–
For working capital and general corporate purposes	10.0	29.9	29.9	–
Total	100.0	298.6	251.0	47.6

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2019, 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 2019, the cash and bank balances of the Group were HK\$65.4 million (31 March 2019: HK\$50.4 million). The increase was mainly due to fund was raised from bank borrowings and bonds during the six months ended 30 September 2019.

As at 30 September 2019, the Group had a gearing ratio (calculate as secured bank borrowings, lease liabilities, guaranteed note and bonds, divided by total assets) of 40.7% (31 March 2019: 31.7%).

During the six months period ended 30 September 2019, the Company issued bonds in par in an aggregate principal amount of HK\$66.6 million. The bonds are denominated in HK\$ and are unlisted. The bonds are unsecured and carry interest at a nominal rate ranging from 6.0% 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 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.

CAPITAL COMMITMENTS

As at 30 September 2019, capital commitments of the Group amounted to HK\$8.2 million (31 March 2019: HK\$8.2 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 2019, a bank deposit of the Group with a carrying value of approximately HK\$113.7 million (31 March 2019: HK\$111.3 million) was pledged to a bank for banking facilities obtained.

CONTINGENT LIABILITIES

The Group did not have significant contingent liabilities as at 30 September 2019 (31 March 2019: 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 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 to reduce electricity consumption by switching off idle lighting and electrical appliances when they are not in use.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2019, the Group had 370 employees (30 September 2018: 706 employees). For the six months ended 30 September 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\$45.7 million (six months ended 30 September 2018: HK\$61.1 million). The decrease was mainly attributable to the decrease of HK\$14.6 million in employee remuneration and the decrease of HK\$0.8 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 2019.

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 (Chairman), Mr. HUNG Muk Ming, and Mr. NI Zhenliang.

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 2019, 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 2019 has been reviewed by the Audit Committee.

INTERIM DIVIDEND

The board of directors does not recommend the payment of an interim dividend for the six months ended 30 September 2019 (six months ended 30 September 2018: Nil).

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the CG Code throughout the period, 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 2019.

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 2019 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, 27 November 2019

As at the date of this announcement, the executive Directors are Mr. CHONG Heung Chung Jason, Mr. TING Ka Fai Jeffrey and Ms. LIU Moxiang; and the independent non-executive Directors are Mr. NI Zhenliang, Mr. TSANG Wah Kwong and Mr. HUNG Muk Ming.