華夏動漫形象有限公司

# China Animation Characters Company Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code:1566)

# Annual Report 2017

CA SEGA JOYPOLIS

Wonder Forest

华夏世嘉VR

超级IP




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# CORPORATE INFORMATION

## Registered Office
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

## Principal Place of Business in Hong Kong
Suites 2808-2811, Concordia Plaza
1 Science Museum Road
Tsim Sha Tsui East
Kowloon
Hong Kong

## Principal Place of Business in China
China Animation Creative Industry Park
(華夏動漫創意產業園)
Youyi Road, Longcheng Street
Longgang District
Shenzhen
The People's Republic of China ("**PRC**")

## Company's Website
www.animatechina.com

## Executive Directors
Mr. ZHUANG Xiangsong (庄向松)
Mr. TING Ka Fai Jeffrey (丁家輝)
Ms. LIU Moxiang (劉茉香)

## Independent Non-executive Directors
Mr. NI Zhenliang (倪振良)
Mr. TSANG Wah Kwong (曾華光)
Mr. HUNG Muk Ming (洪木明)

## Audit Committee of our Board
Mr. TSANG Wah Kwong (曾華光) *(Chairman)*
Mr. HUNG Muk Ming (洪木明)
Mr. NI Zhenliang (倪振良)

## Remuneration Committee of our Board
Mr. HUNG Muk Ming (洪木明) *(Chairman)*
Mr. TSANG Wah Kwong (曾華光)
Mr. TING Ka Fai Jeffrey (丁家輝)

## Nomination Committee of our Board
Mr. ZHUANG Xiangsong (庄向松) *(Chairman)*
Mr. HUNG Muk Ming (洪木明)
Mr. NI Zhenliang (倪振良)

## Investment Committee of our Board
Mr. ZHUANG Xiangsong (庄向松) *(Chairman)*
Ms. LIU Moxiang (劉茉香)
Mr. TSANG Wah Kwong (曾華光)
Mr. TING Ka Fai Jeffrey (丁家輝)
Mr. WONG Yee Shuen Wilson (黃以信) *FCPA*

## Authorised Representatives
Mr. ZHUANG Xiangsong (庄向松)
Mr. LUK Sik Tat (陸適達) *FCCA, FCPA*

## Company Secretary
Mr. LUK Sik Tat (陸適達) *FCCA, FCPA*

## Hong Kong Share Registrar
**Computershare Hong Kong Investor Services Limited**
Shops 1712–1716
17th Floor Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## Principal Share Registrar and Transfer Office
**Conyers Trust Company (Cayman) Limited**
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

## Auditor
**Deloitte Touche Tohmatsu**
35/F, One Pacific Place
88 Queensway
Hong Kong

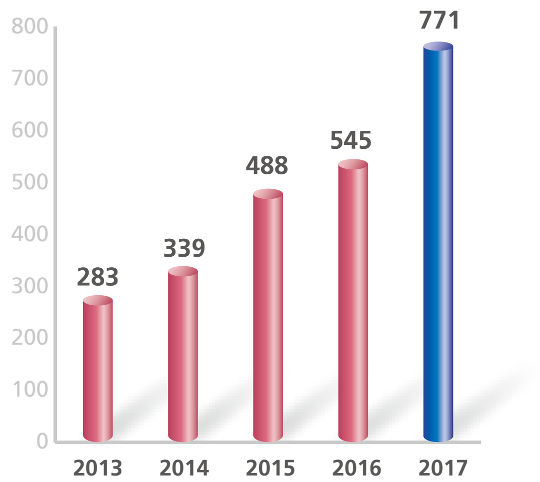
## Principal Bankers
**The Hongkong and Shanghai Banking Corporation Limited**
Tsim Sha Tsui CVC Branch
82–84 Nathan Road
Kowloon, Hong Kong

**Hang Seng Bank Limited**
Chung On Street Branch
38 Chung On Street
Tsuen Wan, New Territories
Hong Kong

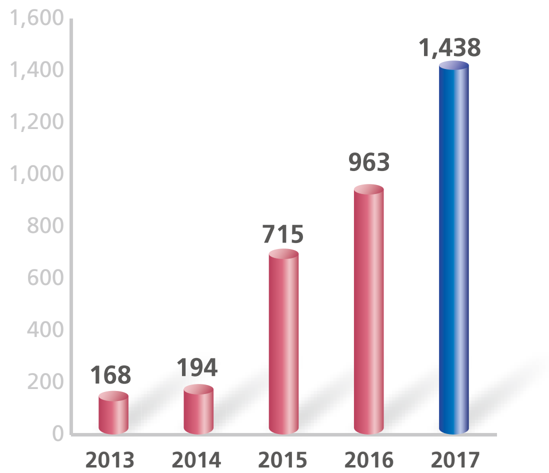
**Bank of China (Hong Kong) Limited**
56 and 58, Sai Kung Town Centre,
22-40 Fuk Man Road, Sai Kung,
New Territories
Hong Kong

# FINANCIAL HIGHLIGHTS

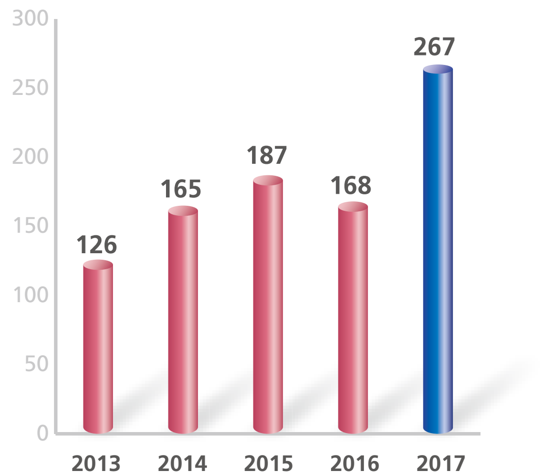
**Revenue** (HK$ million)



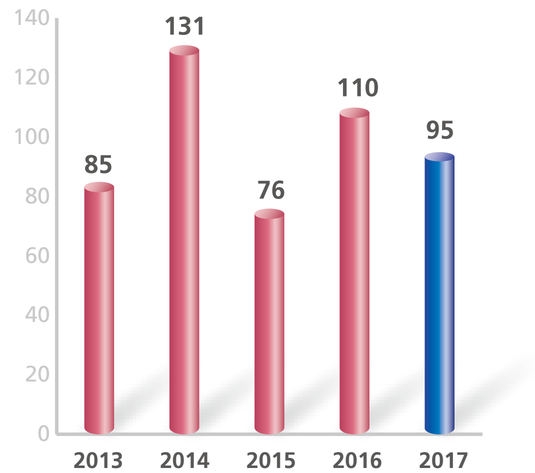

**Total Assets** (HK$ million)




**Gross Profit** (HK$ million)




**Profit** (HK$ million)



# CORPORATE PROFILE

The Group is engaged in multiline businesses in the animation related industry in the PRC, with the primary focus on the trading of animation derivative products (mainly toys) featuring renowned third-party owned animation characters for the Japanese market with the provision of value added services. This business represented the Group's major revenue source during the year ended 31 March 2017. Most of the Group's customers are Japanese companies which source animation derivative products for toy companies in Japan and leading outdoor theme parks in Japan.

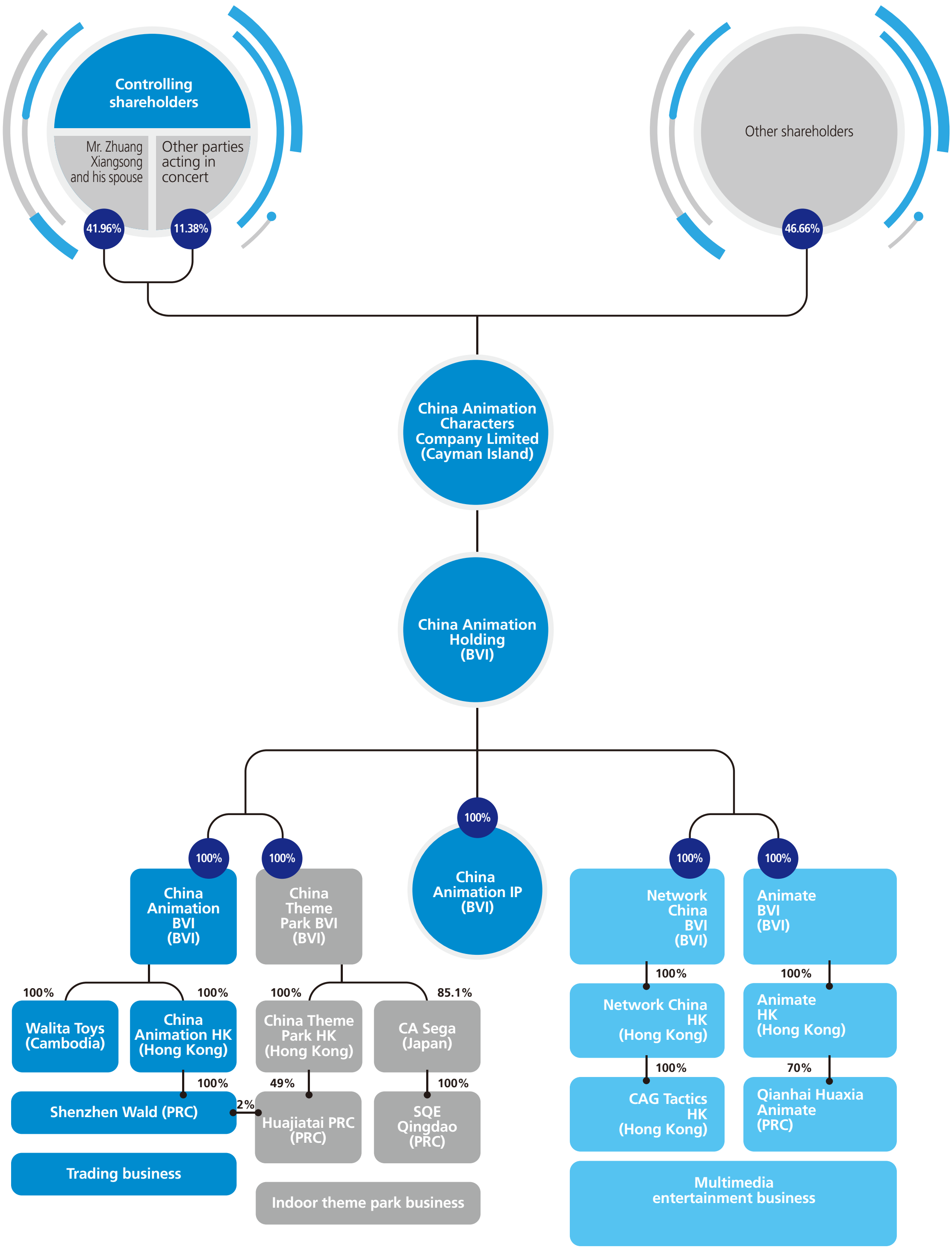
With a view to enhancing and diversifying the Group's core business, the Group is developing the indoor theme park business in the PRC. The Group's first project in this business is the operation of *JOYPOLIS* in Shanghai as the first licensed operator of *JOYPOLIS* in the PRC. During the year, the Group further expanded the indoor theme park business by the acquisition of CA Sega Joypolis Limited. The Group is now able to operate more indoor theme parks in additional cities on a global basis, namely Tokyo and Osaka in Japan, Dubai in the United Arab Emirates and Qingdao in the PRC.

The Group is also equipped with in-house research and development capability in the creation and commercialisation of its proprietary animation characters. The Group's proprietary animation character, "*Violet*" (紫嫣), is the first virtual artist which performed music animation concerts in the PRC by applying three dimensional mixed reality (MR) technologies.

The Group has the intellectual property rights of several animation characters through acquisition or self-development. The Group intends to generate revenue from its proprietary animation characters through licensing and consignment sales.

The Group also develops the multimedia animation entertainment business in the areas of (i) virtual reality technology; (ii) movie investment production; and (iii) online entertainment and mobile applications. These business initiatives form an extension of the Group's core business and an integral part of the strategic progression in the animation industry with the objective of promoting and cross-selling different lines of business and creating synergies among them.

## Shareholding and Corporate Structure as at 31 March 2017



# CHAIRMAN'S STATEMENT

On behalf of the board (the "**Board**") of directors of China Animation Characters Company Limited ("**China Animation**" or the "**Company**"), I am pleased to present the results of the Company and its subsidiaries (the "**Group**") for the year ended 31 March 2017 (the "**Period under Review**").

## Business Review

During the Period under Review, the revenue of the Group amounted to approximately HK$771 million, representing an increase of 41.5% as compared with approximately HK$545 million for the year ended 31 March 2016. Without taking into account of (i) the loss on the Group's investments in certain securities listed on The Stock Exchange of Hong Kong Limited of HK$15.7 million for the year ended 31 March 2017 (2016: a gain of HK$17.8 million); and (ii) the professional fees of HK$15.8 million incurred for the acquisition of CA Sega Joypolis Limited ("**CA Sega**") for the year ended 31 March 2017, profit from core businesses of the Group amounted to HK$126.3 million, representing an increase of 36.4% as compared to HK$92.6 million for the year ended 31 March 2016.

The improved revenue and increase in profit from core businesses were attributable to the grand opening of Shanghai JOYPOLIS, which contributed to the significant increase in the number of visitors, as well as the Group's successful acquisition of four theme parks business of CA Sega in the world and its core brand, core research and development (R&D) team and intellectual properties (IP) on 1 January 2017. As such, the number of visitors recorded a significant year-on-year increase by 919.5% and revenue from ticket sales increased by 561.1% on a year-on-year basis.

## Development Plan

### I. Large-scale CA SEGA Joypolis

China Animation intends to cooperate with We Park (Hengqin) Development Company Limited (東西匯(橫琴)發展有限公司) to develop the Zhuhai Hengqin JOYPOLIS indoor theme park, and has already finished the site inspection. The parties will cooperate to establish the CA SEGA JOYPOLIS theme park in Hengqin, Zhuhai.

On 26 May 2017, China Animation entered into an agreement with Wu Xi Communications Industry Group (無錫市交通產業集團) to jointly develop a commercial building with an area of approximately 88,000 square metres located at the Wuxi Central Station into China Animation Science Industry Park (華夏動漫科創產業園) in Eastern China which will become a high-tech entertainment world.

*Nationwide Layout of Culture and Business Travel*

With the combination of large-scale JOYPOLIS indoor theme park, Wonder Forest, large-scale VR theme park, VR aviation and aerospace training centre and VR battlefield, it will be established as a national benchmark culture and scientific innovation demonstration base as well as a scientific innovation town which is ideal for living, business and travel.

### II. CA SEGA Wonder Forest

China Animation has entered into an agreement with Yitian Group in relation to the comprehensive cooperation on the introduction of the first CA SEGA Wonder Forest to the Shenzhen Yitian Holiday Plaza in Southern China in the second half of 2017, marking the presence of CA SEGA Wonder Forest in the first-tier cities in the PRC. In collaboration with the CA SEGA amusement park and VR theme park, the number of CA SEGA Wonder Forest and CA SEGA amusement parks is targeted to exceed 200 within three years.

### III. China Animation VR and CA SEGA Small-sized Amusement Parks

We are setting up small-sized CA SEGA indoor amusement parks and VR theme parks in the first-tier cities across the country. Combining with the CA SEGA Wonder Forest, it is expected that the number of CA SEGA amusement parks and CA SEGA Wonder Forest will exceed 200 within three years.

China Animation connected the entire VR industrial chain through the cooperation with C3 International Group, an U.S. VR game developer by conducting online-to-offline interaction such as VR live broadcast, VR game competition and online celebrity economy on the VR theme park platform.

Mortal Blitz VR, ranked first in terms of downloading rate in North America and Japan from April to May 2017, will commence its operation in Shanghai and Qingdao in July this year. China Animation is the only commercially operated Walking War Game VR Park of Mortal Blitz VR in the Greater China Region.

### IV. Super IP – "Violet"/Multimedia Animation Entertainment

The large-scale animation television series production "The Reflection" invested by China Animation and nine Japanese organizations including Studio Deen from Japan will premiere at NHK channel from 22 July 2017. With original screenplay and original animation created by Stan Lee, the Father of American Animation, this animation television series will definitely bring a fervor. "The Reflection" is owned as to 22% by China Animation, the second largest shareholder of its production committee being entitled to the rights of commercialized development and sales of plastic toys and garage kits models of the authorized contents of works, as well as the rights of research and development and issue of game machines (including VR) in regions including the PRC, Hong Kong, Macau and Taiwan.

The combination of IP and VR technologies such as Violet and Han Ba Gui are developing and delivering dozens of VR games.

The combination and interaction of Violet with indoor and outdoor theme parks:

– Violet will be acted as a guide and an image ambassador of the SEGA JOYPOLIS indoor theme parks across the nation and has successively performed at Sega JOYPOLIS digital VR stages worldwide.

– Violet is intended to grant license to a famous outdoor theme park to act as its image ambassador.

Through the acquisition and merger and resources integration with CA SEGA, the Group has access to the world's first-class brand, SEGA JOYPOLIS, and international and core R&D management talents. The management of CA SEGA has nearly 20 years international experience in the relevant business and are good at seizing market opportunities as well as cooperation and merger and acquisition opportunities. The combination of international resources and talents, business sectors and strong execution capability formed the Group's core competitiveness while the combination of the high potential market in the PRC with CA SEGA and JOYPOLIS brands provided huge rooms for the Group's continuous growth.

## Appreciation

On behalf of the Board, I would like to express my gratitude to the shareholders of the Company and stakeholders for their continuous trust and support. I also wish to thank our dedicated staff and management for their contributions which have led to such favourable results. In the year ahead, we will speed up the development of all major operations in order to develop three growth segments with the international brand CA SEGA Joypolis, and to further become the world's largest conglomerate which operates indoor theme parks and delivers entertainment experience.

**Zhuang Xiangsong**
*Chairman*
Hong Kong, 30 June 2017

# MANAGEMENT DISCUSSION AND ANALYSIS

The Group is engaged in multi-line businesses in the animation-related industry, with the primary focus on the trading of animation-derived products (mainly toys) featuring renowned third-party owned animation characters for the Japanese market with the provision of value-added services to its customers. The business objective of the Group is to build a multimedia animation business in the PRC and in this connection, it has been actively expanding its business during the year ended 31 March 2017, including indoor theme parks business through the acquisition of CA Sega Joypolis Limited ("**CA Sega**"), the licencing of animation characters and the development of multimedia animation entertainment businesses featuring the proprietary animation characters of the Group.

## Business Review

### Trading of animation-derived products

The core business of the Group is trading of toys featuring a wide range of popular third-party owned animation characters with the provision of value-added services to its customers. The Group's product range includes general plastic toys, food-grade toys (toys that are intended to have direct contact with food and toys that are packaged with candy) and product moulds procured from suppliers. The product moulds are designed and manufactured by suppliers for the production of animation-derived plastic toy products.

Most of the Group's customers are Japanese companies sourcing animation-derived products for toys companies in Japan, leading outdoor theme parks in Japan and Japanese companies distributing their products in Japan and other countries through these customers. Through the provision of quality toy products and services, the Group has been able to maintain solid business relationship with customers.

The value-added services offered by the Group include quality control and product design to certain customers if required by them. These services can differentiate the Group from other toy traders which do not provide additional services to customers.

### Indoor theme parks

The Group is the first licenced operator of *JOYPOLIS* in the PRC. Phase I of the *Shanghai JOYPOLIS* with a gross floor area of about 1,000 sq.m. was opened on 1 January 2015 and the grand opening of the *Shanghai JOYPOLIS* with gross floor area of 8,239 sq.m. was opened on 6 February 2016. The *Shanghai JOYPOLIS* was further expanded to 8,499.64 sq.m. on 30 July 2016. *Shanghai JOYPOLIS* is strategically located in a shopping complex in downtown Shanghai connected with convenient transportation network.

*Shanghai JOYPOLIS* targets the young population in the PRC and provides thrilling animation amusement rides and an exciting interactive experience by creating a fantasy world presenting an intense digital animation experience enabled by video production through cutting-edge technology.

With the successful track record of the operation of *Shanghai JOYPOLIS* after the grand opening, the Group further expanded the theme parks business by entering into a share purchase agreement with Sega Sammy Holdings Inc. ("**SEGA SAMMY**") to acquire 85.1% equity interest in CA Sega (formerly known as Sega Live Creation Inc. ("**SLC**")) which was completed on 1 January 2017 ("**Completion Date**"). The principal activity of CA Sega is the planning, development and operation of entertainment facilities. Following completion, the Group is able to broaden its participation in operating indoor amusement parks in additional cities on a global basis, namely Tokyo and Osaka in Japan, Dubai in the United Arab Emirates and Qingdao in the PRC. For further details, please refer to the announcement of the Company dated 1 November 2016.

The Group further entered into the shareholders agreement with SEGA SAMMY, each of SEGA SAMMY and the Group shall not transfer, dispose of, create any encumbrances over, or otherwise give any other person any rights in relation to any CA Sega share held by each of them within a period of three years from the Completion Date. In addition, the Group has been granted a right of first refusal on all CA Sega shares proposed to be sold by SEGA SAMMY to any third party other than its affiliates from the third anniversary of the Completion Date to the day immediately before the ninth anniversary of the Completion Date. The Group would have 14 days to exercise its right of first refusal.

## Business Review (Continued)

### Indoor theme parks (Continued)

The aforesaid restrictions on transfer are designed to maintain the involvement of SEGA SAMMY in CA Sega during the three years' restricted period. Given that SEGA SAMMY is a renowned amusement machine manufacturer and video game developer, as well as the founder of *JOYPOLIS*, the Directors believe that the partnership with SEGA SAMMY will also strengthen the position of the Group as a leader of amusement parks operation business and ensure the due operation of *JOYPOLIS* during the initial period. The Directors believe that the three-year transfer restrictions imposed on SEGA SAMMY is likely to have a positive impact to the operation of CA Sega as well as business performance of the Group.

### Licencing of animation characters

The Group has strong research and development capabilities in the creation and development of animation characters. Through acquisitions or self-development, it owns the intellectual property rights of several popular proprietary animations such as "*HanBaGui*" (憨八龜), "*Violet*" (紫嫣), "*Animal Conference on the Environment*" (動物環境會議) and "*The Amazing UU*" (神奇的優悠). The most popular amongst these is "*Violet*" (紫嫣), the first virtual artist which performed bi-dialectal music animation concert in the PRC by applying three dimensional ("**3D**") mixed reality ("**MR**") technologies.

### Multimedia animation entertainment

The Group uses virtual reality ("**VR**") technology to create an animation game environment, thereby generating potential opportunities and strong development momentum. As at 31 March 2017, there were approximately 1,200 game centres with VR equipment in the PRC which required our Group to provide game content for them. The Group also plans to cooperate with third parties to run the VR gaming experience centre. As part of its efforts, the Group has opened VR gaming experience centre in Shanghai, Changzhou and Shenzhen Central Book City (深圳中心書城), which provides VR games and wearable devices themed with its proprietary animation characters. These centres are adjacent to *Shanghai JOYPOLIS*, Changzhou Southern Yangtze Global Harbour and located in Futian, Shenzhen respectively. The visitors can wear VR glasses to experience a 360-degree VR experience to access the virtual 3D environment and enjoy a multi-sensory interaction. In addition, users can purchase VR wearable devices, upload and download the game applications through the Group's exclusive websites, enabling them to enjoy a new VR interactive experience at any time.

In August 2016, the Group further expanded the VR gaming experience centre business in Shanghai by opening another VR gaming experience centre, namely "*V-PARK*" (獵戶座).

The Group had launched eleven animation games featuring "*Violet*" (紫嫣) and "*HanBaGui*" (憨八龜) during the year end 31 March 2017, including eight VR games, two mobile games and one online game via Internet.

In July 2016, the Group entered into an agreement to cooperate with InnoSharp (HK) Limited ("**InnoSharp**"), which has operated game consoles and amusement parks for more than twenty years, to open about 100 offline game spots in Hong Kong and Macau, with installation of over 200 VR entertainment equipment. The Group will provide all these offline game spots with the equipment and self-developed game content. The Group has introduced some of these VR game equipment in our booth at Animation-Comic-Game Hong Kong ("**ACGHK**").

Under this strategic cooperation, the Group will provide game content and equipment programme update and maintenance guidance to the offline sites, while InnoSharp will be responsible for equipment investment, venue provision and daily operation. The Group is entitled to receive royalties each time when a player plays the game.

### Commercialisation of the proprietary animation characters

While the existing animation business and animation character toys business remains the Group's core businesses, the Group is accelerating the development of animation characters and plans to expand the commercialisation of the animation characters into the mobile game segment through different media.

The Group participated Shenzhen Cartoon Animation Festival, China Digital Entertainment Expo & Conference and ACGHK in July 2016 for the promotion of "*Violet*" (紫嫣) and VR animation games and the animation characters of the Group.

## Financial Review

The following sets forth a summary of the performance of the Group during the year ended 31 March 2017 with comparative figures as follows:

| | Year ended 31 March | |
|---|---|---|
| | **2017** | 2016 |
| Revenue (HK$'000) | **770,651** | 544,880 |
| Gross profit (HK$'000) | **267,080** | 168,116 |
| Gross profit margin (%) | **34.7** | 30.8 |
| Profit attributable to the owners of the Company (HK$'000) | **94,840** | 110,372 |

### Revenue

The revenue increased by HK$225.8 million, or 41.4%, from HK$544.9 million for the year ended 31 March 2016 to HK$770.7 million for the year ended 31 March 2017. The increase was primarily due to an increase of HK$36.9 million from revenue of the trading of animation derivative products, an increase of HK$187.4 million from revenue of the establishment and operation of indoor theme parks.

### Trading of animation derivative products

The revenue from trading of animation derivative products increased by 7.3% from HK$508.6 million for the year ended 31 March 2016 to HK$545.5 million for the year ended 31 March 2017 primarily due to an increase in the sales of new product mix with higher profit margin.

As at 31 March 2017, approximately HK$217 million (31 March 2016: approximately HK$65 million) of trade receivables exceeded the credit period granted by the Group. These amounts are from customers with good track record and have long business relationship with the Group. In consideration of the customers have provided repayment schedules and the settlements are fulfilling with the schedules after the reporting period, the Group believes that no impairment is required.

### Licencing of animation characters

Due to the restructuring of the Group's business model of the licencing business by licencing the animation characters to a number of licencees, no revenue was generated for each of the year ended 31 March 2016 and 2017. The animation characters of the Group's were used by inter-company for the development of multimedia animation entertainment business.

### Establishment and operation of indoor theme parks

With the effect of the full operation of *Shanghai JOYPOLIS* and the acquisition of CA Sega, the revenue from establishment and operation of indoor theme parks significantly increased by 561.1% from HK$33.4 million for the year ended 31 March 2016 to HK$220.8 million for the year ended 31 March 2017. The number of visitors based on ticket sales increased by significantly 919.5% from 214,660 for the year ended 31 March 2016 to 2,188,532 for the year ended 31 March 2017.

## Financial Review (Continued)

### Establishment and operation of indoor theme parks (Continued)

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

| | Year ended 31 March 2017 | 2016 |
|---|---|---|
| PRC | **1,495,636** | 214,660 |
| Japan# | **692,896** | N/A |

# Only include the visitors from 1 January 2017 (Completion Date) to 31 March 2017.

### Multimedia animation entertainment

The revenue from multimedia animation entertainment increased by HK$1.5 million, or 51.7%, from HK$2.9 million for the year ended 31 March 2016 to HK$4.4 million for the year ended 31 March 2017. The revenue from multimedia animation entertainment included trading of VR gaming machines, ticket sales for VR Game Centre and event activities.

### Cost of sales and services

The cost of sales and services increased by HK$126.8 million, or 33.7%, from HK$376.8 million for the year ended 31 March 2016 to HK$503.6 million for the year ended 31 March 2017. The increase was primarily due to (i) the increase in the purchase of animation derivative products from the Group's suppliers corresponding to the increase in new product mix; and (ii) the operating costs relating to full operation of *Shanghai JOYPOLIS* after the grand opening in February 2016 and the acquisition of CA Sega during the year 2017.

### Gross profit and gross profit margin

The Group's gross profit increased by HK$99.0 million, or 58.9%, from HK$168.1 million for the year ended 31 March 2016 to HK$267.1 million for the year ended 31 March 2017. The Group's gross profit margin increased from 30.8% for the year ended 31 March 2016 to 34.7% for the year ended 31 March 2017. The increase in the gross profit was mainly due to the full operation of *Shanghai JOYPOLIS* and the acquisition of CA Sega during the year ended 31 March 2017.

### Other income

Other income decreased by HK$0.7 million from HK$3 million for the year ended 31 March 2016 to HK$2.3 million for the year ended 31 March 2017. The decrease was primarily due to the decrease in interest income from pledged bank deposit and held-to-maturity investment.

### Selling and distribution expenses

The selling and distribution expenses increased by HK$2.9 million, or 14.7%, from HK$19.7 million for the year ended 31 March 2016 to HK$22.6 million for the year ended 31 March 2017. The Group's selling and distribution expenses as a percentage of revenue decreased from 3.6% for the year ended 31 March 2016 to 2.9% for the year ended 31 March 2017. The increase in selling and distribution expenses was primarily due to the acquisition of CA Sega.

## Financial Review (Continued)

### Profit attributable to the owners of the Company

Profit attributable to the owners of the Company decreased by HK$15.6 million, or 14.1%, from HK$110.4 million for the year ended 31 March 2016 to HK$94.8 million for the year ended 31 March 2017. The decrease was primarily due to:

(a) There was a loss on the Group's investments in certain securities listed on The Stock Exchange of Hong Kong Limited of HK$15.7 million for the year ended 31 March 2017 (2016: a gain of HK$17.8 million). The investments are held for long term and mainly for strategic cooperation purpose in which one of them had already started indoor theme parks business with the Group during the year. The Directors believe that the strategic investment can generate future benefit to the Group.

(b) The transaction cost of HK$15.8 million incurred for the acquisition of CA Sega which has been included in "other expenses" for the year ended 31 March 2017.

## Business Prospects

Looking ahead, in addition to the core business of trading toys, the Group will continue to expand its theme parks business and the multimedia animation entertainment business. The multimedia animation entertainment business includes online animation games, movies and television and online entertainment programmes, online platform and other entertainment and mobile applications focusing on a series of animation characters. New technology, such as the VR technology, will be used for the purpose of promoting different business segments with synergistic benefits.

### Movie and television programmes

As "*Violet*" (紫嫣) has a lot of fans, and becomes more famous both in the PRC and Hong Kong, the movie of *Galaxy Girl* (銀河少女) starring "*Violet*" (紫嫣) is under production and is expected to be completed in 2018, "*Violet*" (紫嫣), the Group's virtual artist, will be the movie's leading actress. In addition, a total of 20 episodes of the *Galaxy Girl* (銀河少女) animation television programmes are in the planning stage. The television programmes are expected to be completed in 2018 and will be broadcasted in the PRC and Japan.

The Group also invested and co-produced the animation movie of *Project Egg* (蛋計劃) which has been launched and released in the PRC in the first quarter of 2017. The Group is expected to enjoy benefits from the booming development of the film and the animation industries in the PRC.

### Online entertainment and mobile applications

For the online business, the Group has launched eleven animation games using the VR technology. The Group is planning to further expand its online business with dedicated websites for animation game development. This may involve cooperation or acquisition of Internet businesses in the target markets of the Group through different means and strategically alliances.

### Indoor theme parks

After the completion of acquisition of CA Sega together with the full operation of *Shanghai JOYPOLIS*, indoor theme parks business is now the most flourishing business in the Group. As SEGA SAMMY will remain as a shareholder holding 14.9% of the equity interest in CA Sega, the Group believes that the partnership with SEGA SAMMY will also strengthen the position of the Group as a leader of amusement parks operation business.

Looking ahead, the Group will continue to develop amusement parks in major cities of the PRC by working with partners through licencing and cooperation with property developers. To achieve this objective, the Group will set up of "*JOYPOLIS*" project fund with interested partners.

## Business Prospects (Continued)

### Commercialisation of animation characters

While the existing animation business and animation character toys business remain as its core businesses, the Group is accelerating the development of animation characters and plans to expand the commercialisation of the animation characters into the mobile game segment through different media.

The Group will continue to promote "*Violet*" (紫嫣) and its virtual reality animation games and other cartoon characters. For example, the Group will produce more films and animation. The Group will promote the products derived from "*Violet*" (紫嫣) outside the PRC through different media and music as well as VR and MR technologies.

The Group also continues to explore business opportunities relating to Internet business which may facilitate the development and commercialisation of its animation business and animation characters business. Moreover, the Group continues supporting and cooperating with the PRC government to develop the cultural industry. The Group's efforts in this direction continue to enhance the popularity of "*Violet*" (紫嫣) and other proprietary animation characters to further penetrate the market. Leveraging its research and development team as well as implementing strategic cooperation, its product content and value will be enhanced and in turn bolster the Group's overall competitiveness in the animation entertainment business across different media. The Group's business plans have been carefully evaluated and are expected to continue to promote its businesses. The Directors are therefore very positive on the business prospects of the Group.

## Capital Structure, Liquidity And Financial Resources

As at 31 March 2017, 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.

On 24 August 2016, Bright Rise Enterprises Limited ("**Bright Rise**"), the Company and China Galaxy International Securities (Hong Kong) Co., Ltd ("**Sole Placing Agent**") entered into a placing agreement. On 1 September 2016, the sole placing agent successfully placed 15,000,000 shares to not less than six placees who and whose ultimate beneficial owners are independent of the Company and its connected persons at the price of HK$3.60 per share. On 1 September 2016, the Company completed the top-up subscription and issued 15,000,000 ordinary shares to Bright Rise and raised net proceeds of approximately HK$51.9 million. For further details, please refer to the announcements of the Company dated 24 August 2016, 30 August 2016 and 1 September 2016.

On 16 December 2016, the Company and Wisdom Treasure Holdings Inc. entered into a subscription agreement. On 23 December 2016, 30,770,000 subscription shares of HK$0.1 each of the Company were subscribed by Wisdom Treasure Holdings Inc. at the price of HK$3.25 per share for a cash consideration of HK$100 million. Wisdom Treasure Holdings Inc. is independent third party. For further details, please refer to the announcements of the Company dated 18 December 2016 and 23 December 2016.

On 6 January 2017, the Company entered into subscription agreements with each of Mr. Zhu Cong Shuang (朱從雙), Mr. Zhang Hong Wu (張洪武) and Ms. Zhao Tong Tong (趙彤彤). On 24 January 2017, 1,538,000, 1,538,000 and 13,000,000 subscription shares of HK$0.1 each of the Company were subscribed by Mr. Zhu Cong Shuang (朱從雙), Mr. Zhang Hong Wu (張洪武) and Ms. Zhao Tong Tong (趙彤彤) respectively at the price of HK$3.25 per share for an aggregate cash consideration of HK$52.25 million. Mr. Zhu Cong Shuang (朱從雙), Mr. Zhang Hong Wu (張洪武) and Ms. Zhao Tong Tong (趙彤彤) are independent third parties. For further details, please refer to the announcements of the Company dated 7 January 2017 and 24 January 2017.

As at 31 March 2017, the cash and bank balances of the Group were HK$58.2 million (31 March 2016: HK$81.6 million). Essentially the Group's working capital requirement is financed by its internal resources. The Directors believe that funds generated from operations and the available banking facilities will enable the Group to meet its future working capital requirements.

## Capital Structure, Liquidity And Financial Resources (Continued)

As at 31 March 2017, the Group had a gearing ratio (calculate as total loans divided by total assets) of 9.6% (31 March 2016: 13.9%). The total loans of the Group included interest-bearing bank borrowings, amount due to a director and amount due to non-controlling interests. The decrease in gearing ratio in 2017 was mainly attributable to the fund raised through issuance of new shares during the year as mentioned above.

On 29 May 2017, the Company entered into a placing agreement for placing of bonds in an aggregate principal amount of up to HK$100,000,000. The bonds denominated in Hong Kong dollars and bear a fixed annual interest rate of 6% with a maturity period of 3 years, and the interest will be paid on the first date after the bonds issuance date. Further details of the bonds placing are set out in the announcement of the Company dated 29 May 2017.

As indicated in the above figures, the Group has maintained stable financial resources to execute its future commitments and future expansion plan.

## Treasury Policies

The Group has adopted a prudent treasury policy and thus maintained a healthy liquidity position throughout the year ended 31 March 2017. The Group strives to reduce credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage the liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

## Final Dividend

The Board recommends the payment of a final cash dividend of HK2 cents per share to the shareholders of the Company whose names appear on the register of members of the Company at the closure day of the register of members, subject to the approval of the shareholders of the Company at the forthcoming annual general meeting. Further information on the closure date for the final cash dividend will be set forth in the notice of the annual general meeting.

## Capital Commitments

As at 31 March 2017, capital commitments of the Group amounted to HK$61.2 million (31 March 2016: HK$42.1 million).

## Significant Investments Held

In August 2015, the Group entered into a strategic partnership agreement with an independent third party to develop a long-term strategic alliance and partnership to collaborate across VR technology projects. The Group paid RMB4.5 million (equivalent to HK$5.4 million) as deposit for acquisition of options, on a priority basis, to investor co-invest in VR technology projects.

In September 2016, the Group acquired the worldwide exclusive distribution right of VR game machine and application from an independent third party at a consideration of HK$30 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 and development of VR game contents.

The Directors believe that VR technology projects will be another significant contributor to the Group's business development in the future.

## Mortgages And Pledges

As at 31 March 2017, a bank deposit of the Group with a carrying value of approximately HK$95.3 million (31 March 2016: HK$95.3 million) was pledged to a bank for banking facilities obtained.

## Contingent Liabilities

The Group did not have significant contingent liabilities as at 31 March 2017 (31 March 2016: 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. 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 reduce electricity consumption by switching off idle lighting and electrical appliances when they are not in use.

## Employees And Remuneration Policies

As at 31 March 2017, the Group had 503 employees (31 March 2016: 240 employees). For the year ended 31 March 2017, employees' remuneration and benefits in kind and contribution to the pension scheme (including the Directors' remuneration and benefits in kind and contribution to the pension scheme) amounted to HK$58.0 million (31 March 2016: HK$23.9 million). The increase was mainly attributable to the increase of HK$24.7 million in employees' remuneration and the increment of HK$1.4 million in the Directors' remuneration. The Group's remuneration package is determined with reference to the experience and qualification of the individual employees and the general market conditions. The Group also ensures that all employees are provided with adequate training and continued professional opportunities according to their needs. A share option scheme has been established to provide incentives and remuneration to eligible Directors and employees of the Group in recognition of their contributions. On 29 February 2016, 21,455,400 options were granted to the eligible Directors, employees and two consulting firms pursuant to the share option scheme adopted by the Company on 16 February 2015.

## Purchase, Sale Or Redemption Of Shares

Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year ended 31 March 2017.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## Executive Directors

**Mr. ZHUANG Xiangsong (庄向松)**, aged 47, is our founder, our executive Director and our Chief Executive Officer. Mr. ZHUANG was appointed as an executive Director on 20 November 2014. Mr. ZHUANG is also the Chairman of our Board. Mr. ZHUANG is primarily responsible for conducting the business of our Group and formulation of business and strategic development of our Group. Mr. ZHUANG has approximately 20 years of experience in the toy industry. Prior to establishing our Group, Mr. ZHUANG, together with a business partner, started the toy sales business in July 1996 through the acquisition of all issued share capital of Sino Action as a shelf company. During the period between July 1996 and March 2008, Mr. ZHUANG was a shareholder of Sino Action holding 50.0% of its shares in issue. Mr. ZHUANG sold all his equity interest in Sino Action in March 2008 in order to focus on the business development of China Animation BVI.

In May 2009, Mr. ZHUANG completed a part-time course of "Advanced Training Programme for Executives on Private Equity Investment Fund and Financing by way of Listing on Growth Enterprise Market" (私募股權投資基金和創業板上市融資總裁研修班) organised by Tsinghua University (清華大學). In March 2012, Mr. ZHUANG completed a part – time course of "Telaote Strategic Positioning" (特勞特戰略定位總裁班) organised by Peking University (北京大學). Mr. ZHUANG is currently attending a part-time course of the Executive Master of Business Administration organised by Peking University (北京大學).

Mr. ZHUANG was elected to serve as a representative of the People's Congress of Shenzhen City Committee (深圳市人民代表大會代表) from June 2015 to May 2020. Mr. ZHUANG has been the Vice President and Deputy Chairman of Shenzhen City Longgang District General Chamber of Commerce (Association of Industry and Commerce) (深圳市龍崗區總商會（工商聯）), the President and the Chairman of Shenzhen City Longgang District Longcheng Chamber of Commerce (Association of Industry and Commerce) (深圳市龍崗區龍城街道商會（工商聯）), the Vice President of Shenzhen City Longgang District Henggang Chamber of Commerce) (深圳市龍崗區橫崗商會), and the Enforcement Supervisor in the fourth term of the Municipal People's Procuratorate of Shenzhen City (深圳市人民檢院第四屆執法監督員). Mr. ZHUANG was appointed as the supervisor of the Buji Customs of Shenzhen (深圳布吉海關監督員) for the period between 1 September 2012 to 1 August 2014.

**Mr. TING Ka Fai Jeffrey (丁家輝)**, aged 52, was appointed as an executive Director on 20 November 2014. Mr. TING is our Chief Operating Officer. Mr. TING joined our Group in January 2014, before which Mr. TING worked for Wah Shing during the period between 2008 and 2013 primarily on overseeing the production of the toy products by Wah Shing for Sino Action/China Animation BVI. Mr. TING is principally responsible for overseeing our daily business operations including the sales and the production activities and the implementation of our business plans. Mr. TING has approximately six years of experience in the merchandising industry. Before joining our Group and Wah Shing, Mr. TING was the deputy general manager with Tohki Enterprise Co., a furniture manufacturer, from 1 September 1992 to 31 July 1998. Mr. TING obtained the degree of bachelor of arts from the University of Western Australia in March 1991.

**Ms. LIU Moxiang (劉茉香)**, aged 41, was appointed as an executive Director on 20 November 2014. Ms. LIU joined Shenzhen Wald in June 2012. Ms. LIU is principally responsible for implementing our business plans and strategies. Prior to joining our Group, Ms. LIU worked in sales team of エイメツクストレイディング (Aimex Trading Co., Ltd.*) from April 2004 to July 2005. From October 2005 to June 2007, Ms. LIU worked for Walita Toys and Gifts Co., Ltd., Shenzhen as an assistant to the senior executives. Ms. LIU was the executive manager of Shenzhen Huaxia between June 2007 and June 2012. Ms. LIU graduated from 九江學院 (Jiujiang University*) (formerly known as 九江財經高等專科學校 (Jiujiang College of Finance and Economics*)) in July 1999 on international business. From October 1999 to March 2001, Ms. LIU attended Kobe YMCA Japanese Language School in Japan. Ms. LIU studied business administration in Kobe Gakuin University, Graduate School of Economics, in Japan from April 2002 to March 2004 and received a master degree of arts in business administration.

## Independent Non-Executive Directors

**Mr. NI Zhenliang (倪振良)**, aged 70, was appointed as an independent non-executive Director on 20 November 2014. Mr. NI is currently the Chairman of the Hong Kong-Greater China Expert Calligraphy Association (香港大中華名家書畫會) and the Shenzhen Municipal Marketing Institute (深圳市市場學會) in the PRC. Mr. NI is also a member of the Federation of Hong Kong Writers (香港作家聯會) in Hong Kong.

In April 1974, Mr. NI worked at the PRC State Education Commission (中華人民共和國國務院科教組), an agency of the PRC State Council, as the supervisor and editor of 《人民教育》, a publication of the State Education Commission, until 1993. The PRC State Education Commission was renamed as the PRC Ministry of Education in 1998.

From January 1994 to December 2003, Mr. NI held various senior positions in newspapers in Hong Kong and PRC, namely Deputy Editor-in-chief of the publication of "General Affairs in the Society of Democracy and Legal System" (《民主與法制》) in the PRC, President of the Elderly Chinese Newspaper Society (《中華老年報社》) in the PRC, Deputy Editor-in-chief of Ta Kung Pao (大公報) in Hong Kong and Editor-in-chief of the online version of Wen Wei Po (文匯報) in Hong Kong.

Mr. NI has also participated in a number of literary societies in the PRC. Mr. NI has been a council member of the Chinese Writers Association (中國作家協會) since 1988, the Chinese Jurists Society (中國法學會) since 1996, the Chinese Reportage Society (中國報告文學學會) since 1993, the Society of Chinese Literary Biography (中國傳記文學學會) since 1994, and the Association of Chinese Senior Professors (中國老教授協會) since 1994. In September 1993, Mr. NI was appointed as a professor by the Association of Chinese Senior Professors.

**Mr. TSANG Wah Kwong (曾華光)**, aged 65, was appointed as an independent non-executive Director of the Company on 20 November 2014. He is also the chairman of the Audit Committee and a member of both the Remuneration Committee and Investment Committee of the Company. Mr. TSANG is a former partner of PricewaterhouseCoopers in Hong Kong and China and has over 32 years of experience in auditing and providing support for initial public offerings and acquisition transactions. Mr. TSANG received a bachelor's degree in business administration from the Chinese University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, a member of the Chinese Institute of Certified Public Accountants and a fellow member of the Chartered Association of Certified Accountants.

Currently, Mr. TSANG is an independent non-executive director of the following companies listed on the Stock Exchange: China Merchants China Direct Investments Limited (stock code: 133), Sihuan Pharmaceutical Holdings Group Ltd. (stock code: 460), TK Group (Holdings) Limited (stock code: 2283) and Ping An Securities Group (Holdings) Limited (stock code: 231). Mr. TSANG is currently also a director of PGG Wrightson Limited (listed on the New Zealand Stock Exchange; stock code: PGW) and an independent director of Agria Corporation (formerly listed on the New York Stock Exchange). Mr. TSANG was an non-executive director of PanAsialum Holdings Company Limited (stock code: 2078) from January 2013 to January 2016.

**Mr. HUNG Muk Ming** (洪木明), aged 52, was appointed as an independent non-executive Director on 20 November 2014.

Mr. HUNG has over 26 years of experience in auditing, finance and accounting. Since February 2017, Mr. HUNG has been the director of Hua Guan New Materials Company Limited (華冠新型材料股份有限公司), a subsidiary of Guangdong Mingcrown Group Limited (廣東名冠集團有限公司). Before that he was the group financial controller of Guangdong Mingcrown Group Limited (廣東名冠集團有限公司), a company engaging in construction, property development, hotels, steel production and ports businesses in Dongguan and Xinhui, the PRC. From October 2002 to January 2005, Mr. HUNG was the group financial controller of Hoi Meng Group (開明集團), a company engaging in garment design, manufacturing and export with production facilities in the PRC, Macau and Cambodia. From July 2001 to September 2002, Mr. HUNG worked as a finance manager of Hong Kong Exchanges and Clearing Limited (Stock code: 388), a company listed on the Stock Exchange. From November 1994 to July 2001, Mr. HUNG was the accounting manager of financial control department of Embry (H.K.) Limited. From August 1990 to November 1994, Mr. HUNG was promoted from accountant to senior accountant I of Price Waterhouse (now known as PricewaterhouseCoopers). Mr. HUNG is currently an independent non-executive director and chairman of the audit committee of Cinda International Holdings Ltd. (Stock code: 111), a company listed on the Stock Exchange, an independent non-executive director and chairman of the audit committee of Silver Grant International Industries Ltd. (Stock code: 171), a company listed on the Stock Exchange, and an independent non-executive director and chairman of the audit committee of Century Sage Scientific Holdings Ltd. (Stock code: 1450), a company listed on the Stock Exchange. From September 2004 to February 2006, Mr. HUNG was the independent non-executive director and chairman of the audit committee of Rontex International Holdings Ltd. (Stock code: 1142), a company listed on the Stock Exchange.

Mr. HUNG received a bachelor's degree in social sciences with a major in economics, finance and accounting from the University of Hong Kong in December 1990. Mr. HUNG obtained a master's degree in corporate governance from Hong Kong Polytechnic University in October 2008. Mr. HUNG has been a Certified Tax Adviser since July 2010, a member of the Taxation Institute of Hong Kong since June 2010, a fellow member of the Hong Kong Institute of Directors since November 2009, associate of Hong Kong Institute of Chartered Secretaries and Institute of Chartered Secretaries & Administrators since February 2009, a fellow member of the Hong Kong Institute of Certified Public Accountants since July 2001, a fellow member of the Association of Chartered Certified Accountants since January 1999 and a Certified Public Accountant (Practising) of HKICPA since November 1994.

## Honourable Chairman

**Mr. Shinichiro IKEDA** (池田慎一郎), aged 58, is our Honorable Chairman advising us on our overall business directions and the strategic planning. Mr. IKEDA was appointed as our Honourable Chairman on 16 February 2015. Mr. IKEDA has approximately 26 years of experience in the toy merchandising and animation design and production industries in Japan. Mr. IKEDA is the director of Banjihan Ace inc. (株式會社バンジハンエース), the chairman & CEO of IMA Group, the chairman of 株式會社ソル•インターナシヨナル (SOL International Inc.*), a company engaging in distribution of toy products in Japan, the chairman of 株式會社サーフアーズパラダイス (Surfers Paradise Inc.*), a company engaging in toy and general consumer product trading, the chairman & CEO of 株式會社スタジオデイーン (Studio Deen Inc.*), a company engaging in animation production and other related business activities, the member of Crank inc. (株式會社クランク); a company runs The Forest Village Environmental Education Foundation (一般社團法人しんりん環境教育教室); the only association in Japan which teaches afforestation and environment in official school education curriculum, and the director of 一般財團法人日本漫畫事務局八月十五日の會 (Japanese Cartoon (manga) Office 8.15*), an general incorporated foundation run by comics artists in Japan, voluntarily actives for world peace.

Mr. IKEDA has been a director of Banjihan Ace since March 2007. Mr. IKEDA graduated from Dokkyo University, Japan with a bachelor's degree in law in March 1983.

## Senior Management

**Mr. WONG Yee Shuen Wilson** (**黃以信**), aged 50, is our Chief Financial Officer. Mr. WONG joined us on 1 November 2014. Mr. WONG is responsible for the financial management and strategic planning of our Group. Mr. WONG is a fellow member of the Hong Kong Institute of Certified Public Accountants and member of Australia CPA and Australian Institute of Banking and Finance. With more than 21 years of experience in PricewaterhouseCoopers and Ernst and Young. He holds a master of commerce degree, specializing in banking and finance from the University of New South Wales. Mr. WONG specializes in the area of auditing banks and listed companies.

Mr. WONG is currently an independent non-executive director of China Pipe Group Limited (stock code: 380), a company listed on the Main Board of the Stock Exchange) and Ping An Securities Group (Holdings) Limited (Stock code: 231, a company listed on the Main Board of Stock Exchange). Mr. WONG had served as an independent non-executive director of PanAsialum Holdings Company Limited (Stock code: 2078, a company listed on the Main Board of Stock Exchange) from January 2013 to July 2014.

**Mr. LUK Sik Tat** (**陸適達**), aged 42, is our finance manager and our company secretary. Mr. LUK joined us on 21 June 2012. Mr. LUK is responsible for the accounting and financial management of our Group. Mr. LUK has approximately 18 years of experience in accounting and finance. During the period between November 2008 and May 2012, Mr. LUK served as a supervisor in financial reporting with MIQ Logistics Hong Kong Limited, a provider of global, transportation and distribution services and a former subsidiary of YRC Worldwide, an assistant manager at Crowe Horwath (HK) CPA Limited (formerly known as CCIF CPA Limited) from November 2006 to November 2008, an audit senior at Wong Lam Leung & Kwok C.P.A. Limited from March 2004 to July 2006, an audit semi-senior and audit senior at K.W. Tam & Co. from September 2000 to January 2003 and from February 2003 to February 2004, respectively, an auditor II at K. L. Wong & Co. from April 1999 to May 2000 and an audit junior at Tai, Kong & Co. from June 1997 to December 1998.

Mr. LUK graduated from the City University of Hong Kong with a bachelor's degree of arts in accountancy in 1997. Mr. LUK has been a fellow member of the Hong Kong Society of Accountants since July 2013 and a fellow member of the Association of Chartered Certified Accountants since July 2008.

**Mr. ZHAN Zhengli** (**詹正禮**), aged 46, is our production management and control manager. Mr. ZHAN joined us on 1 July 2012. Mr. ZHAN is responsible for product management and control of our Group. Mr ZHAN has relevant experience in production management. Before joining us, Mr. ZHAN worked at Wah Shing and was responsible for the operation of production systems during the period between May 2004 and June 2012.

From November 2000 to January 2003, Mr. ZHAN was the founder and production manager of OBANG Furniture Company Limited (歐邦家具有限公司). Mr. ZHAN graduated from 杭州大學 (Hangzhou University) with a bachelor's degree in business management in July 1990.

**Mr. LAI Jianhua** (**賴建華**), aged 34, is our public affairs manager. Mr. LAI joined us on 1 January 2014. Mr. LAI is mainly responsible for external affairs, maintaining government-enterprise relationship and keeping abreast of relevant laws, regulations and policies.

Mr. LAI was the designer in Shenzhen Huaxia during the period between April 2009 and December 2013 and the business manager in Yifa Plastic Toy and Gift Company Limited (易發塑膠玩具禮品有限公司) from March 2005 to January 2009.

China Animation Characters Company Limited (the "**Company**") is committed to maintain a high standard of corporate governance. The board of directors of the Company (the "**Board**") and management maintain and enhance the policies and practices of the Company on a timely, transparent, effective and reasonable manner, so as to maintain good, solid and reasonable corporate governance. The Company believes that good corporate governance is not only in the interest of shareholders and investors but also in the interest of the Company. The Company will continue to raise the standard to formalize the best practice of corporate governance as far as we could.

## Corporate Governance Code

The Company has complied with the principles and applicable code provisions ("**Code Provisions**") set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") except code provision A.2.1 as more particularly described in the following paragraphs during the year ended 31 March 2017.

## Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 of the Listing Rule as its own conduct regarding securities transaction by Director of the Company. Having made specific enquiries with the directors of the Company ("**Directors**"), all Directors confirmed that they had complied with the required standard as set out in the Model Code throughout the year ended 31 March 2017.

## Board of Directors

### Composition

The Board comprises six Directors, including three executive Directors, Mr. ZHUANG Xiangsong (the Chairman and Chief Executive Officer of the Company), Mr. TING Ka Fai Jeffrey (the Chief Operating Officer of the Company) and Ms. LIU Moxiang; and three independent non-executive Directors, Mr. NI Zhenliang, Mr. TSANG Wah Kwong and Mr. HUNG Muk Ming. There was no change in the composition of the Board during the year ended 31 March 2017. Biographical details of the Directors are set out in the section headed "BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT" of this annual report.

### Responsibilities of the Board and Management

The Board is primarily responsible for overseeing and managing the Company's affairs, including the responsibilities for the adoption of long-term strategies and appointing and supervising senior management to ensure that the operation of the Group is conducted in accordance with the objective of the Group.

The Board is also responsible for determining the Company's corporate governance policies which include:

(a) To develop and review the Company's policies and practices on corporate governance;

(b) To review and monitor the training and continuous professional development of Directors and senior management;

(c) To review and monitor the Company's policies and practices to ensure compliance with legal and regulatory requirements;

(d) To develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) To review the Company's compliance with the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Listing Rules and its disclosure requirements in the Corporate Governance Report.

## Board of Directors (Continued)

### Responsibilities of the Board and Management (Continued)

During the year ended 31 March 2017, the Board had reviewed the Company's corporate governance policies and practices, training and continuing professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code, and the Company's compliance with the Code and disclosure in the Corporate Governance Report.

While at all times the Board retains full responsibility for guiding and monitoring the Company in discharging its duties, certain responsibilities are delegated to various Board committees which have been established by the Board to deal with different aspects of the Company's affairs. Unless otherwise specified in their respective written terms of reference as approved by the Board, these Board committees are governed by the Company's articles of association as well as the Board's policies and practices (in so far as the same are not in conflict with the provisions contained in the articles of association). With the nomination committee, the remuneration committee and the audit committee, the independent non-executive Directors will be able to effectively devote their time to perform the duties required by the respective Board committees.

The Board has also delegated the responsibility of implementing its strategies and the day-to-day operation to the management of the Company under the leadership of the executive Directors. Clear guidance has been made as to the matters that should be reserved to the Board for its decision which include matters on, inter alia, capital, finance and financial reporting, internal controls, communication with shareholders, Board membership, delegation of authority and corporate governance.

The Board acknowledges its responsibility for the preparation of the financial statements which give a true and fair view of the state of financial position and financial performance of the Group. The financial statements set out on pages 53 to 116 were prepared on the basis set out in note 3 to the financial statements. Financial results of the Group are announced in a timely manner in accordance with statutory and/or regulatory requirements. The declaration of reporting responsibility issued by the external auditors of the Company on the financial statements is set out in the Independent Auditors' Report on pages 48 to 52.

The Board has balance of skills, knowledge and experience appropriate for the requirements of the business and to complement the Company's corporate strategy. The Board membership is covered by professionally qualified and widely experienced personnel to bring in valuable contributions and different professional advices and consultancy for development of the Company. All Directors have separate and independent access to the advice and services of the senior management and the company secretary with a view to ensuring the board procedures, and all applicable rules and regulations are followed. The principal functions of the Board are to supervise the management of the business and affairs; to approve the strategic plans, investment and funding decision; to review the Group's financial performance and operating initiatives.

The Board, led by the Chairman, is responsible for formulating overall strategy and polices, monitoring and controlling the performance of the Group. In addition to its overall supervisory role, the Board also retains specific responsibilities such as approving financial accounts, approving annual budget, recommending dividend payments, approving policies relating to the Board's compliance, etc. whilst managing the Group's day-to-day operations is the responsibility of the management of the Group (the "**Management**") such as implementing internal control, business strategies and plans set by the Board, etc.. When the Board delegates certain aspects of its management and administration functions to the Management, it has given clear directions as to the powers of the Management.

### Continuous Professional Development

During the year ended 31 March 2017, all Directors have been given relevant guideline materials and attended training course and seminar regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group. Such induction materials and briefings will also be provided to newly appointed Directors shortly upon their appointment as Directors. Continuing briefings and professional development to Directors will be arranged whenever necessary.

All Directors have provided record of training attendance and the Company will continue to arrange and/or fund the training in accordance with the Code Provisions.

The Company has arranged appropriate directors and officers liability insurance cover in respect of legal actions against the Directors.

## Independent non-executive Directors

During the year ended 31 March 2017, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing at least one-third of the Board and at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

Prior to their respective appointment, each of the independent non-executive Directors has submitted a written statement to the Stock Exchange confirming their independence and has undertaken to inform the Stock Exchange as soon as practicable if there is any subsequent change of circumstances which may affect their independence. The Company has also received a written confirmation from each of the independent non-executive Directors in respect of their independence. The Company considers all independent non-executive Directors to be independent in accordance with the independence requirements set out in Rule 3.13 of the Listing Rules.

The independent non-executive Directors take an active role in Board meetings, contribute to the development of strategies and policies and make sound judgment in various aspects. They will take lead when potential conflicts of interest arise. They are also members of various Board committees and devote sufficient amount of time and attention to the affairs of the Company.

## Roles of Chairman and Chief Executive Officer

The position of the Chairman and the Chief Executive Officer of the Company are held by Mr. ZHUANG Xiangsong. The Code provision A.2.1 of the Corporate Governance Code in Appendix 14 of the Listing Rules stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. ZHUANG is Chairman of the Board and the Chief Executive Officer. As Mr. ZHUANG is the founder of the Group and has extensive experience in corporate operations and management, the Directors believe that it is in the best interest of the Group to have Mr. ZHUANG taking up both roles for effective management and business development.

The Chairman of the Company, Mr. ZHUANG, takes up the role of providing leadership for the Board and ensures that the Board works effectively and discharges its responsibility properly. With the support of executive Directors and the company secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at board meetings and receive adequate and reliable information in a timely manner. Mr. ZHUANG also ensures that good corporate governance practice is in force from time to time, and all key issues are discussed by the Board in a timely manner.

Mr. ZHUANG, also as the Chief Executive Officer of the Group, is responsible for managing overall daily operations of the Group, the implementation of the Group's development strategies and plans and to perform other responsibilities as assigned by the Board.

## Appointment, Re-election and Removal of Directors

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Article of Association. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive Directors.

Each of the executive Directors has entered into a service contract with the Company and each of the independent non-executive Directors has signed a letter of appointment with the Company. Such term is for an initial term of three years for the executive Directors commencing from the Listing Date and three years for the independent non-executive Directors commencing from 20 November 2014, subject to re-election.

Pursuant to Article 83(3) of the Articles, the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Shareholders after his appointment and be subject to re-election of such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Any Director appointed pursuant to Article 83(3) of the Articles shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation.

## Appointment, Re-election and Removal of Directors (Continued)

Pursuant to Article 84 of the Articles, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years and shall then be eligible for re-election.

In accordance with the Articles and the Corporate Governance Code contained in Appendix 14 to the Listing Rules, Mr. TSANG Wah Kwong and Mr. HUNG Muk Ming will retire by rotation in accordance with Article 84 of the Articles. All retiring Directors, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

## Board Meetings

The Board meets regularly, and at least four times a year, additional meetings are convened when deemed necessary by the Board. Board members are provided with complete, adequate and timely information to allow the Directors to fulfill their duties properly. In addition, Directors have full access to information on the Group and independent professional advice whenever deemed necessary by the Directors.

During the year ended 31 March 2017, the Board held ten meetings. Due notice and board papers were given to all Directors prior to the board meetings in accordance with the CG Code.

In addition, the Chairman and non-executive Directors including the independent non-executive Directors meet at least once every year without the presence of executive Directors.

At least 14 days' notice for all regular Board meetings will be given to all Directors and all Directors must be given the opportunity to include items or businesses for discussion in the agenda. For all other Board meetings, reasonable notice will be given. Relevant agenda and accompanying Board papers will be sent to all Directors at least three days in advance of every regular Board meeting.

## Meetings Held During the Year Ended 31 March 2017

Details of the Directors' attendance at Board meetings and Board committee meetings, held during the year ended 31 March 2017 and the annual general meeting held on 31 August 2016 ("**AGM**") are set out as below:

| | Attended/Eligible to attend | | | | |
|---|---|---|---|---|---|
| | Board Meeting | Audit Committee Meeting | Nomination Committee Meeting | Remuneration Committee Meeting | AGM |
| **Number of Meetings Held** | 10 | 2 | 1 | 1 | 1 |
| **Executive Directors** | | | | | |
| Mr. ZHUANG Xiangsong | 10/10 | – | 1/1 | – | 1/1 |
| Mr. TING Ka Fai Jeffrey | 10/10 | – | – | 1/1 | 1/1 |
| Ms. LIU Moxiang | 10/10 | – | – | – | 1/1 |
| **Independent Non-executive Directors** | | | | | |
| Mr. NI Zhenliang | 10/10 | 2/2 | 1/1 | – | –/1 |
| Mr. TSANG Wah Kwong | 8/10 | 2/2 | – | 1/1 | 1/1 |
| Mr. HUNG Muk Ming | 10/10 | 2/2 | 1/1 | 1/1 | 1/1 |

## Board Committees

The Board has established four committees, including audit committee, remuneration committee, nomination committee and investment committee, for overseeing particular aspects of the Company's affairs and to strengthen its functions and to enhance its expertise. All committees have been formed with specific written terms of reference which deals clearly with the respective committees' authorities and duties. The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

### Remuneration Committee

The Company established a remuneration committee pursuant to a resolution of the Directors passed on 20 November 2014 with written terms of reference in compliance with Rule 3.25 and Rule 3.26 of the Listing Rules. The written terms of reference of the remuneration committee was adopted in compliance with the Code Provisions. Its terms of reference are available on the websites of the Company and the Stock Exchange. As at the date of this report, the Remuneration Committee comprises three members including one executive Director, namely Mr. TING Ka Fai Jeffrey and two independent non-executive Directors, namely Mr. HUNG Muk Ming and Mr. TSANG Wah Kwong. It is chaired by Mr. HUNG.

The major roles and functions of the Remuneration Committee are as follows:

(a) To make recommendations to the Board on the Company's policy and structure for all directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(b) To review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

(c) To make recommendations to the Board on the remuneration packages of individual executive directors and senior management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment); and

(d) To make recommendations to the Board on the remuneration of non-executive directors.

During the year ended 31 March 2017, one Remuneration Committee meeting was held and there was no change in the policy and structure of the remuneration of the Directors and senior management. From the date onwards, the Remuneration Committee will meet at least once a year for reviewing the remuneration policy and structure and making recommendations to the Board on determining the annual remuneration packages of the executive Directors and the senior management and other related matters.

The remuneration package of executive Directors is determined by reference to their duties and responsibilities, experience and the prevailing market conditions. The remuneration package of individual executive Directors includes salary, discretionary bonus and share based payment. Details of the Directors' fee and other emoluments of the Directors of the Company are set out in note 9 to the financial statements.

The Remuneration Committee has adopted the model that it will review the proposals made by the management on the remuneration of executive Directors and senior management, and make recommendations to the Board. The Board will have final authority to approve the recommendations made by the Remuneration Committee.

### Nomination Committee

The Company established a nomination committee pursuant to a resolution of the Directors passed on 20 November 2014 with written terms of reference in compliance with paragraph A.5.1 of Appendix 14 of the Listing Rules. Its terms of reference are available on the websites of the Company and the Stock Exchange. As at the date of this report, the Nomination Committee comprises three members including one executive Director, namely Mr. ZHUANG Xiangsong and two independent non-executive Directors, namely Mr. HUNG Muk Ming and Mr. NI Zhenliang. It is chaired by Mr. ZHUANG, the Chairman of the Board.

## Board Committees (Continued)

### Nomination Committee (Continued)

In November 2014, the Company adopted the Board Diversity Policy in accordance with the requirement set out in the code provision of the Code. Such policy sets out the approach to achieve diversity on Board.

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The major roles and functions of the Nomination Committee are as follows:

(a) To review the structure, size and composition (board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) To identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board;

(c) To review the Board Diversity Policy, as appropriate, and disclose the Board Diversity Policy or its summary in the corporate governance report of the Company including the measurable objectives set for implementing the Board Diversity Policy and progress made towards achieving these measurable objectives;

(d) To assess the independence of independent non-executive directors; and

(e) make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors in particular the chairman and the chief executive.

All candidates must be able to meet the standards as set forth in Rule 3.08 and Rule 3.09 of the Listing Rules. A candidate who is to be appointed as an independent non-executive Director should also meet the independence criteria set out in Rule 3.13 of the Listing Rules. Qualified candidates will then be recommended to the Board for approval.

One Nomination Committee meeting was held during the year ended 31 March 2017. From the date onwards, the Nomination Committee will conduct meeting at least once a year.

### Audit Committee

The Company established an audit committee pursuant to a resolution of the Directors passed on 20 November 2014 with written terms of reference in compliance with Rule 3.21 and Rule 3.22 of the Listing Rules. The written terms of reference of the audit committee was adopted in compliance with the Code Provisions. Its terms of reference are available on the websites of the Company and the Stock Exchange.

As at the date of this report, Audit Committee consists of three independent non-executive Directors, namely Mr. TSANG Wah Kwong, Mr. HUNG Muk Ming and Mr. NI Zhenliang. It is chaired by Mr. TSANG Wah Kwong who holds appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules.

## Board Committees (Continued)

### Audit Committee (Continued)

The major roles and functions of the Audit Committee are as follows:

(a) To make recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;

(b) To monitor integrity of the Company's financial statements and to review significant financial reporting judgements contained in them;

(c) To review the Company's financial controls, internal control and risk management systems; and

(d) To discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system.

During the year ended 31 March 2017, two audit committee meetings were held.

As at the date of this annual report, the Audit Committee has considered and reviewed the accounting principles and practice adopted by the Group and has discussed matters in relation to internal control and financial reporting with the management. The Audit Committee considers that the financial results for the year ended 31 March 2017 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

The Audit Committee held a meeting with the external auditors on 30 June 2017 to (i) review the consolidated financial statements for the year ended 31 March 2017; (ii) discuss the internal control and financial reporting matters of the Group; (iii) review the consolidated financial statements and the auditor's report and recommend to the board for approval. All members of the committee attended that meeting. From the date onwards, the Audit Committee will meet at least twice a year to review the financial results and reports, financial reporting and compliance procedures, the report of the internal auditor on the Company' s internal control and risk management review and processes, and the re-appointment of the external auditor.

During the period from the Listing Date to the date of this annual report, the Board has not taken a different view from the audit committee on the selection, appointment, resignation or dismissal of an external auditor.

### Investment Committee

The Company established an investment committee pursuant to a resolution of the Directors passed on 20 November 2014. The written terms of reference of the investment committee are available on the websites of the Company.

As at the date of this report, Investment Committee consists of four Directors, namely Mr. ZHUANG Xiangsong, Mr. TING Ka Fai Jeffrey, Ms. LIU Moxiang, Mr. TSANG Wah Kwong, and one senior management, Mr. WONG Yee Shuen Wilson. It is chaired by Mr. ZHUANG Xingsong.

The major roles and functions of the Investment Committee are as follows:

(a) To consider the investment and business decisions of the Group;

(b) To make recommendations to our Board in respect of the major investment projects of the Group, such as the establishment of new JOYPOLIS in China; and

(c) To monitor the performance of the Group for compliance with the investment policies and guidelines.

During the year ended 31 March 2017, no investment committee meeting was held.

## Auditor's Remuneration

The fees charged by the auditor generally depends on the scope and volume of the auditor's work. During the year ended 31 March 2017, the remuneration paid or payable to the Company's external auditor, was approximately HK$7,030,000 and fees related to audit services and other non-audit services amounted to approximately HK$4,257,000 and HK$2,773,000 respectively.

## Directors' Responsibilities for Financial Reporting

The Directors acknowledge their responsibilities for keeping proper accounting records and preparing the financial statements of each financial period, which shall give a true and fair view of the financial position of the Group and of the financial performance and cash flows for that year.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other disclosures required under the Listing Rules and other regulatory requirements. The senior management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the Company.

The Directors acknowledge the responsibilities for preparing the accounts of the Company.

The relevant responsibility statement of the auditor of the Company with respect to the financial statements of the Group is set out in the Independent Auditor's Report on page 48.

## Going Concern

The Directors, having made appropriate enquiries, consider that the Company has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

## Risk management and Internal Control

### Risk management

The Company established an inter-departmental ERM working group internally to carry out the relevant work and systematically established a risk management framework to incorporate risk management into enterprise management and business operation. It has also established a two-tier risk management structure model:

As the first tier of the Company's risk management system, each department is responsible for performing daily management process, implementing management system and incorporating means of risk management and internal control into daily operation; studying and proposing the criteria and mechanism for significant departmental decision-making, material events and important operation process; studying and indicating risks of significant departmental decision-making while taking precautions; effectively managing various risks incurred during the course of operation and management.

The audit committee of the Company will be responsible for the management of the effectiveness of risk management and gaining full understanding and making decisions for the Company's risk management. As the second tier of the Company's risk management system, the audit committee is at the top tier of the risk management and governance structure, mainly responsible for ensuring the implementation of risk management, procuring inspection of events with potential risks, ensuring effective implementation of risk management system, supervising and examining tasks relating to risk management regularly, formulating a report on risk management and promoting an effective company-wide risk management and internal control system.

## Risk management and Internal Control (Continued)

### Risk management (Continued)

On top of its established internal control system, the Company will continuously deepen its risk management efforts by establishing a system for assessing any possible systematic risks caused by changes in external environment and force majeure. Based on the risk assessment, the Company will identify risk prevention and response to prevent and respond to any possible risks. With respect to the unsystematic risks during the course of operation and management, the Company will establish a normalized process for risk control, risk reporting, risk response and risk management evaluation. Through the aforesaid enhanced measures and means of internal control system and risk management, the possibility of occurrence of risk events can be lowered.

As at the reporting date, the Company has established a comprehensive risk management system, and incorporated risk identification, risk assessment and risk response into daily operation. In consideration of current major risks faced by the Company and the corresponding response plan, the Company is capable of responding to the challenges brought by its own operation and external environment.

### Internal Control

The Board is responsible for maintaining an adequate system of internal controls within the Group and for reviewing their effectiveness. The system of internal controls is designed to facilitate effective and efficient operations, to safeguard assets and to ensure the quality of internal and external reporting and compliance with applicable laws and regulations. It is also designed to provide reasonable, but not absolute, assurance that material misstatement or loss can be avoided, and to manage and minimize risks of failure in operation systems.

The Board engaged a professional consulting firm to perform internal control review to assess the effectiveness of the financial, operational and compliance controls and risk management functions of the Company and the Group's major subsidiaries on a rotation basis.

At the meeting of the Audit Committee held on 30 June 2017, the professional consulting firm reported their review work for the year ended 31 March 2017 performed in accordance with the detailed risk-based internal control review plan which was approved by the Audit Committee. The Board, through the Audit Committee, has conducted a review of the effectiveness of the Group's internal control systems for the year ended 31 March 2017. The Audit Committee members, together with the senior management, have also reviewed, considered and discussed all findings relating to the internal control systems and recommendations for improvement.

The Audit Committee also reviewed and was satisfied with the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function.

## Company Secretary

The Company Secretary of the Company is Mr. LUK Sik Tat, who is also the finance manager of the Company. Mr. Luk is a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Society of Accountants. He fulfills the requirements under Rules 3.28 and 3.29 of the Listing Rules.

The Company Secretary is responsible for providing secretarial services to the Board and ensuring the operation of the Company is properly complied with Hong Kong listed companies' regulatory requirements as well as enhancing its corporate governance standards.

All Directors have access to the advice and services of the company secretary with a view to ensuring that board procedures and all applicable rules and regulations are followed. Company Secretary is also the secretary of each of Board committees. Minutes of Board meetings and meetings of all Board committees are kept by the Company Secretary and are available for inspection by the Directors at all times.

For the year ended 31 March 2017, the company secretary complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of relevant professional training.

## Shareholders' Rights

### Right to Convene an Extraordinary General Meeting

Pursuant to the Company's Articles of Association, shareholder(s) holding not less than one-tenth of the Company's paid – up capital at the end of deposit of requisition and having the right to vote at general meetings can submit a requisition to convene an Extraordinary General Meeting ("**EGM**").

Such requisition shall be made in writing to the Board or the company secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Shareholders should direct their enquiries about their shareholdings to the Company's branch share registrar and transfer office in Hong Kong, namely, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or the principal place of business of the Company in Hong Kong at Suites 2808–2811, Concordia Plaza, 1 Science Museum Road, Tsim Sha Tsui East, Kowloon, Hong Kong. Shareholders who wish to put enquiries to the Board can send their enquiries to the Company Secretary who will ensure these enquiries to be properly directed to the Board. Shareholders may at any time make a request for the Company's information to the extent such information is publicly available. Corporate communication of the Company will be provided to Shareholders in plain language and in both English and Chinese versions to facilitate Shareholders' understanding. Shareholders have the right to choose the language (either English or Chinese) or means of receipt of the corporate communications (in hard copy or through electronic means).

All resolutions put forward at an EGM will be taken by poll pursuant to the Listing Rules. Shareholders who are unable to attend the EGM can appoint proxies to attend and vote at the general meeting. The Chairman of the EGM will provide explanation of the detailed procedures for conducting a poll and then answer questions (if any) from the shareholders regarding voting by way of poll. In addition, the poll results will be posted on the websites of the Company and of the Stock Exchange after the EGM.

## Communications with Shareholders

The Board is obliged to provide regular, effective and fair communication with the shareholders and the investors of the Company. Latest information is conveyed to the Shareholders and the investors of the Company on a timely basis.

The Company uses a range of communication tools to ensure the Shareholders and the investors are kept well informed of key business imperatives.

### Disclosure of Information

Information shall be communicated to Shareholders and the investors mainly through the Company's financial reports (interim and annual reports), annual general meetings and other general meetings that may be convened, as well as by making available all the disclosures submitted to The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") and its corporate communications and other corporate publications on the Hong Kong Stock Exchange's website and the Company's website.

## Communications with Shareholders (Continued)

### General Meetings

Shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at meetings for and on their behalf if they are unable to attend the meetings. Shareholders' views on matters that affect the Company are welcome by the Board at shareholders' meetings. Shareholders of the Company are notified of shareholders' meetings through notices and reports or circulars sent to them. Each item of special business in the notice of the meeting is accompanied, where appropriate, by an explanation for the proposed resolution. A separate resolution is proposed by the chairman of the meetings in respect of each separate issue, including the re-election of Directors.

The Chairman of the Board and Chairmen of the Audit Committee, Remuneration Committee, Nomination Committee and Investment Committee or failing him, his duly appointed delegate, are available at the annual general meeting to answer questions with regard to the work of these committees.

### Voting by Poll

Save as provided under the Listing Rules, resolutions put to vote at the general meetings of the Company (other than procedural matters) are taken by poll. Procedures regarding the conduct of the poll are explained to the shareholders at the commencement of each general meeting, and questions from shareholders regarding the voting procedures are answered. The poll results are posted on the respective websites of the Company and the Hong Kong Stock Exchange on the same day of the poll.

## Investor Relations

The Company maintains a website www.animatechina.com where information and updates on the list of Directors and their roles and functions, constitutional documents, terms of reference of the Board committees, procedures for shareholders to propose a person for election as a director, announcements, circulars and reports, etc. released to the Hong Kong Stock Exchange and other information are posted. Information on the Company's website will be updated from time to time.

A dedicated email address acti@animatechina.com for investor enquiry is set out in the "Contact Us" section on the Company's website.

## Constitutional Documents

There was no significant change in the Company's constitutional documents during the year ended 31 March 2017 and up to the date of this annual report.

# REPORT OF THE DIRECTORS

The directors (the "**Directors**") of the Company are pleased to present their annual report together with the audited financial statements for the year ended 31 March 2017.

## Principal Activities

The principal activity of the Company is investment holding and those of the principal subsidiaries are set forth in Note 41 to the consolidated financial statements.

An analysis of the Group's performance for the year by operating segments is set forth in Note 5 to the consolidated financial statements.

## Use of 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 of 31 March 2017, approximately HK$211.3 million of the net proceeds had been used by the Group. The unutilised proceeds were deposited with licensed bank in Hong Kong. Set forth below is a summary of the utilisation of the net proceeds:

| | **Original planned allocation of net proceeds from the Global Offering** | | **Actual utilised as of 31 March 2017** | **Unutilised as of 31 March 2017** |
|---|---|---|---|---|
| | % | HK$ million | HK$ million | HK$ million |
| For contribution for the capital expenditure and the working capital for 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, subject to the approval of the investment committee of the Board | 30.0 | 89.6 | 36.6 | 53.0 |
| 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 | 25.4 | 34.3 |
| For working capital and general corporate purposes | 10.0 | 29.9 | 29.9 | – |
| **Total** | **100.0** | **298.6** | **211.3** | **87.3** |

The future plans and prospects as stated in the prospectus (the "**Prospectus**") of the Company dated 28 February 2015 were based on the Group's reasonable assessment of the future market conditions according to the information available at the time of preparing the Prospectus. As of the date of this report, the Directors are not aware of any material change to the planned use of the net proceeds from the plan as stated in the Prospectus. The unused net proceeds have been placed as bank deposits.

## Results and Appropriations

The financial performance of the Group for the year ended 31 March 2017 and the financial position of the Group as of 31 March 2017 are set forth in the consolidated financial statements on pages 53 and 54.

## Five Years Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set forth on page 116. This summary does not form part of the consolidated financial statements.

## Reserves

Details of the movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on page 55 of this annual report and Note 42 to the consolidated financial statements, respectively.

## Distributable Reserves

Pursuant to the relevant rules of the Cayman Islands, calculated with the Companies Law of the Cayman Islands, the Company's distributable reserves as of 31 March 2017 amounted to approximately HK$867 million.

## Property, Plant and Equipment

Details of the movements in properties, plant and equipment of the Group are set forth in Note 12 to the consolidated financial statements.

## Share Capital

Details of the authorised and issued share capital of the Company are set forth in Note 32 to the consolidated financial statements.

## Subsidiaries

Details of the major subsidiaries of the Company are set forth in Note 41 to the consolidated financial statements.

## Purchase, Sale or Redemption of the Company's Securities

The Company has not redeemed any of its shares during the year. During the year ended 31 March 2017, neither the Company nor any of its subsidiaries has purchased or sold or redeemed any of the Company's listed securities during the year.

## Share Option Scheme

The Company's existing share option scheme was approved for adoption in the general meeting held on 16 February 2016 for the purpose of providing the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to eligible participants and for such other purposes as the Board approve from time to time.

Details of the Company's share option scheme are set out in Note 40 to the consolidated financial statements and the principal terms of the share option scheme are extracted as follows:

### Purpose

The purpose is to give the Eligible Persons (as described below) an opportunity to have a personal stake in the Company and help motivate them to optimise their future performance and efficiency to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of Executives (as defined below), to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

## Share Option Scheme (Continued)

### Who may join

The Board may, at its absolute discretion, offer options ("**Options**") to subscribe for such number of Shares in accordance with the terms set forth in the Share Option Scheme to:

(a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group ("**Executive**"), any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of the Group ("**Employee**");

(b) a director or proposed director (including an independent non-executive director) of any member of the Group;

(c) a direct or indirect shareholder of any member of the Group;

(d) a supplier of goods or services to any member of the Group;

(e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group;

(f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; and

(g) an associate of any of the persons referred to in paragraphs (a) to (c) above.

(the persons referred above are the "**Eligible Persons**")

### Maximum number of Shares

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10.0 per cent. of our Shares in issue as of the Listing Date, excluding Shares which may fall to be issued upon the exercise of the Over-allotment Option (the "**Scheme Mandate Limit**") provided that:

(a) The Company may at any time as our Board may think fit seek approval from our Shareholders to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company shall not exceed 10 per cent. of our Shares in issue as of the date of approval by Shareholders in general meeting where the Scheme Mandate Limit is refreshed. Options previously granted under the Share Option Scheme and any other schemes of the Company (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the Share Option Scheme or any other schemes of the Company) shall not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed. The Company shall send to our Shareholders a circular containing the details and information required under the Listing Rules.

(b) The Company may seek separate approval from our Shareholders in general meeting for granting Options beyond the Scheme Mandate Limit, provided that the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Person specified by the Company before such approval is obtained. The Company shall issue a circular to our Shareholders containing the details and information required under the Listing Rules.

(c) The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Group shall not exceed 30% of the Company's issued share capital from time to time. No options may be granted under the Share Option Scheme and any other share option scheme of the Company if this will result in such limit being exceeded.

## Share Option Scheme (Continued)

### Maximum number of Options to each participant

No Option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of Options granted and to be granted to that person in any 12 month period exceeds one per cent. of the Company's issued share capital from time to time. Where any further grant of Options to such an Eligible Person would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted to such Eligible Person (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1.0 per cent of the Shares in issue, such further grant shall be separately approved by the shareholders of the Company in general meeting with such Eligible Person and his close associates (or his associates if the Eligible Person is a connected person) abstaining from voting. The Company shall send a circular to the Shareholders disclosing the identity of the Eligible Person, the number and terms of the Options to be granted (and Options previously granted) to such Eligible Person, and containing the details and information required under the Listing Rules. The number and terms (including the subscription price) of the Options to be granted to such Eligible Person must be fixed before the approval of the Company's Shareholders and the date of the Board meeting proposing such grant shall be taken as the offer date for the purpose of calculating the subscription price of those Options.

### Offer and grant of Options

Subject to the terms of the Share Option Scheme, the Board shall be entitled at any time within 10 years from the Adoption Date to offer the grant of an Option to any Eligible Person as the Board may in its absolute discretion select to subscribe at the subscription price for such number of Shares as the Board may (subject to the terms of the Share Option Scheme) determine (provided the same shall be a board lot for dealing in our Shares on the Stock Exchange or an integral multiple thereof).

### Restriction on the time of grant of Options

The Board shall not grant any Option under the Share Option Scheme after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the Listing Rules. In particular, no Option shall be granted during the period commencing one month immediately preceding the earlier of the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and the deadline for the Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcements.

### Minimum holding period, vesting and performance target

Subject to the provisions of the Listing Rules, the Board may in its absolute discretion when offering the grant of an Option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Share Option Scheme as the Board may think fit (to be stated in the letter containing the offer of the grant of the Option) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by the Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period before the right to exercise the Option in respect of all or any of the Shares shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Share Option Scheme. For the avoidance of doubt, subject to such terms and conditions as the Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an Option must be held before it can be exercised and no performance target which need to be achieved by the grantee before the Option can be exercised.

## Share Option Scheme (Continued)

### Subscription price

The subscription price of a Share in respect of any particular Option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option) but the subscription price shall not be less than whichever is the highest of:

(a) the nominal value of a Share;

(b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the offer date; and

(c) the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the 5 business days (as defined in the Listing Rules) immediately preceding the offer date.

### Exercise of Options

(i) An Option shall be exercised in whole or in part (but if in part only, in respect of a Board Lot or any integral multiple thereof) within the Option Period in the manner as set forth in this Share Option Scheme by the grantee (or his legal personal representative(s)) by giving notice in writing to the Company stating that the Option is thereby exercised and specifying the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given. Within 30 days after receipt of the notice and, where appropriate, receipt of a certificate from our auditors pursuant to the Share Option Scheme, the Company shall accordingly allot and issue the relevant number of Shares to the grantee (or his legal personal representative(s)) credited as fully paid with effect from (but excluding) the relevant exercise date and issue to the Grantee (or his legal personal representative(s)) share certificate(s) in respect of our Shares so allotted.

(ii) The exercise of any Option may be subject to a vesting schedule to be determined by the Board in its absolute discretion, which shall be specified in the offer letter.

(iii) The exercise of any Option shall be subject to the members of the Company in general meeting approving any necessary increase in the authorized share capital of the Company.

### Life of Share Option Scheme

Subject to the terms of this Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting Options granted prior to the expiry of the 10-years period or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

### Transferability of Options

The Option shall be personal to the Grantee and shall not be assignable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favor of any third party over or in relation to any Option or attempt so to do (save that the Grantee may nominate a nominee in whose name our Shares issued pursuant to the Scheme may be registered), except with the prior written consent of the Board from time to time. Any breach of the foregoing shall entitle the Company to cancel any outstanding Option or part thereof granted to such Grantee.

## Directors' Right to Acquire Shares or Debentures

Apart from the share option scheme of the Company, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

## Directors

The Directors of the Company during the year and up to the date of this report are:

### Executive Directors

Mr. ZHUANG Xiangsong *(Chairman and Chief Executive Officer)*
Mr. TING Ka Fai Jeffrey
Ms. LIU Moxiang

### Independent Non-Executive Directors

Mr. NI Zhenliang
Mr. TSANG Wah Kwong
Mr. HUNG Muk Ming

In accordance with the Articles and the Corporate Governance Code contained in Appendix 14 to the Listing Rules, Mr. TSANG Wah Kwong and Mr. HUNG Muk Ming will retire by rotation in accordance with Article 84 of the Articles. All retiring Directors, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

## Confirmation of Independence of Independent Non-Executive Directors

The Company has received from each independent non-executive Director an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and the Company considers that all of them are independent.

## Biographical Details of Directors and Senior Management

The biographical details of Directors and senior management are set forth in the section headed "Biographical Details of Directors and Senior Management" of this annual report.

## Directors' Service Contract

None of the Directors offering themselves for re-election at the forthcoming annual general meeting of the Company has entered into any service contract with the Company or any of its subsidiaries, which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

## Directors' Interests in Contracts of Significance

No contracts of significance in relation to the Company's business to which the Company, its subsidiaries or its holding company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## Controlling Shareholders' Interests in Contracts of Significance

Save as disclosed in this annual report, there was no other contract of significance between the Company or any of its subsidiaries and any controlling shareholder of the Company or any of its subsidiaries during the year.

## Related Party Transactions

Details of the related party transactions of the Group for the year ended 31 March 2017 are set forth in Note 39 to the consolidated financial statements of this annual report.

For those related party transactions or those continuing related party transactions (as the case may be) falling under the definition of "connected transactions" or "continuing connected transactions" (as the case may be) in Chapter 14A of the Listing Rules, please refer to the details set forth in the section headed "Continuing Connected Transaction" and "Exempt Continuing Connected Transactions" of this annual report.

## Directors' Interests in Competing Business

During the year, save as disclosed in the Prospectus, none of the Directors and their respective associates has an interest in any business which competes or may compete with the business in which the Group engaged.

## Directors' Interests and Short Positions in the Shares, Underlying Shares or Debentures

As of 31 March 2017, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**"), were set forth below:

### Long positions in the shares and underlying share of the Company

| Name of Directors | Capacity/nature of interest | Name of the controlled corporations | Name of Company | Number of shares | Approximate percentage of shares in issue |
|---|---|---|---|---|---|
| ZHUANG Xiangsong | Interest of controlled corporation (Note 1) | Bright Rise Enterprises Limited | Company | 369,982,000 (L) | 40.21% |
| | Interest in persons acting in concert (Note 2) | – | Company | 490,912,000 (L) | 53.34% |
| | Spouse interest (Note 3) | – | Company | 490,912,000 (L) | 53.34% |
| TING Ka Fai Jeffrey | Interest of controlled corporation (Note 4) | Bonville Glory Limited | Company | 12,900,000 (L) | 1.40% |
| | Interest in persons acting in concert (Note 2) | – | Company | 490,912,000 (L) | 53.34% |

Notes:

1. All issued shares of Bright Rise Enterprises Limited are held by Newgate (PTC) Limited. Newgate (PTC) Limited is a company incorporated in the BVI on 12 September 2014 and acts as the trustee of the trust created in the Cayman Islands by Mr. ZHUANG Xiangsong on 18 November 2014, namely The Fortune Trust. The beneficiaries of The Fortune Trust currently include Mr. ZHUANG Xiangsong and his family members.

2. Pursuant to a concert party agreement, Mr. ZHUANG Xiangsong, Bright Rise Enterprises Limited, Mr. TING Ka Fai Jeffrey, Bonville Glory Limited, Ms. LI Ruifang, Fortress Strength Limited, Mr. Shinichiro IKEDA, Dragon Year Group Limited, Ms. OR Den Fung Bonnie and East Jumbo Development Limited have agreed with certain arrangements pertaining to their shareholding. Further information on the terms and conditions of the concert party agreement is set forth in the section headed "Controlling Shareholders and Substantial Shareholders-Summary of the Concert Party Agreement" in the Prospectus.

3. Ms. LI Ruifang is the spouse of Mr. ZHUANG Xiangsong. Mr. ZHUANG Xiangsong is deemed to be interested in our shares interested by Ms. LI Ruifang under the SFO.

4. All issued shares of Bonville Glory Limited are held by Mr. TING Ka Fai Jeffrey.

Save as disclosed above, as at 31 March 2017, none of the Directors or chief executive or their respective associates had any interests or short positions in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## Substantial Shareholders

As of 31 March 2017, the following persons or corporations, other than the Directors or chief executive of the Company, had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

| | Name of Shareholders | Capacity | Number of Shares | Shareholding percentage of shares in issue (%) |
|---|---|---|---|---|
| Long position | Bright Rise Enterprises Limited | Beneficial owner | 369,982,000 | 40.21 |
| | | Interest in persons acting in concert[(1)] | 490,912,000 | 53.34 |
| | Newgate (PTC) Limited as trustee of The Fortune Trust created by Mr. ZHUANG Xiangsong | Interest in a controlled corporation[(2)] | 369,982,000 | 40.21 |
| | | Interest in persons acting in concert[(1)] | 490,912,000 | 53.34 |
| | Mr. ZHUANG, Ms. LI Ruifang and their children, being the beneficiaries of The Fortune Trust | Interest in a controlled corporation[(2)] | 369,982,000 | 40.21 |
| | | Interest in persons acting in concert[(1)] | 490,912,000 | 53.34 |
| | Fortress Strength Limited | Beneficial owner | 16,092,000 | 1.75 |
| | | Interest in persons acting in concert[(1)] | 490,912,000 | 53.34 |
| | Ms. LI Ruifang | Interest in a controlled corporation[(3)] | 16,092,000 | 1.75 |
| | | Interest in persons acting in concert[(1)] | 490,912,000 | 53.34 |
| | | Spouse interest[(4)] | 490,912,000 | 53.34 |
| | Dragon Year Group Limited | Beneficial owner | 50,280,000 | 5.46 |
| | | Interest in persons acting in concert[(1)] | 490,912,000 | 53.34 |
| | Mr. Shinichiro IKEDA | Interest in a controlled corporation[(5)] | 50,280,000 | 5.46 |
| | | Personal interest | 12,000,000 | 1.30 |
| | | Interest in persons acting in concert[(1)] | 490,912,000 | 53.34 |

## Substantial Shareholders (Continued)

| | Name of Shareholders | Capacity | Number of Shares | Shareholding percentage of shares in issue (%) |
|---|---|---|---|---|
| | Bonville Glory Limited | Beneficial owner | 12,900,000 | 1.40 |
| | | Interest in persons acting in concert(1) | 490,912,000 | 53.34 |
| | Mr. TING Ka Fai Jeffrey | Interest in a controlled corporation(6) | 12,900,000 | 1.40 |
| | | Interest in persons acting in concert(1) | 490,912,000 | 53.34 |
| | East Jumbo Development Limited | Beneficial owner | 29,658,000 | 3.22 |
| | | Interest in persons acting in concert(1) | 490,912,000 | 53.34 |
| | Ms. OR Den Fung Bonnie | Interest in a controlled corporation(7) | 29,658,000 | 3.22 |
| | | Interest in persons acting in concert(1) | 490,912,000 | 53.34 |
| Short position | Nil | Nil | Nil | Nil |

Notes:

(1) Pursuant to a concert party agreement, Mr. ZHUANG Xiangsong, Bright Rise Enterprises Limited, Mr. TING Ka Fai Jeffrey, Bonville Glory Limited, Ms. LI Ruifang, Fortress Strength Limited, Mr. Shinichiro IKEDA, Dragon Year Group Limited, Ms. OR Den Fung Bonnie and East Jumbo Development Limited have agreed with certain arrangements pertaining to their shareholding. Further information on the terms and conditions of the concert party agreement is set forth in the section headed "Controlling Shareholders and Substantial Shareholders – Summary of Concert Party Agreement" in the Prospectus.

(2) Newgate (PTC) Limited is the sole shareholder of Bright Rise Enterprises Limited and it holds all the shares of Bright Rise Enterprises Limited in its capacity as the trustee of The Fortune Trust created by Mr. ZHUANG Xiangsong in the Cayman Islands. The beneficiaries of The Fortune Trust currently include Mr. ZHUANG Xiangsong and his family member. Bright Rise Enterprises Limited is the registered and beneficial owner of 359,166,000 Shares.

(3) Ms. LI Ruifang is the sole beneficial owner of all issued shares of Fortress Strength Limited which is the registered and beneficial owner of 16,092,000 Shares.

(4) Ms. LI Ruifang is the spouse of Mr. ZHUANG Xiangsong and she is deemed to be interested in our shares interested by Mr. ZHUANG Xiangsong under the SFO.

(5) Mr. Shinichiro IKEDA is the sole beneficial owner of all issued shares of Dragon Year Group Limited which is the registered and beneficial owner of 50,280,000 shares of the Company.

(6) Mr. TING Ka Fai Jeffrey is the sole beneficial owner of all issued shares of Bonville Glory Limited which is the registered and beneficial owner of 12,900,000 shares of the Company.

(7) Ms. OR Den Fung Bonnie is the sole beneficial owner of all issued shares of East Jumbo Development Limited which is the registered and beneficial owner of 29,658,000 shares of the Company.

## Substantial Shareholders (Continued)

Save as disclosed above, as of 31 March 2017, the Directors were not aware of any persons or corporations, other than the Directors or chief executive of the Company, who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## Deed of Non-Competition

As disclosed in the Prospectus, each of the executive Directors and the controlling shareholders of the Company (the "**Controlling Shareholders**"), namely, Mr. ZHUANG Xiangsong, Bright Rise Enterprises Limited, Mr. TING Ka Fai Jeffrey, Bonville Glory Limited, Ms. LI Ruifang, Fortress Strength Limited, Mr Shinichiro IKEDA, Dragon Year Group Limited, Ms. OR Den Fung Bonnie and East Jumbo Development Limited, (collectively the "**Covenantors**"), has entered into the Deed of Non-Competition in favour of the Company, pursuant to which each of the Covenantors has undertaken to the Company that each of the Covenantors would not and would procure that their associates (except any members of the Group) would not, during the period that the Deed of Non-Competition remains effective, directly or indirectly, either on such Covenantor's own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may be in competition with the business of any member of the Group from time to time.

The Company has received an annual written confirmation from each of the executive Directors and the Controlling Shareholders in respect of the compliance with the Deed of Non-Competition for the year ended 31 March 2017.

Based on the information and confirmation provided by or obtained from each of the executive Directors and the Controlling Shareholders, all the independent non-executive directors reviewed the compliance conditions in respect of the Deed of Non-Competition for the year ended 31 March 2017 and believed that each of the executive Directors and the Controlling Shareholders had fully complied with the Deed of Non-Competition.

## Continuing Connected Transaction

On 31 December 2016, Sega Holdings Co., Ltd. ("**SEGA Holdings**") and CA Sega Joypolis Ltd. ("**CA Sega**", formally known as Sega Live Creation Inc.) entered into a trademark licence agreement pursuant to which SEGA Holdings (as licensor) agreed to grant to CA Sega a non-transferable and non-exclusive right to use and sublicense certain registered trademarks owned by SEGA Holdings for a term commencing from 1 January 2017 for an initial period of five years. The trademark licence agreement may be renewed for another five years subject to negotiations and agreements between the parties after expiry of the original term in full compliance with the applicable requirements under the Listing Rules. Tha annual caps, being the maximum aggregate amount of royalties payable by CA Sega to SEGA Holdings under the trademark licence agreement is JPY21,368,000 (equivalent to HK$1,417,000) for the year ended 31 March 2017. The aggregate amount of royalties payable by CA Sega to SEGA Holdings amount to JPY12,537,000 (equivalent to HK$856,000) for the year ended 31 March 2017.

## Continuing Connected Transaction (Continued)

As Sega Sammy Holding Inc., ("**SEGA SAMMY**") holds 14.9% equity interest in the CA Sega Shares, SEGA Holdings, being a wholly-owned subsidiary of SEGA SAMMY, is a connected person at the subsidiary level (as defined under Chapter 14A of the Listing Rules) of the Company. Accordingly, the transaction contemplated under the trademark licence agreement constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

For detailed terms of the trademarks licence agreement, please refer to the Company's announcement dated 3 January 2017.

Pursuant to rule 14A.55 of the Listing Rule, the independent non-executive Directors of the Company have reviewed the continuing connected transactions as set out above and have confirmed that these continuing connected transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or on terms no less favourable to the Group than terms available to independent third parties; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor had issued an unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group in accordance with rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

## Exempt Continuing Connected Transactions

The companies now comprising the Group have had entered into a number of transactions with Mr. ZHUANG, a party who, upon the Listing, became a connected person of the Company under the Listing Rules.

### Lease of premises

The Group leases premises from Mr. ZHUANG. The premises include selected floors of the buildings 9 and 10, China Animation Creative Industry Park, Youyi Road, Longcheng Street, Longgang District, Shenzhen, the PRC, and are currently used by us as our offices and research and development centre in Shenzhen. As the premises and all other buildings comprising the industry park are structures with no property ownership certificates granted to Mr. ZHUANG, 深圳市龍崗區龍城街道處理歷史遺留違法建築領導小組辦公室 (The Office of the Leadership Group in Handling Historical Unauthorised Structures in the area of Longcheng Street, Longgang District, Shenzhen City*) has issued a reply, upon the request of Mr. ZHUANG, confirming that the registered name of the premises has been changed to Mr. ZHUANG.

## Exempted Continuing Connected Transactions (Continued)

### Lease of Premises (Continued)

The table below sets forth (1) the term of the lease agreements entered into between us and Mr. ZHUANG and (2) the annual rent paid by us to Mr. ZHUANG during the Track Record Period:

| Lessor | Lessee | Date of lease | Term | Properties | Usage | Gross floor area ($m^2$) | Annual rental (RMB'000) | Historical transaction amount Year ended 31 March 2017 | 2016 |
|---|---|---|---|---|---|---|---|---|---|
| Mr. ZHUANG | Shenzhen Wald | 1 April 2016 | 1 April 2016 to 31 March 2019 | 1st, 2nd, 3rd and 5th Floor of Building No. 9 China Animation Creative Industry Park Youyi Road Longcheng Street Longgang District Shenzhen PRC | Offices and research and development centre | 5,400 | 777.6 | (RMB'000) 777.6<br>(HK$'000) 1,124.5 | 460.1[1]<br>562.5 |
| Mr. ZHUANG | Shenzhen Wald | 13 February 2016 | 13 February 2016 to 12 February 2019 | 1st, 2nd, 3rd and 5th Floor of Building No. 10, China Animation Creative Industry Park Youyi Road Longcheng Street Longgang District Shenzhen PRC | Offices and research and development centre | 5,400 | 777.6 | (RMB'000) 777.6<br>(HK$'000) 1,124.5 | 309.7[1]<br>379.1 |
| | | | | | | | **Total:** | **(RMB'000) 1,555.2** | **769.8** |
| | | | | | | | **Total:** | **(HK$'000) 2,249** | **941.6** |

Note:

(1) The rent was based on the effective rent at the rate of RMB4.78 per sq.m. set forth in the previous lease agreement over the Track Record Period.

As shown in the table above, the annual rent payable to Mr. ZHUANG within the de minimis threshold set forth in Rule 14A.76 of the Listing Rules. As such, the transactions are exempted from the reporting, announcement requirements and the independent Shareholders' approval requirements. The Directors, including the independent non-executive Directors, confirm that the lease agreements are entered into on normal commercial terms and in the interest of the Shareholders as a whole.

* *For identification purpose only*

The Directors confirm that the annual rent payable under the relevant lease agreements between us and Mr. ZHUANG is determined with reference to an independent valuation taking into consideration the prevailing market conditions and rent level of similar types of properties in the vicinity. The independent valuer has confirmed that the annual rent is consistent with the prevailing market rates as of the date of the relevant agreements. On this basis, the Directors confirm that the premises under each of the lease agreements in this section are leased on normal commercial terms and the rental level payable under each of these lease agreements are at market level and are fair and reasonable.

## Exempted Continuing Connected Transactions (Continued)

### Lease of a motor vehicle

We lease a motor vehicle from Mr. ZHUANG. The annual rent payable to Mr. ZHUANG for the year ended 31 March 2017 was HK$0.15 million. The Directors anticipate that the amount of annual rent payable under the lease of motor vehicle will fall within the de minimis threshold set forth in Rule 14A.76 of the Listing Rules. As such, the transaction is exempted from the reporting, announcement requirements and the independent Shareholders' approval requirements. The Directors, including the independent non-executive Directors, confirm that the lease of motor vehicle is entered into on normal commercial terms and in the interests of the Shareholders as a whole.

## Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

## Major Customers and Suppliers

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases

| | |
|---|---|
| – the largest supplier | 97% |
| – five largest suppliers combined | 100% |

### Sales

| | |
|---|---|
| – the largest customer | 32% |
| – five largest customers combined | 79% |

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

## Corporate Governance Code

Details of the Group's compliance with corporate governance code of the Company are set forth in the "CORPORATE GOVERNANCE REPORT" on pages 23 to 33 in this annual report.

## Audit Committee

The audit committee consists of three independent non-executive Directors, namely Mr. TSANG Wah Kwong, Mr. HUNG Muk Ming and Mr. NI Zhenliang.

By reference to "A Guide for the Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants, written terms of reference which describe the authority and duties of the audit committee were prepared and adopted by the Board of the Company.

The annual results have been reviewed by the audit committee of the Company.

## Tax Relief and Exemption

The Directors are not aware of any tax relief and exemption available to the shareholders by reason of their holding the Company's securities.

## Pre-emptive Rights

There is no provision for the pre-emptive rights under the Company's articles of association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float required under the Listing Rules for the year ended 31 March 2017 and up to the date of this report.

## Permitted Indemnity Provision

A permitted indemnity provision for the benefit of the directors of the Company is currently in force and was in force throughout the financial year. The Company has taken out and maintained directors and officers liability insurance which provides appropriate cover for, among others, directors of the Company.

## 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 2017, the register of members will be closed from 23 August 2017 to 28 August 2017, 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 2017.

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 1 September 2017 to 5 September 2017, 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 31 August 2017.

## Annual General Meeting

The annual general meeting will be held on 28 August 2017. Shareholders should refer to details regarding the annual general meeting in the circular of the Company and the notice of meeting and form of proxy accompanying thereto.

## Auditor

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

By Order of the Board

**Zhuang Xiangsong**
*Chairman*

Hong Kong, 30 June 2017

Deloitte. 德勤

**TO THE MEMBERS OF CHINA ANIMATION CHARACTERS COMPANY LIMITED**
**華夏動漫形象有限公司**
*(incorporated in the Cayman Islands with limited liability)*

## Opinion

We have audited the consolidated financial statements of China Animation Characters Company Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 53 to 115, which comprise the consolidated statement of financial position as at 31 March 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Key Audit Matters (Continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Impairment of trade receivables*** | |
| We identified the impairment of trade receivables as a key audit matter due to its significance to the consolidated statement of financial position and management judgement associated with the assessment of impairment of trade receivables.<br><br>Referring to note 20 to the consolidated financial statements, the carrying amount of trade receivables in the consolidated statement of financial position as at 31 March 2017 amounted to approximately HK$577,632,000, without any impairment loss recognised on trade receivables.<br><br>As set out in note 4 to the consolidated financial statements, in determining the impairment loss on trade receivables, the management considered the ageing of the trade receivables balances, debtors' repayment history, subsequent settlements and current creditworthiness of each customer. | Our procedures in relation to impairment of trade receivables included:<br><br>• Understanding management's assessment in estimating the recoverability of trade receivables;<br><br>• Comparing the ageing of trade receivables with the agreed credit periods and invoice dates of the customers, on a sample basis;<br><br>• Tracing the subsequent settlements to the bank slips, on a sample basis;<br><br>• Assessing the reasonableness of recoverability of trade receivables assessed by the management with reference to the ageing of the trade receivables balances and subsequent settlements; and<br><br>• Evaluating of historical management's assessment of recoverability of trade receivables and current creditworthiness of a selection of customers. |

## Key Audit Matters (Continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Valuation of intangible assets and obligation arising from a put option to non-controlling interests in relation to the acquisition of CA Sega Group (as defined in note 4 to the consolidated financial statements)*** | |
| We identified the valuation of intangible assets and obligation arising from a put option to non-controlling interests in relation to the acquisition of CA Sega Group as a key audit matter due to the significant judgment exercised by the Group's management on the valuation of intangible assets and obligation arising from a put option to non-controlling interests as at the acquisition date.<br><br>As disclosed in note 33 to the consolidated financial statements, the acquisition has been accounted for using the purchase method, the intangible assets arising as a result of the acquisition amounted to HK$24,622,000.<br><br>The fair value of the intangible assets was calculated by an external independent valuer engaged by the Group (the "**Valuer**") based on the Relief-from-Royalty Method under Income Approach by using the budgeted sales, discount rate and terminal growth rate as key inputs.<br><br>The fair value of the obligation arising from a put option to non-controlling interests of CA Sega Group was determined by using a Binominal Option Pricing Model performed by the Valuer, which used the exercise price, risk-free rate, exercise period, unaudited consolidated net asset value and cash flow forecast of CA Sega Group, adjustment to future stock price and volatility as key inputs. The fair values of obligation arising from a put option to non-controlling interests was approximately HK$7,868,000 as at the date of initial recognition. Details of the obligation arising from a put option to non-controlling interests is disclosed in note 26 to the consolidated financial statements. | Our procedures in relation to the valuation of intangible assets and obligation arising from a put option to non-controlling interests in relation to the acquisition of CA Sega Group included:<br><br>• Obtaining an understanding from management on the valuation methodologies on intangible assets and obligation arising from a put option to non-controlling interests and the key inputs used in the valuations, with the involvement of the Valuer;<br><br>• Assessing the competence, capabilities and objectivity of the Valuer;<br><br>• Involving our valuation experts to evaluate the appropriateness of the valuation methodology in determining of intangible assets and the reasonableness of the budgeted sales, discount rate and terminal growth rate used; and<br><br>• Involving our valuation experts to evaluate the appropriateness of the valuation methodology in determining of the obligation arising from a put option to non-controlling interests and the key inputs including the exercise price, risk-free rate, exercise period, unaudited consolidated net asset value and cash flow forecast of CA Sega Group, adjustment to future stock price and volatility used in the valuation. |

## Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Lee Ka Kei.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
30 June 2017

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2017

| | Notes | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|---|
| Revenue | 5 | 770,651 | 544,880 |
| Cost of sales and services | | (503,571) | (376,764) |
| Gross profit | | 267,080 | 168,116 |
| Other income | 6 | 2,272 | 2,977 |
| Selling and distribution expenses | | (22,584) | (19,694) |
| Administrative expenses | | (78,083) | (47,474) |
| (Loss) gain on held-for-trading investments | | (15,680) | 17,800 |
| Fair value gain on obligation arising from a put option to non-controlling interests | 26 | 656 | – |
| Exchange loss on pledged bank deposit and held-to-maturity investment | | (455) | (5,581) |
| Share of result of an associate | 18 | (16) | – |
| Finance costs | | (3,175) | (805) |
| Other expenses | | (22,190) | (1,598) |
| Profit before taxation | | 127,825 | 113,741 |
| Taxation | 7 | (23,753) | (15,351) |
| Profit for the year | 8 | 104,072 | 98,390 |
| **Other comprehensive (expense) income:** | | | |
| Item that will not be reclassified to profit or loss: | | | |
| Remeasurement of defined benefit plans | | 197 | – |
| Item that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences arising on translation of foreign subsidiaries | | (3,745) | 1,347 |
| Other comprehensive (expense) income for the year | | (3,548) | 1,347 |
| Total comprehensive income for the year | | 100,524 | 99,737 |
| Profit (loss) for the year attributable to: | | | |
| Owners of the Company | | 94,840 | 110,372 |
| Non-controlling interests | | 9,232 | (11,982) |
| | | 104,072 | 98,390 |
| Total comprehensive income (expense) attributable to: | | | |
| Owners of the Company | | 94,430 | 110,756 |
| Non-controlling interests | | 6,094 | (11,019) |
| | | 100,524 | 99,737 |
| Earnings per share | 11 | | |
| – Basic (HK$) | | 0.11 | 0.13 |
| – Diluted (HK$) | | 0.11 | 0.13 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2017

| | Notes | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | 249,430 | 227,861 |
| Goodwill | 13 | 2,426 | – |
| Intangible assets | 14 | 84,486 | 24,254 |
| Held-to-maturity investment | 16 | – | 14,626 |
| Deposits for acquisition of property, plant and equipment | | 204,786 | 204,593 |
| Deposit for acquisition of long term investment | 17 | 5,359 | 5,359 |
| Interest in an associate | 18 | 5,645 | – |
| Rental deposits | | 33,707 | – |
| | | 585,839 | 476,693 |
| **Current assets** | | | |
| Inventories | 19 | 8,290 | – |
| Trade receivables | 20 | 577,632 | 208,934 |
| Other receivables, deposits and prepayments | | 22,664 | 12,974 |
| Prepayment to a game developer | | 9,200 | 20,000 |
| Held-for-trading investments | 21 | 66,920 | 67,560 |
| Held-to-maturity investment | 16 | 14,171 | – |
| Pledged bank deposit | 22 | 95,264 | 95,264 |
| Bank balances and cash | 23 | 58,217 | 81,619 |
| | | 852,358 | 486,351 |
| **Current liabilities** | | | |
| Trade and notes payables | 24 | 32,377 | 16,529 |
| Other payables and accruals | 25 | 91,278 | 24,269 |
| Amount due to a director | 27 | 16,587 | 39,027 |
| Amount due to non-controlling interests | 28 | 26,958 | – |
| Provision for reinstatement costs for rented premises | 30 | 2,364 | – |
| Tax payable | | 122,003 | 98,184 |
| Secured bank borrowings | 31 | 94,550 | 94,550 |
| | | 386,117 | 272,559 |
| **Net current assets** | | 466,241 | 213,792 |
| **Total assets less current liabilities** | | 1,052,080 | 690,485 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 29 | 6,449 | – |
| Retirement benefit obligations | 36 | 2,957 | – |
| Provision for reinstatement costs for rented premises | 30 | 38,719 | – |
| Obligation arising from a put option to non-controlling interests | 26 | 6,383 | – |
| Put option derivative | 26 | 829 | – |
| | | 55,337 | – |
| **Net assets** | | 996,743 | 690,485 |
| **Capital and reserves** | | | |
| Share capital | 32 | 92,006 | 85,822 |
| Reserves | | 879,886 | 584,600 |
| Equity attributable to owners of the Company | | 971,892 | 670,422 |
| Non-controlling interests | | 24,851 | 20,063 |
| **Total equity** | | 996,743 | 690,485 |

The consolidated financial statements on pages 53 to 115 were approved and authorised for issue by the board of directors on 30 June 2017 and are signed on its behalf by:

| | |
|---|---|
| Zhuang Xiangsong | Ting Ka Fai Jeffrey |
| *DIRECTOR* | *DIRECTOR* |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2017

| | Attributable to owners of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Translation reserve HK$'000 | Share-based compensation reserve HK$'000 | Other reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| At 1 April 2015 | 42,911 | 380,878 | 62 | – | – | 134,407 | 558,258 | (3,048) | 555,210 |
| Profit (loss) for the year | – | – | – | – | – | 110,372 | 110,372 | (11,982) | 98,390 |
| Exchange differences arising on translation of foreign subsidiaries | – | – | 384 | – | – | – | 384 | 963 | 1,347 |
| Total comprehensive income (expense) for the year | – | – | 384 | – | – | 110,372 | 110,756 | (11,019) | 99,737 |
| Bonus shares issued as interim scrip dividend (note 10) | 42,911 | – | – | – | – | (42,911) | – | – | – |
| Contribution from non-controlling interests of a subsidiary | – | – | – | – | – | – | – | 34,130 | 34,130 |
| Recognition of equity-settled share-based payments | – | – | – | 1,408 | – | – | 1,408 | – | 1,408 |
| At 31 March 2016 | 85,822 | 380,878 | 446 | 1,408 | – | 201,868 | 670,422 | 20,063 | 690,485 |
| Profit for the year | – | – | – | – | – | 94,840 | 94,840 | 9,232 | 104,072 |
| Exchange differences arising on translation of foreign subsidiaries | – | – | (578) | – | – | – | (578) | (3,167) | (3,745) |
| Remeasurement on defined benefit pension plans | – | – | – | – | 168 | – | 168 | 29 | 197 |
| Total comprehensive income (expense) for the year | – | – | (578) | – | 168 | 94,840 | 94,430 | 6,094 | 100,524 |
| Issue of new shares | 6,184 | 200,065 | – | – | – | – | 206,249 | – | 206,249 |
| Transaction costs attribute to issue of new shares | – | (2,217) | – | – | – | – | (2,217) | – | (2,217) |
| Dividend recognised as distribution (note 10) | – | – | – | – | – | (8,582) | (8,582) | – | (8,582) |
| Recognition of equity-settled share-based payments | – | – | – | 11,590 | – | – | 11,590 | – | 11,590 |
| Acquisition of subsidiaries (note 33) | – | – | – | – | – | – | – | 6,562 | 6,562 |
| Obligation arising from a put option to non-controlling interests (note 26) | – | – | – | – | – | – | – | (7,868) | (7,868) |
| At 31 March 2017 | 92,006 | 578,726 | (132) | 12,998 | 168 | 288,126 | 971,892 | 24,851 | 996,743 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2017

| | Note | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit before taxation | | **127,825** | 113,741 |
| Adjustments for: | | | |
| Amortisation of intangible assets | | **6,365** | 2,201 |
| Increase in defined benefit plans | | **457** | – |
| Depreciation of property, plant and equipment | | **49,500** | 12,230 |
| Finance costs | | **3,175** | 805 |
| Fair value gain on obligation arising from a put option to non-controlling interests | | **(656)** | – |
| Gain on held-for-trading investments | | **15,680** | (17,800) |
| Interest income | | **(1,392)** | (2,208) |
| Loss on disposal of property, plant and equipment | | **1,439** | – |
| Share-based payments expense | | **11,590** | 1,408 |
| Share of result of an associate | | **16** | – |
| Operating cash flows before movements in working capital | | **213,999** | 110,377 |
| Increase in trade receivables | | **(361,291)** | (143,994) |
| Increase in other receivables, deposits and prepayments | | **(4,378)** | (3,149) |
| Increase in prepayment to a game developer | | **–** | (20,000) |
| Increase in trade and notes payables | | **9,334** | 40,248 |
| Increase (decrease) in other payables and accruals | | **19,998** | (18,698) |
| Increase in inventories | | **(108)** | – |
| **CASH USED IN OPERATIONS** | | **(122,446)** | (35,216) |
| Income tax refunded (paid) | | **106** | (761) |
| **NET CASH USED IN OPERATING ACTIVITIES** | | **(122,340)** | (35,977) |
| **INVESTING ACTIVITIES** | | | |
| Deposits paid for and purchase of property, plant and equipment | | **(2,065)** | (220,464) |
| Placement of pledged bank deposit | | **–** | (195,264) |
| Purchase of intangible assets | | **(30,000)** | (19,979) |
| Purchase of held-for-trading investments | | **(15,040)** | (49,760) |
| Deposit paid for acquisition of long term investment | | **–** | (5,359) |
| Investment in an associate | | **(5,658)** | – |
| Interest received | | **1,392** | 2,208 |
| Acquisition of subsidiaries, net of cash and cash equivalents acquired | 33 | **324** | – |
| Proceeds on disposal of property, plant and equipment | | **250** | – |
| Purchase of held-to-maturity investment | | **–** | (15,471) |
| Repayments from a supplier | | **–** | 12,500 |
| Withdrawal of pledged bank deposit | | **–** | 100,000 |
| **NET CASH USED IN INVESTING ACTIVITIES** | | **(50,797)** | (391,589) |

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| **FINANCING ACTIVITIES** | | |
| New bank borrowings raised | – | 347,665 |
| Repayment to a director | (22,440) | – |
| Advances from a director | – | 39,027 |
| Contributions from non-controlling shareholders | – | 34,130 |
| Proceeds from issue of shares | 206,249 | – |
| Transaction cost on issue of shares | (2,217) | – |
| Repayment of bank borrowings | – | (253,115) |
| Interest paid | (3,198) | (805) |
| Repayment of obligation under a finance lease | (22,609) | – |
| Dividends paid | (8,582) | – |
| **NET CASH FROM FINANCING ACTIVITIES** | 147,203 | 166,902 |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | (25,934) | (260,664) |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR** | 81,619 | 339,017 |
| **EFFECTS OF FOREIGN EXCHANGE RATE CHANGES** | 2,532 | 3,266 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH** | 58,217 | 81,619 |

## 1. Corporate Information

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 Islands. Its ultimate controlling shareholder is Mr. Zhuang Xiang Song (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 its subsidiaries are engaged in the trading of animation derivative products, licensing of animation characters, 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 Amendments to Hong Kong Financial Reporting Standards ("HKFRSs")

### Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") for the first time in the current year:

| | |
|---|---|
| Amendments to HKFRS 11 | Accounting for Acquisitions of Interests in Joint Operations |
| Amendments to HKAS 1 | Disclosure Initiative |
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer Plants |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment Entities: Applying the Consolidation Exception |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2012–2014 Cycle |

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

## 2. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

### New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

| | |
|---|---|
| HKFRS 9 | Financial Instruments[1] |
| HKFRS 15 | Revenue from Contracts with Customers and the related Amendments[1] |
| HKFRS 16 | Leases[2] |
| Hong Kong (IFRIC) Interpretation 22 | Foreign Currency Transactions and Advance Consideration[1] |
| Amendments to HKAS 7 | Disclosure Initiative[4] |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses[4] |
| Amendments to HKAS 40 | Transfers of Investment Property[1] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2014–2016 Cycle[5] |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1] |

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2017
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

### HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

## 2. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

### HKFRS 9 Financial Instruments (Continued)

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss ("**FVTPL**"), HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments as at 31 March 2017, as facts and circumstances may change during the period leading up to the initial date of application of HKFRS 9, which is expected to be 1 April 2018 as the Group does not intend to early apply the standard, the assessment of the potential impact is subject to change.

### HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer

- Step 2: Identify the performance obligations in the contract

- Step 3: Determine the transaction price

- Step 4: Allocate the transaction price to the performance obligations in the contract

- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

## 2. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

### HKFRS 15 Revenue from Contracts with Customers (Continued)

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

### 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. 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 that 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 operating lease payments as operating cash flows. Under 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 cash flows/operating cash flows respectively.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 March 2017, the Group has non-cancellable operating lease commitments of approximately HK$141,819,000 as disclosed in note 38. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

## 2. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

### Amendments to HKAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specifically, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

Except as described above, the directors of the Company anticipate that the application of other new and amendments to HKFRSs in issue but not yet effective will have no material impact on the Group's consolidated financial statements.

## 3. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are within the scope of HKAS 17 Leases and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 Impairment of Assets.

A fair value measurement of non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

## 3. Significant Accounting Policies (Continued)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income and expense of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

### Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

## 3. Significant Accounting Policies (Continued)

### Business combinations (Continued)

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

### Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not large than an operating segment.

A cash-generating unit (or groups of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit (or groups of cash-generating units) may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or groups of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit (or groups of cash-generating units).

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

## 3. Significant Accounting Policies (Continued)

### Interest in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of loss of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interest in the associate that are not related to the Group.

## 3. Significant Accounting Policies (Continued)

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Revenue from admission tickets sold is recognised when tickets are accepted and surrendered by the customer. Revenue from tickets sold for use at a future date is deferred until the tickets are surrendered or have expired.

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The Group as lessor*

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

*The Group as lessee*

Operating lease payments, including the cost of acquiring land held under operating lease, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

## 3. Significant Accounting Policies (Continued)

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired on an acquisitions of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

### Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligations, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

## 3. Significant Accounting Policies (Continued)

### Retirement benefit costs and termination benefits

For defined retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The Group presents the first two components of defined benefit costs in profit or loss in the line item. Curtailment gains and losses are accounted for as past service costs. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds and reductions in future contributions to the plans.

Payments to the Mandatory Provident Fund Scheme and other state-managed retirement benefit scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

### Share-based payment transactions

*Equity-settled share-based payment transactions*

Share options granted to employees

Equity-settled share-based payment granted to employees and others providing similar services are measured at the fair value at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 40 to the Group's consolidated financial statements.

The fair value determined at the grant date of the equity-settled share-based payment is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will ultimately vest, with a corresponding increase in share-based compensation reserve. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based compensation reserve.

## 3. Significant Accounting Policies (Continued)

### Share-based payment transactions (Continued)

*Equity-settled share-based payment transactions (Continued)*

Share options granted to employees (Continued)

When share options are exercised, the amount previously recognised in share-based compensation reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based compensation reserve will be transferred to retained profits.

Share options granted to consultants

Equity-settled share-based transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair value of the goods or services received are recognised as expenses, with a corresponding increase to the share-based compensation reserve, when the Group obtains the goods or when the counterparties render the service, unless the goods or services qualify for recognition as assets.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interest are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

## 3. Significant Accounting Policies (Continued)

### Taxation (Continued)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

### Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or for administrative purposes (other than properties under construction as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### Intangible assets

*Intangible assets acquired separately*

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

## 3. Significant Accounting Policies (Continued)

### Intangible assets (Continued)

*Intangible assets acquired in a business combination*

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

### Impairment on tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairments loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

## 3. Significant Accounting Policies (Continued)

### Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

## 3. Significant Accounting Policies (Continued)

### Financial instruments (Continued)

*Financial assets*

Financial assets are classified into the following specified categories, financial assets at FVTPL, loans and receivables and held-to-maturity investment. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets at FVTPL are held-for-trading financial asset.

A financial asset is classified as held-for-trading if:

- it has been acquired principally for the purpose of selling in the near term;
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is disclosed as "gain on held-for-trading investments". Fair value is determined in the manner described in note 21.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intention and ability to hold to maturity other than:

- those that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the entity designates as available for sale; and
- those that meet the definition of loans and receivables.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment.

## 3. Significant Accounting Policies (Continued)

### Financial instruments (Continued)

*Financial assets (Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, pledged bank deposit and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period ranging from 30 days to 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

An amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

## 3. Significant Accounting Policies (Continued)

### Financial instruments (Continued)

*Financial liabilities and equity instruments*

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

Financial liabilities including trade and notes payables, other payables and accruals, amount due to a director, amount due to non-controlling interests, obligation arising from a put option to non-controlling interests, put option derivatives and secured bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when they are designated as at FVTPL on initial recognition.

A financial liability may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gain or loss arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liabilities. Fair value is determined in the manner described in note 26.

## 3. Significant Accounting Policies (Continued)

### Financial instruments (Continued)

*Financial liabilities and equity instruments (Continued)*

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Obligation arising from a put option on shares of a subsidiary written to non-controlling shareholders

Put option written to non-controlling shareholders, which will be settled other than by exchange of fixed amount of cash for a fixed number of shares in a subsidiary is treated as derivative and is recognised at fair value upon initial recognition. Any changes of fair value in subsequent reporting dates are recognised in profit or loss.

The gross financial liability arising from the put option is recognised when contractual obligation to repurchase the shares in a subsidiary is established even if the obligation is conditional on the counterparty exercising a right to sell back the shares to the Group. The liability for the share redemption amount is initially recognised and measured at present value of the estimated repurchase price with the corresponding debit to the non-controlling interests. In subsequent periods, the remeasurement of the present value of the estimated gross obligation under the written put option to the non-controlling shareholders is recognised in profit or loss.

*Derecognition*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## 4. Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### Impairment of trade receivables

The Group makes allowance for bad and doubtful debts based on management's assessment of the recoverability of trade receivable. Impairment are made on trade receivables whenever there is any objective evidence that the balance may not be recoverable. In determining the impairment loss on trade receivables, the management considers the ageing of the trade receivables balances, debtors' repayment history, subsequent settlements and current creditworthiness of each customer. Where the actual future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise. As at 31 March 2017, the carrying amount of trade receivables was HK$577,632,000 (2016: HK$208,934,000), without any impairment loss recognised on trade receivables.

### Estimated impairment of goodwill

In determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating units ("**CGU**") to which goodwill have been allocated in the segment of establishment and operation of indoor theme parks, which is the higher of the value in use or fair value less costs of disposal.

The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU, terminal growth rate and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash, a material impairment loss or further impairment loss may arise.

As at 31 March 2017, the carrying amount of goodwill was HK$2,426,000. Details of the impairment testing on goodwill are disclosed in note 15.

### Estimated useful lives of property, plant and equipment

The Group depreciates the property, plant and equipment over their estimated useful lives, using straight-line method. The estimated useful lives that the Group depreciates the property, plant and equipment reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the assets. Actual economic lives may differ from estimated useful lives. If the actual useful lives of property, plant and equipment are less than the original estimated useful lives due to changes in commercial and technological environment, such difference will impact the depreciation charges for the remaining periods.

At 31 March 2017, the carrying amount of property, plant and equipment was approximately HK$249,430,000 (2016: HK$227,861,000). Details of the useful lives of the property, plant and equipment are disclosed in note 12.

## 4. Key Sources of Estimation Uncertainty (Continued)

### Estimated useful lives of intangible assets

The Group's management determines the estimated useful lives and related amortisation charges for its intangible assets. This estimate is based on the historical experience of the actual useful lives of intangible assets of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to market conditions. Actual economic lives may differ from estimated useful lives. If the actual useful lives of intangible assets are less than the original estimated useful lives due to changes in commercial and technological environment, such difference will impact the amortisation charges for the remaining periods.

At 31 March 2017, the carrying amount of intangible assets is approximately HK$84,486,000 (2016: HK$24,254,000). Details of the useful lives of the intangible assets are disclosed in note 14.

### Valuation of obligation arising from a put option to non-controlling interests and put option derivatives

The directors of the Company use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. The inputs to those valuation pricing models are taken from observable markets where possible but where this is not feasible, a degree of estimate is required. The estimates include an unaudited consolidated net asset value and cash flow forecast of CA Sega Joypolis Limited and its subsidiary (collectively referred to as the "**CA Sega Group**"), discount rate and considerations of input such as adjustment factors to stock price and volatility. Changes in assumptions about these factors could affect the carrying amounts of the obligation arising from a put option to non-controlling shareholders and put option derivatives.

As at 31 March 2017, the fair values of the Group's obligation arising from a put option to non-controlling interests and put option derivatives are approximately HK$6,383,000 and HK$829,000 (2016: Nil).

## 5. Revenue and Segment Information

Revenue represents revenue arising from trading of animation derivative products, licensing of animation characters, 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) trading of animation derivative products, (ii) licensing of animation characters, (iii) establishment and operation of indoor theme parks and (iv) multimedia animation entertainment. The CODM considers the Group has four operating and reportable segments which are based on the internal organisation and reporting structure. This is the basis upon which the Group is organised.

## 5. Revenue and Segment Information (Continued)

### Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segments:

| | Trading of animation derivative products HK$'000 | Licensing of animation characters HK$'000 | Establishment and operation of indoor theme parks HK$'000 | Multimedia animation entertainment HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **For the year ended 31 March 2017** | | | | | |
| Segment revenue | **545,478** | **–** | **220,809** | **4,364** | **770,651** |
| Segment profit (loss) | **164,370** | **(714)** | **63,782** | **(8,138)** | **219,300** |
| Unallocated income | | | | | **2,272** |
| Unallocated expenses | | | | | **(75,532)** |
| Loss on held-for-trading investments | | | | | **(15,680)** |
| Share of result of an associate | | | | | **(16)** |
| Finance cost | | | | | **(3,175)** |
| Fair value gain on obligation arising from a put option to non-controlling interests | | | | | **656** |
| Profit before taxation | | | | | **127,825** |
| **For the year ended 31 March 2016** | | | | | |
| Segment revenue | 508,600 | – | 33,362 | 2,918 | 544,880 |
| Segment profit (loss) | 159,193 | (1,010) | (12,932) | (9,143) | 136,108 |
| Unallocated income | | | | | 2,977 |
| Unallocated expenses | | | | | (42,339) |
| Finance cost | | | | | (805) |
| Gain on held-for-trading investments | | | | | 17,800 |
| Profit before taxation | | | | | 113,741 |

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3.

Segment profit represents the profit earned by each segment without allocation of certain administrative expenses, share-based payment expenses, (loss) gain on held-for-trading investments, 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.

## 5. Revenue and Segment Information (Continued)

### Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating and reportable segment:

*Segment assets*

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Trading of animation derivative products | 457,620 | 186,995 |
| Licensing of animation characters | – | 594 |
| Establishment and operation of indoor theme parks | 623,520 | 416,932 |
| Multimedia animation entertainment | 82,398 | 56,511 |
| Total segment assets | 1,163,538 | 661,032 |
| Property, plant and equipment | 34,047 | 41,707 |
| Other receivables, deposits and prepayments | 3,614 | 1,236 |
| Goodwill | 2,426 | – |
| Held-to-maturity investment | 14,171 | 14,626 |
| Held-for-trading investments | 66,920 | 67,560 |
| Pledged bank deposit | 95,264 | 95,264 |
| Bank balances and cash | 58,217 | 81,619 |
| Consolidated assets | 1,438,197 | 963,044 |

*Segment liabilities*

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Trading of animation derivative products | 141,614 | 114,686 |
| Establishment and operation of indoor theme parks | 132,636 | 14,965 |
| Multimedia animation entertainment | 216 | 2,040 |
| Total segment liabilities | 274,466 | 131,691 |
| Other payables and accruals | 21,681 | 7,291 |
| Amount due to a director | 16,587 | 39,027 |
| Amount due to non-controlling interests | 26,958 | – |
| Obligation arising from a put option to non-controlling interests | 6,383 | – |
| Put option derivatives | 829 | – |
| Secured bank borrowings | 94,550 | 94,550 |
| Consolidated liabilities | 441,454 | 272,559 |

Segment assets represent certain property, plant and equipment, intangible assets, deposits for acquisition of plant and equipment, deposits for acquisition of long term investment, interest in an associate, inventories, trade receivables, certain other receivables, 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, deferred tax liabilities, retirement benefit obligations, provision for reinstatement costs for rented premises, tax payable, obligation arising from a put option to non-controlling interests and put option derivatives 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.

## 5. Revenue and Segment Information (Continued)

### Other segment information

| | Trading of animation derivative products HK$'000 | Licensing of animation characters HK$'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 |
|---|---|---|---|---|---|---|---|
| **2017** | | | | | | | |
| Amounts included in the measurement of segment profit or loss and segment assets: | | | | | | | |
| Additions to non-current assets | – | – | 4,922 | 43,073 | 47,995 | 156 | 48,151 |
| Depreciation and amortisation | – | 594 | 42,146 | 5,406 | 48,146 | 7,719 | 55,865 |
| Loss on disposal of property, plant and equipment | – | – | 1,392 | – | 1,392 | 47 | 1,439 |
| Amounts regularly provided to the CODM but not included in the measure of segment profit or loss: | | | | | | | |
| Interest income | – | – | – | – | – | 1,392 | 1,392 |
| Interest expense | – | – | – | – | – | 3,175 | 3,175 |
| Taxation | 14,685 | – | 9,068 | – | 23,753 | – | 23,753 |
| **2016** | | | | | | | |
| Amounts included in the measurement of segment profit or loss and segment assets: | | | | | | | |
| Additions to non-current assets | – | – | 265,210 | 26,450 | 291,660 | 333 | 291,993 |
| Depreciation and amortisation | – | 890 | 4,465 | 1,234 | 6,589 | 7,842 | 14,431 |
| Amounts regularly provided to the CODM but not included in the measure of segment profit or loss: | | | | | | | |
| Interest income | – | – | – | – | – | 2,208 | 2,208 |
| Interest expense | – | – | – | – | – | 805 | 805 |
| Taxation | 13,311 | – | 2,040 | – | 15,351 | – | 15,351 |

Note: Addition to non-current assets excluded goodwill, held-to-maturity investment, interest in an associate and rental deposit.

### Revenue from major products and services

The following is an analysis of the Group's revenue from its major products and services:

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Trading of animation derivative products | 545,478 | 508,600 |
| Sales of admission tickets of indoor theme parks and multimedia animation entertainment | 225,173 | 36,280 |
| Total revenue | 770,651 | 544,880 |

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.

## 5. Revenue and Segment Information (Continued)

### Geographical information

The Group's operations are located in Hong Kong, Japan and the PRC.

Information about the Group's revenue from external customers is presented based on the geographical locations irrespective of the origin of goods/services. Information about the Group's non-current assets is presented based on the geographical location of the assets.

*Revenue from external customers*

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| PRC | 168,286 | 35,246 |
| Hong Kong | 1,933 | 4,769 |
| Japan | 600,432 | 504,865 |
| | 770,651 | 544,880 |

*Non-current assets by geographical location*

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| PRC* | 477,234 | 456,624 |
| Hong Kong | 5,402 | 5,443 |
| Japan | 103,203 | – |
| | 585,839 | 462,067 |

Note: Non-current assets excluded held-to-maturity investment.

* The amount of trademark arising from acquisition of subsidiaries included of HK$25,167,000 is allocated to PRC as it is expected to be used in the PRC.

### Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group, which was mainly derived from trading of animation derivative products, are as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Customer A | 247,522 | 194,740 |
| Customer B | 220,539 | 234,777 |

## 6. Other Income

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Interest income | 1,392 | 2,208 |
| Others | 880 | 769 |
| | 2,272 | 2,977 |

## 7. Taxation

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Hong Kong Profits Tax: | | |
| Current tax | 33,419 | 28,993 |
| Overprovision in prior years | (9,666) | (13,642) |
| | 23,753 | 15,351 |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. No provision for the PRC Enterprise Income Tax has been made for PRC subsidiaries as either the assessable profit is wholly absorbed by tax losses brought forward or no assessable profit is derived from the subsidiaries in the PRC during both years.

Corporate tax in Japan is calculated at 25.5% on the estimated assessable profit for both years. Pursuant to relevant laws and regulations in Japan, withholding tax is imposed at 20.42% and 5% on dividends declared to local investors and foreign investors, respectively, in respect of profit generated by subsidiaries incorporated in Japan. No provision for Japan corporate income tax has been made for the year 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 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 31 March 2017, the IRD has not issued any penalty notice to the Group in respect of the late notification of chargeability for the relevant years, and after seeking professional advice, the directors believe that claim term of the year of assessment 2010/11 have been expired under the six-year statutory time bar after the year ended 31 March 2017. Accordingly, the tax provision of approximately HK$9,666,000 for the year of assessment 2010/11 was reversed during the year ended 31 March 2017.

## 7. Taxation (Continued)

The Group has lodged the offshore profits claims in respect of the trading income (other than trading income derived from Hong Kong affiliates of Japanese customers) and licensing income which were derived outside Hong Kong. Hence, the Group estimated the total tax payable for the years of assessment of 2008/09 to 2012/13 (on the assumption that the aforesaid offshore profit claims will be accepted by the IRD) amounted to HK$4,566,000 and has already paid such amount to the IRD based on the tax returns received. As at 31 March 2017, the offshore profits claims are still under review by the IRD. After seeking professional advice, the directors of the Company opined that in the event that the offshore profits claims in respect of the trading income are not accepted but the offshore profits claims in respect of the licensing income are accepted by the IRD, the estimated outstanding tax payable by the Group for the six years ended 31 March 2017 would be HK$110,934,000 after considering the overprovision of years of assessment 2008/09 to 2010/11 (2016: HK$96,143,000). Having taken into account professional advice, the directors believe that the Group has made appropriate provision in respect of the possible tax liability.

The tax charge for the year can be reconciled to the profit before taxation per consolidated statement of profit or loss and other comprehensive income as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Profit before taxation | 127,825 | 113,741 |
| Tax at the applicable tax rate of 16.5% | 21,091 | 18,767 |
| Tax effect of share of result of an associate | 3 | – |
| Tax effect of expenses not deductible for tax purpose | 7,706 | 8,890 |
| Tax effect of income not taxable for tax purpose | (85) | (35) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | 2,340 | (2,056) |
| Tax effect of tax losses not recognised | 9,225 | 4,933 |
| Utilisation of tax losses previously not recognised | (6,861) | (1,506) |
| Overprovision of taxation in prior years | (9,666) | (13,642) |
| | 23,753 | 15,351 |

## 8. Profit for the Year

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Profit for the year has been arrived at after charging (crediting): | | |
| Staff costs: | | |
| Directors' emoluments (note 9) | 6,545 | 5,141 |
| Other staff costs | | |
| Salaries and other benefits | 41,729 | 16,983 |
| Retirement benefits scheme contributions | 6,541 | 1,432 |
| Share-based payments expense | 3,195 | 386 |
| | 58,010 | 23,942 |
| Auditor's remuneration | | |
| – audit services | 4,257 | 2,862 |
| – non-audit services | 2,773 | 1,110 |
| | 7,030 | 3,972 |
| Cost of inventories recognised as expenses | 385,492 | 343,949 |
| Depreciation of property, plant and equipment | 49,500 | 12,230 |
| Amortisation of intangible assets (included in cost of sales and services) | 2,845 | 1,974 |
| Amortisation of intangible assets (included in administrative expenses) | 3,520 | 227 |
| Loss on disposal of property, plant and equipment | 1,439 | – |
| Transaction costs for acquisition of subsidiaries (included in other expenses) | 15,806 | – |
| Research and development costs recognised as an expense (included in other expenses) | 6,106 | 1,541 |
| Minimum operating lease rentals in respect of rented vehicles | 150 | 130 |
| Lease payments under operating leases in respect of rented premises | | |
| Minimum lease payments | 30,301 | 7,169 |
| Contingent rents (note) | 993 | – |
| Net foreign exchange (gains) losses | (267) | 5,000 |

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. Directors', Chief Executive's and Employees' Emoluments

### Directors and chief executive's emoluments

The emoluments paid or payable to each of the six (2016: six) directors of the Company are as follows:

**For the year ended 31 March 2017**

| | Fees HK$'000 | Salaries and other benefits HK$'000 | Retirement benefit scheme contributions HK$'000 | Incentive performance bonuses HK$'000 | Share-based payments expense HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Executive directors: | | | | | | |
| Mr. Zhuang Xiang Song | 1,056 | 744 | 18 | 150 | 535 | 2,503 |
| Mr. Ting Ka Fai Jeffrey | 660 | 940 | 18 | 133 | 535 | 2,286 |
| Ms. Liu Mo Xiang | 400 | 32 | 39 | – | 535 | 1,006 |
| | 2,116 | 1,716 | 75 | 283 | 1,605 | 5,795 |
| Independent non-executive directors: | | | | | | |
| Mr. Ni Zhen Liang | 250 | – | – | – | – | 250 |
| Mr. Tsing Wah Kwong | 250 | – | – | – | – | 250 |
| Mr. Hung Muk Ming | 250 | – | – | – | – | 250 |
| | 750 | – | – | – | – | 750 |
| | 2,866 | 1,716 | 75 | 283 | 1,605 | 6,545 |

For the year ended 31 March 2016

| | Fees HK$'000 | Salaries and other benefits HK$'000 | Retirement benefit scheme contributions HK$'000 | Incentive performance bonuses HK$'000 | Share-based payments expense HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Executive directors: | | | | | | |
| Mr. Zhuang Xiang Song | 1,800 | – | 27 | 150 | 65 | 2,042 |
| Mr. Ting Ka Fai Jeffrey | 1,600 | – | 18 | 133 | 65 | 1,816 |
| Ms. Liu Mo Xiang | 400 | 32 | 36 | – | 65 | 533 |
| | 3,800 | 32 | 81 | 283 | 195 | 4,391 |
| Independent non-executive directors: | | | | | | |
| Mr. Ni Zhen Liang | 250 | – | – | – | – | 250 |
| Mr. Tsing Wah Kwong | 250 | – | – | – | – | 250 |
| Mr. Hung Muk Ming | 250 | – | – | – | – | 250 |
| | 750 | – | – | – | – | 750 |
| | 4,550 | 32 | 81 | 283 | 195 | 5,141 |

Mr. Zhuang Xiang Song is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emolument shown above were for their services as directors of the Company.

## 9. Directors', Chief Executive's and Employees' Emoluments (Continued)

### Employees

Of the five individuals with the highest emoluments in the Group, three (2016: three) were directors and the Chief Executive of the Company whose emoluments are included above. The emoluments of the remaining two (2016: two) individuals were as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Salaries and other benefits | 2,064 | 2,003 |
| Retirement benefit scheme contributions | 36 | 36 |
| Incentive performance bonus | 50 | 50 |
| Share-based payments expense | 1,369 | 165 |
| | 3,519 | 2,254 |

Their emoluments were within the following bands:

| | 2017 | 2016 |
|---|---|---|
| HK$ Nil to HK$1,000,000 | – | 1 |
| HK$1,500,001 to HK$2,000,000 | 2 | 1 |

Incentive performance bonus was determined with reference to the Group's operating results, individual performance and comparable market statistics.

No emoluments have been paid by the Group to any of the director or the Chief Executive of the Company or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 March 2017 and 2016. None of the directors nor the Chief Executive waived any emoluments during the years ended 31 March 2017 and 2016.

## 10. Dividends

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Dividends recognised as distributions during the year: | | |
| – Bonus shares issued as interim scrip dividend (note 32) | – | 42,911 |
| – Final dividend of HK1 cent per share for the year ended 31 March 2016 | 8,582 | – |
| | 8,582 | 42,911 |

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 March 2017 of HK2 cents per ordinary share of an aggregate amount of HK$18,401,000 has been proposed by the Company and is subject to approval by the shareholders in the forthcoming general meeting.

## 11. Earnings Per Share

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Earnings: | | |
| Earnings for the purpose of basic and diluted earnings per share (profit for the year attributable to owners of the Company) | **94,840** | 110,372 |

| | 2017 '000 | 2016 '000 |
|---|---|---|
| Number of shares: | | |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per share | **877,979** | 858,216 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | **1,007** | – |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **878,986** | 858,216 |

The weighted average number of ordinary shares for the purpose of basic and diluted earnings per share for 2016 are calculated based on the number of new shares and adjusted for the bonus issue in December 2015.

The calculation of diluted earnings per share for the year ended 31 March 2016 did not assume the exercise of the Company's share options because the exercise prices of these options were higher than the average market price of the shares during that year.

## 12. Property, Plant and Equipment

| | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures and equipment HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| COST | | | | | |
| At 1 April 2015 | 77,494 | – | 5,704 | 46,992 | 130,190 |
| Additions | 51,477 | 85,790 | 990 | – | 138,257 |
| Transfer | 1,616 | 45,376 | – | (46,992) | – |
| Exchange adjustments | (679) | (285) | (223) | – | (1,187) |
| At 31 March 2016 | 129,908 | 130,881 | 6,471 | – | 267,260 |
| Additions | 2,006 | 4,666 | 486 | – | 7,158 |
| Arising on acquisition of subsidiaries (note 33) | 33,457 | 37,111 | 1,639 | – | 72,207 |
| Disposals | (1,698) | (283) | (335) | – | (2,316) |
| Exchange adjustments | 3,339 | 3,523 | 21 | – | 6,883 |
| At 31 March 2017 | 167,012 | 175,898 | 8,282 | – | 351,192 |
| DEPRECIATION | | | | | |
| At 1 April 2015 | 26,398 | – | 884 | – | 27,282 |
| Provided for the year | 8,814 | 2,246 | 1,170 | – | 12,230 |
| Exchange adjustments | (36) | (46) | (31) | – | (113) |
| At 31 March 2016 | 35,176 | 2,200 | 2,023 | – | 39,399 |
| Provided for the year | 16,487 | 31,654 | 1,359 | – | 49,500 |
| Eliminated on disposals | (483) | (61) | (83) | – | (627) |
| Exchange adjustments | 4,717 | 8,596 | 177 | – | 13,490 |
| At 31 March 2017 | 55,897 | 42,389 | 3,476 | – | 101,762 |
| CARRYING VALUES | | | | | |
| At 31 March 2017 | 111,115 | 133,509 | 4,806 | – | 249,430 |
| At 31 March 2016 | 94,732 | 128,681 | 4,448 | – | 227,861 |

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis, after taking into account of their residual values, over the following useful lives:

| | |
|---|---|
| Leasehold improvements | 5 years to 10 years |
| Plant and machinery | 5 years |
| Furniture, fixtures and equipment | 5 years |

Certain leased premises in the PRC are rented from Mr. Zhuang Xiang Song, the Controlling Shareholder, who is in the process of obtaining the land use right certificates. After seeking legal advice, the directors consider that the title ownership certificates can be obtained by Mr. Zhuang Xiang Song in due time for insignificant cost, therefore, the directors consider that there is no impairment on the leasehold improvements. As at 31 March 2017, the carrying value of the relevant leasehold improvement approximates HK$33,256,000 (2016: HK$40,687,000).

## 13. Goodwill

| | HK$'000 |
|---|---|
| CARRYING VALUES | |
| At 1 April 2015 and 31 March 2016 | – |
| Arising on acquisition of subsidiaries (note 33) | 2,307 |
| Exchange adjustments | 119 |
| At 31 March 2017 | 2,426 |

Particulars regarding impairment testing on goodwill are disclosed in note 15.

## 14. 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 2015 | 2,332 | 5,702 | 2,279 | – | – | 10,313 |
| Addition | 19,979 | – | – | – | – | 19,979 |
| At 31 March 2016 | 22,311 | 5,702 | 2,279 | – | – | 30,292 |
| Addition | 10,800 | – | – | 30,000 | – | 40,800 |
| Arising on acquisition of subsidiaries (note 33) | – | – | – | – | 24,622 | 24,622 |
| Exchange adjustments | – | – | – | – | 1,175 | 1,175 |
| At 31 March 2017 | 33,111 | 5,702 | 2,279 | 30,000 | 25,797 | 96,889 |
| AMORTISATION | | | | | | |
| At 1 April 2015 | – | 3,609 | 228 | – | – | 3,837 |
| Charge for the year | 833 | 1,140 | 228 | – | – | 2,201 |
| At 31 March 2016 | 833 | 4,749 | 456 | – | – | 6,038 |
| Charge for the year | 3,163 | 844 | 228 | 1,500 | 630 | 6,365 |
| At 31 March 2017 | 3,996 | 5,593 | 684 | 1,500 | 630 | 12,403 |
| CARRYING VALUES | | | | | | |
| At 31 March 2017 | 29,115 | 109 | 1,595 | 28,500 | 25,167 | 84,486 |
| At 31 March 2016 | 21,478 | 953 | 1,823 | – | – | 24,254 |

## 14. Intangible Assets (Continued)

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. ("**SEGA Holdings**") 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 right | 10 years |
| Exclusive distribution right | 10 years |
| Trademark | 5 years |

## 15. Impairment Testing on Goodwill

For the purposes of impairment testing, goodwill set out in note 13 have been allocated to one individual CGU comprising CA Sega Group in the segment of establishment and operation of indoor theme parks. The carrying amount of goodwill as at 31 March 2017 is allocated to CA Sega Group.

The recoverable amount of the CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period and pre-tax discount rate of 19%. Cash flows beyond the five-year period is extrapolated using a steady 3% growth rate. Cash flow projections during the forecast period for the CGU are based on the expected gross margins during the forecast period. Forecasted gross margins were determined based on past performance and the management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of the CGU to exceed the recoverable amount of the CGU.

During the year ended 31 March 2017, management of the Group determines that there are no impairment of the CGU containing goodwill.

## 16. Held-To-Maturity Investment

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Listed bond security at amortised cost | | |
| Listed on the Singapore Exchange Limited with a fixed coupon interest at 6.25% per annum and maturity date on 22 May 2017 | 14,171 | 14,626 |

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

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Renminbi ("**RMB**") | 14,171 | 14,626 |

## 17. Deposit for Acquisition of Long Term Investment

In August 2015, the Group entered into a strategic partnership agreement and a supplemental agreement with an independent third party to enter into a long-term strategic alliance and partnership to collaborate across virtual reality technology projects. Deposit for acquisition of long term investment represents the consideration paid by the Group to the investors, on a priority basis, to invest or co-invest in virtual reality technology projects and the deposit is refundable.

## 18. Interest in an Associate

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Cost of unlisted investment | 5,658 | – |
| Share of post-acquisition loss and other comprehensive expense | (16) | – |
| Exchange adjustments | 3 | – |
| | 5,645 | – |

Details of the Group's associate as at 31 Mach 2017 are as follows:

| Name of associate | Place of establishment | Paid up registered capital | Proportion of equity interest held by the Group 2017 | 2016 | Proportion of voting rights held by the Group 2017 | 2016 | Principal activity |
|---|---|---|---|---|---|---|---|
| 常州江南環球港華夏動漫科技有限公司 (Changzhou Southern Yangtze Global Harbor Chinese Animation Technology Co., Ltd) ("**Changzhou Joypolis**") | PRC | RMB25,000,000 | 20% | – | 20% | – | Inactive |

## 18. Interest in an Associate (Continued)

The summarised financial information in respect of the Group's associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs. The associate is accounted for using the equity method in these consolidated financial statements.

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| **Changzhou Joypolis** | | |
| Current assets | 28,228 | – |
| Loss for the year | (79) | – |

Reconciliation of the above summarised financial information to the carrying amount of the interest in an associate recognised in the consolidated financial statements:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Net assets of an associate | 28,228 | – |
| Proportion of the Group's ownership interest in an associate | 20% | – |
| Carrying amount of the Group's interest in an associate | 5,645 | – |

## 19. Inventories

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Finished goods | 8,290 | – |

## 20. Trade Receivables

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Trade receivables | 577,632 | 208,934 |

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 aged analysis of trade receivables presented based on the invoice dates, which approximate the revenue recognition dates:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| 0 to 90 days | 248,875 | 143,194 |
| 91 to 180 days | 112,722 | 40,448 |
| 181 to 365 days | 194,876 | 25,289 |
| Over 365 days | 21,159 | 3 |
| | 577,632 | 208,934 |

## 20. Trade Receivables (Continued)

Before accepting any new customers, the Group assesses the potential customer's credit quality and defines credit limits by each customer. Limits attributed to customers are reviewed once a year. The trade receivables that are neither past due nor impaired are mainly due from those customers which have long-term relationship with the Group and the repayment history of these customers were good.

Included in 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:

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| 0 to 90 days | **149,024** | 40,445 |
| 91 to 180 days | **46,966** | 25,294 |
| 181 to 365 days | **21,245** | 5 |
| Over 365 days | **7** | 1 |
| | **217,242** | 65,745 |

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

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| United States Dollars ("**US$**") | **457,618** | 186,995 |
| RMB | **107,514** | 15,655 |

## 21. Held-For-Trading Investments

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| Equity securities listed in Hong Kong | **66,920** | 67,560 |

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.

## 22. Pledged Bank Deposit

Pledged bank deposit represents deposit pledged to a bank to secure banking facilities granted to the Group. The pledged bank deposit carries interest at market rate of 0.6% (2016: 0.6%) per annum. The deposit will be released within the next twelve months from the end of the reporting period. Accordingly, the amount is included in the current assets.

## 23. Bank Balances and Cash

Bank balances carry interest at market rates ranging from 0.001% to 0.35% (2016: from 0.001% to 0.3%) per annum.

Bank balances and cash that are denominated in currencies other than the functional currencies of the respective group entities are set out below:

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| RMB | 1,430 | 624 |
| US$ | 12,063 | 66,178 |

## 24. Trade and Notes Payables

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Trade payables | 30,824 | 16,529 |
| Notes payables | 1,553 | – |
| | 32,377 | 16,529 |

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:

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| 0 to 30 days | 30,490 | 16,365 |
| 31 to 60 days | 951 | 164 |
| Over 90 days | 936 | – |
| | 32,377 | 16,529 |

## 25. Other Payables and Accruals

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Other payables and accruals | 47,145 | 15,435 |
| Payable for acquisition of plant and equipment | 8,611 | 3,327 |
| Advanced receipts from customers | 17,820 | 2,240 |
| Salaries payables | 9,033 | 1,967 |
| Other tax payable | 8,502 | 1,300 |
| Deferred income | 167 | – |
| | 91,278 | 24,269 |

## 26. Obligation Arising from a Put Option to Non-Controlling Interests and Put Option Derivatives

On 31 December 2016, China Theme Park Limited ("**CTP**"), a wholly-owned subsidiary of the Company, entered into a shareholders agreement with the non-controlling interests of CA Sega Joypolis Limited ("**CA Sega**"), namely Sega Sammy Holdings Inc. ("**Sega Sammy**"), pursuant to which CTP granted a put option to Sega Sammy for the rights to oblige the Group, to purchase the remaining 14.9% equity interest of CA Sega.

The put option is exercisable by Sega Sammy from the third anniversary of the completion date of the acquisition of subsidiaries, being 1 January 2017 ("**Completion Date**"), until the date immediately before the fifth anniversary of the Completion Date at a put price of JPY105,052,748 (equivalent to HK$6.97 million) or the put option is exercisable from the fifth anniversary of the Completion Date until the date immediately before the sixth anniversary of the Completion Date at a put price of JPY210,105,496 (equivalent to HK$13.93 million).

At initial recognition, the obligation arising from a put option to non-controlling interests amounting to HK$7,868,000. This amount has been recognised in the consolidated statement of financial position with a corresponding debit to the non-controlling interests.

The fair value of the obligation arising from a put option to non-controlling interests of CA Sega Group as at initial recognition and 31 March 2017 have been determined by using a Binominal Option Pricing Model, performed by Asset Appraisal Limited, an external independent valuer engaged by the Group, which used the exercise price, risk free rate, exercise period, unaudited consolidated net asset value and cash flow forecast of CA Sega Group, adjustment to future stock price and volatility as key inputs.

In addition, the put option which will be settled other than by exchange of fixed amount of cash for a fixed number of shares of a subsidiary is treated as derivative financial instruments and is recognised at fair value in accordance with HKAS 39 Financial Instruments: Recognition and Measurement. The directors of the Company consider the fair value of put option is insignificant as initial recognition.

The movements of the obligation arising from a put option to non-controlling interests and put option derivative are set as below:

| | Obligation arising from a put option HK$'000 | Put option derivative HK$'000 |
|---|---|---|
| At initial recognition | 7,868 | – |
| Fair value change | (1,485) | 829 |
| At 31 March 2017 | 6,383 | 829 |

The fair value change of HK$656,000 was recognised in profit and loss for the year ended 31 March 2017.

| Key inputs used in the model | 31.3.2017 |
|---|---|
| Risk-free rate (Note i) | 0.122% |
| Time to expiration (Note ii) | 5.8 years |
| Volatility (Note iii) | 29.8% |

Notes:

(i) The risk free rate is with reference to the yields of Japan Sovereign Curve as at the valuation date.

(ii) Time to expiration represents the duration to maturity date which is the date immediately before the sixth anniversary of the Completion Date.

(iii) Volatility is based on the average of the implied volatility of the daily return of comparable stock for 6 years.

## 27. Amount Due to a Director

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Mr. Zhuang Xiang Song | 16,587 | 39,027 |

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

## 28. Amount Due to Non-Controlling Interests

The amount is unsecured, bears interest at 2.48% (2016: Nil) per annum and repayable on demand.

## 29. Deferred Tax Liabilities

The followings are the deferred tax liabilities recognised and movement thereon during the year.

| | Fair value adjustment on business combination HK$'000 |
|---|---|
| At 1 April 2015 and 31 March 2016 | – |
| Arising on acquisition of subsidiaries (note 33) | 6,155 |
| Exchange difference | 294 |
| At 31 March 2017 | 6,449 |

The Group had unused tax losses of approximately HK$49,385,000 at 31 March 2017 (2016: HK$35,058,000), which is available for offset against future profits. No deferred tax asset has been recognised due to unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$10,795,000 (2016: HK$30,787,000) that will expire between 2022 and 2026. Other losses may be carried forward indefinitely.

## 30. Provision for Reinstatement Costs for Rented Premises

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| At 1 April | – | – |
| Arising on acquisition of subsidiaries (note 33) | 39,175 | – |
| Provision recognised | 38 | – |
| Exchange adjustment | 1,870 | – |
| At 31 March | 41,083 | – |

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Provision for reinstatement costs for rented premises | | |
| Analysed for reporting purpose as: | | |
| Current liabilities | 2,364 | – |
| Non-current liabilities | 38,719 | – |
| | 41,083 | – |

Under the terms of the rental agreements signed with landlords, the Group should remove and re-instate the rented premises at the Group's cost upon expiry of the relevant rental agreements. Provision is therefore made for the best estimate of the expected reinstatement costs to be incurred.

## 31. Secured bank borrowings

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Secured bank borrowings which are repayable within one year | **94,550** | 94,550 |

| | 2017 % | 2016 % |
|---|---|---|
| Fixed-rate borrowings | **3.12** | 2.75 |

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

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| US$ | **94,550** | 94,550 |

## 32. Share Capital

| | Number of shares | Share capital HK$'000 |
|---|---|---|
| Authorised: | | |
| At 1 April 2015 of HK$0.1 each | 1,000,000,000 | 100,000 |
| Increase on 16 December 2015 (Note a) | 4,000,000,000 | 400,000 |
| At 31 March 2016 and 31 March 2017 of HK$0.1 each | 5,000,000,000 | 500,000 |
| Issued and fully paid: | | |
| At 1 April 2015 of HK$0.1 each | 429,108,000 | 42,911 |
| Issues of bonus shares (Note b) | 429,108,000 | 42,911 |
| At 31 March 2016 of HK$0.1 each | 858,216,000 | 85,822 |
| Issues of new shares (Note c) | 61,846,000 | 6,184 |
| At 31 March 2017 of HK$0.1 each | 920,062,000 | 92,006 |

Notes:

(a) Pursuant to the resolutions passed by the shareholders of the Company on 16 December 2015, the authorised share capital of the Company was increased from HK$100,000,000 to HK$500,000,000 by the creation of additional 4,000,000,000 ordinary shares of HK$0.1 each.

(b) In December 2015, the Company distributed an interim dividend for the period ended 30 September 2015 by way of an issue of bonus shares of 429,108,000 with par value of HK$0.1 each, giving rise to an increase in share capital of approximately HK$42,911,000.

(c) On 24 August 2016, the Company entered into a placing agreement (the "**Placing Agreement**") with a placing agent, an independent third party, to place up to 20,000,000 placing shares of the Company of HK$3.6 each to not less than six placees who were not acting in concert with connected persons of the Company. The Placing was completed on 1 September 2016 in accordance with the terms and conditions of the Placing Agreement under which a total of 15,000,000 placing shares has been successfully placed by the placing agent to not less than six placees at the placing price of HK$3.6 per share.

Pursuant to the subscription agreement entered between the Company and its parent and ultimate holding company, Bright Rise Enterprises Limited ("**Bright Rise**") on 24 August 2016, 15,000,000 new ordinary shares of HK$0.1 each of the Company were subscribed by Bright Rise for a cash consideration of HK$54,000,000 on 7 September 2016.

Pursuant to the subscription agreements entered between the Company and subscribers on 16 December 2016 and 6 January 2017, an aggregate of 46,846,000 subscription shares of HK$0.1 each of the Company was subscribed by subscribers for a cash consideration of HK$152,249,500. All subscribers were independent third parties.

All the shares issued ranked pari passu in all respects with the then existing shares in issue.

## 33. Acquisition of Subsidiaries

On 31 October 2016, CTP, a wholly-owned subsidiary, entered into a share purchase agreement with Sega Sammy ("**the Seller**"), an independent third party, to acquire 85.1% equity interest of CA Sega Group for a cash consideration of JPY600,000,000 (equivalent to approximately HK$39,790,000) (the "**Acquisition**"). The Acquisition was completed on 1 January 2017. CA Sega Group is principally engaged in the business of operation of entertainment facilities and indoor interactive entertainment parks in Japan and PRC.

This Acquisition has been accounted for using the purchase method, the intangible assets arising as a result of the acquisition amounted to HK$24,622,000.

### Assets acquired and liabilities recognised at the date of acquisition on a provisional basis are as follows:

| | HK$'000 |
|---|---|
| Property, plant and equipment (note 12) | 72,207 |
| Rental deposits | 31,587 |
| Intangible assets (note 14) | 24,622 |
| Trade and other receivables | 12,500 |
| Inventories | 8,054 |
| Bank balances and cash | 40,114 |
| Trade and other payables | (48,367) |
| Deferred tax liabilities (note 29) | (6,155) |
| Retirement benefit obligations | (3,398) |
| Provision for reinstatement costs for rented premises (note 30) | (39,175) |
| Obligation under a finance lease | (22,548) |
| Amount due to non-controlling interests | (25,396) |
| Net assets acquired | 44,045 |

The fair value of trade and other receivables and rental deposits at the date of acquisition amounted to HK$44,087,000. The gross contractual amounts of those trade and other receivables and rental deposits acquired amounted to HK$44,087,000 at the date of acquisition.

The fair value of the intangible assets was calculated by Asset Appraisal Limited, an external independent valuer based on the Relief-from Royalty Method under Income Approach which used the budgeted sales, based on the most recent financial budget for next five years approved by management in considering the economic condition of the market at a discount rate of 16.2%. Cash flows beyond the five-year period were extrapolated using growth rate of 3% in considering the economic conditions of the market.

### Goodwill arising on acquisition

| | HK$'000 |
|---|---|
| Consideration transferred | 39,790 |
| Add: Non-controlling interests | 6,562 |
| Less: fair value of identifiable net assets acquired | (44,045) |
| Goodwill arising on acquisition | 2,307 |

### Net cash inflow arising on acquisition

| | HK$'000 |
|---|---|
| Consideration paid in cash | 39,790 |
| Less: cash and cash equivalent balances acquired | (40,114) |
| | (324) |

## 33. Acquisition of Subsidiaries (Continued)

The non-controlling interests in CA Sega Group recognised at the acquisition date was measured with reference to the non-controlling interest's proportionate share of the fair value of the net assets of CA Sega Group at that date.

The Acquisition will enable the Company to significantly broaden its business in the interactive entertainment park industry. The Company will leverage on the expertise and resources of the CA Sega Group and the well established reputation and market recognition of the Trademarks in support of future development of the interactive entertainment park industry.

Goodwill arose in the acquisition of CA Sega Group because the cost of the combination effectively included amounts in relation to the benefit of expected revenue growth, future market development and the assembled workforce of CA Sega Group. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Included in the profit for year ended 31 March 2017 was loss of HK$10,737,000 attributable to the business additional generated by CA Sega Group. Revenue for the year ended 31 March 2017 included HK$63,809,000 generated from CA Sega Group.

Had the acquisition been completed on 1 April 2016, total group revenue for the year would have been HK$1,014,258,000, and profit for the year would have been HK$28,723,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2016, nor is it intended to be a projection of future results.

## 34. Capital Risk Management

The Groups manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which include the bank borrowings, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

The management of the Group reviews the capital structure on a regular basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. The management will balance its overall capital structure through the payment of dividends and the issue of new shares as well as the issue of new debt or the redemption of existing debt.

## 35. Financial Instruments

### a. Categories of financial instruments

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables (including cash and cash equivalents) | 735,350 | 386,678 |
| Held-for-trading investments | 66,920 | 67,560 |
| Held-to-maturity investment | 14,171 | 14,626 |
| | 816,441 | 468,864 |
| **Financial liabilities** | | |
| Amortised cost | 233,441 | 168,868 |
| FVTPL | | |
| – Obligation arising from a put option to non-controlling interests | 6,383 | – |
| – Put option derivatives | 829 | – |

### b. Financial risk management objectives and policies

The Group's major financial instruments include held-to-maturity investment, trade receivables, other receivables, held-for-trading investments, pledged bank deposit, bank balances and cash, trade and notes payables, other payables, amount due to a director, amount due to non-controlling interests, put option derivatives, secured bank borrowings and obligation arising from a put option to non-controlling interests. Details of these financial instruments are set out in respective notes. The risks associated with these financial instruments include market risks (currency risk, interest rate risk and other prick risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effectively manner.

*Currency risk*

The carrying amounts of the foreign currency denominated monetary assets and liabilities of the group entities are mainly held-to-maturity investment, trade receivables, bank balances and cash and secured bank borrowings as disclosed in notes 16, 20, 23 and 31, respectively. The directors of the Company consider that the Group's exposure on foreign currency risk is insignificant, accordingly no sensitivity analysis has been presented. The management continuously monitors the foreign exchange exposure and will consider hedging foreign currency risk should the need arise.

*Interest rate risk*

The Group's cash flow interest rate risk and fair value interest rate risk relate primarily to its floating-rate bank balances and bank borrowings and fixed-rate amount due to non-controlling interests respectively. The Group has not used any interest rate swaps to mitigate its exposure associated with transactions relating to cash flows interest rate risk. However, the management of the Group will consider hedging significant interest rate exposure should the need arise. In the opinion of management of the Group, the expected changes in interest rates on bank balances and bank borrowings will not be significant in the near future, hence, sensitivity analysis is not presented.

## 35. Financial Instruments (Continued)

### b. Financial risk management objectives and policies (Continued)

*Other price risk*

The Group is exposed to equity price risk through its investments in listed equity securities. The management manages this exposure by maintaining a portfolio of investments with different risks. The Group's equity price risk is mainly concentrated on equity instruments operating in two industry sectors quoted in the Stock Exchange of Hong Kong Limited. In the opinion of management of the Group, the expected changes in investments in listed equity securities will not be significant in the near future, hence, sensitivity analysis is not presented.

The Group's fair value exposure to its obligation arising from a put option to non-controlling interests is in relation to the changes in a discounted cash flow for a subsidiary's market value calculation. The management considers the exposure of other price risk for its obligation arising from a put option to non-controlling interests is not significant. Accordingly, no sensitivity analysis is presented.

*Credit risk*

At the end of each reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to the failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group is responsible for determination of credit limits, credit approvals and other monetary procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies or state-owned banks located in the PRC.

The Group has concentration of credit risk as 96% (2016: 92%) of the total trade receivables which was due from the Group's five largest customers as of 31 March 2017.

Other than the concentration of the credit risk on trade receivable, the Group does not have any other significant concentration of credit risk.

## 35. Financial Instruments (Continued)

### b. Financial risk management objectives and policies (Continued)

*Liquidity risk*

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest, if applicable, and principal cash flows.

| | Weighted average effective interest rate % | On demand or within one year HK$'000 | Over one year HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|---|
| **At 31 March 2017** | | | | | |
| **Non-derivative instruments** | | | | | |
| Trade and notes payables | – | 32,377 | – | 32,377 | 32,377 |
| Other payables and accruals | – | 55,757 | – | 55,757 | 55,757 |
| Amount due to a director | – | 16,587 | – | 16,587 | 16,587 |
| Amount due to non-controlling interests | 2.48 | 27,290 | – | 27,290 | 26,958 |
| Secured bank borrowings – fixed rate | 3.12 | 95,564 | – | 95,564 | 94,550 |
| | | 227,575 | – | 227,575 | 233,441 |
| **Derivative financial liabilities** | | | | | |
| Obligation arising from a put option to non-controlling shareholders (note) | – | – | 13,930 | 13,930 | 6,383 |
| Put option derivative | – | – | 829 | 829 | 829 |
| **At 31 March 2016** | | | | | |
| **Non-derivative instruments** | | | | | |
| Trade payables | – | 16,529 | – | 16,529 | 16,529 |
| Other payables and accruals | – | 18,762 | – | 18,762 | 18,762 |
| Amount due to a director | – | 39,027 | – | 39,027 | 39,027 |
| Secured bank borrowings – fixed rate | 2.75 | 95,497 | – | 95,497 | 94,550 |
| | | 169,815 | – | 169,815 | 168,868 |

note: The amount represents the maximum exposure on the put price if the put option had been exercised on or after the fifth anniversary of the Completion Date and until the day immediately before the sixth anniversary of Completion Date.

## 35. Financial Instruments (Continued)

### b. Financial risk management objectives and policies (Continued)

*Fair value measurements of financial instruments*

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

| Financial assets/liabilities | Fair value as at 31.3.2017 HK$'000 | Fair value as at 31.3.2016 HK$'000 | Fair value hierarchy | Valuation technique(s) and key input(s) | Significant unobservable input(s) | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|---|
| Held-For-Trading investments – listed equity securities | Assets-HK$66,920 | Assets-HK$67,560 | Level 1 | Quoted bid price in an active market | N/A | N/A |
| Obligation arising from a put option to non-controlling interests and put option derivative | Liability-HK$7,212 | – | Level 3 | Binomial Option Pricing Model<br><br>The key inputs are the exercise price, risk-free rate, exercise period, and volatility of the daily return of comparative stock. | Equity value of CA Sega Group is derived by income approach. The key inputs are unaudited consolidated net asset value and cash flow forecast of CA Sega Group and expected return from the investors of 15% per annum developed using Capital Asset Pricing Model.<br><br>Volatility is based on the average of the implied volatility of the comparable stocks, of 29.8%. | An increase in the forecasted profit would result in a decrease in the fair value, and vice versa.<br><br>An increase in the expected return from the investors would result in an increase in the fair value, and vice versa.<br><br>An increase in the volatility would result in an increase in the fair value, and vice versa. |

The directors consider that the carrying amounts of other financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

## 36. Retirement Benefit Schemes

### Defined benefit plans

The Group sponsors a funded defined benefit plan for all qualifying employees of its subsidiary in Japan.

The plan in the Japan exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

| | |
|---|---|
| Investment risk | The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan asset is below this rate, it will create a plan deficit. Currently the plan has a relatively balanced investment in equity securities, debt instruments and real estates. Due to the long-term nature of the plan liabilities, the board of the pension fund considers it appropriate that a reasonable portion of the plan assets should be invested in equity securities and in real estate to leverage the return generated by the fund. |
| Interest rate risk | A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments. |
| Longevity risk | The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability. |
| Salary risk | The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability. |

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 31 March 2017 by Willis Towers Watson, Fellow of the Institute of Actuaries in Japan. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

| | 2017 | 2016 |
|---|---|---|
| Discount rate | 0.7% | – |

The actuarial valuation showed that the market value of plan assets was HK$26,686,000 (2016: Nil).

## 36. Retirement Benefit Schemes (Continued)

### Defined benefit plans (Continued)

Amounts recognised in comprehensive income in respect of these defined benefit plans is as follows.

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Service cost: | | |
| Current service cost | 435 | – |
| Net interest expense | 22 | – |
| Components of defined benefits costs recognised in profit or loss | 457 | – |
| Remeasurement on the net defined benefit liabilities: | | |
| Return on plan assets (excluding amounts included in net interest expense) | (23) | – |
| Actuarial loss arising from experience adjustments | (174) | – |
| Components of deferred benefit cost recognised in other comprehensive income | (197) | – |
| Total | 260 | – |

The amount included in the consolidated statement of financial position arising from the Group's obligation in respect of its defined benefit plans is as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Present value of funded defined benefit obligations | 29,643 | – |
| Fair value of plan assets | (26,686) | – |
| Defined benefit obligation | 2,957 | – |

Movements in the present value of the defined benefit obligations in the current year were as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Defined benefit obligation at 1 April | – | – |
| Arising on acquisition of subsidiaries | 46,624 | – |
| Current service cost | 441 | – |
| Interest cost | 84 | – |
| Remeasurement gains: | | |
| Actuarial gains arising from change in financial assumptions | (180) | – |
| Benefits paid | (19,214) | – |
| Exchange differences on foreign plan | 1,888 | – |
| Defined benefit obligation at 31 March | 29,643 | – |

## 36. Retirement Benefit Schemes (Continued)

### Defined benefit plans (Continued)

Movements in the present value of the plan assets in the current year were as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Fair value of plan assets at 1 April | – | – |
| Arising on acquisition of subsidiaries | 43,226 | – |
| Interest income | 62 | – |
| Remeasurement gains: | | |
| Return on plan assets (excluding amounts included in net interest expense) | 23 | – |
| Contributions from the employers | 853 | – |
| Exchange differences on foreign plans | 1,736 | – |
| Benefits paid | (19,214) | – |
| Fair value of plan assets at 31 March | 26,686 | – |

The Group operates a Mandatory Provident Fund Scheme (the "**Scheme**") for all qualifying employees in Hong Kong. The assets of the Scheme are held separately from those of the Group, in funds under control of a trustee. The Group contributes the lower of 5% of relevant payroll costs or HK$1,500 per person to the Scheme, which is matched by employees.

The employees of the Group in the PRC are members of state-managed retirement benefit scheme operated by the PRC government. The Company's subsidiaries are required to contribute a certain percentage of payroll to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the scheme is to make the required contributions under the scheme.

Contributions to the schemes for year ended 31 March 2017 made by the Group amounted to approximately HK$6,616,000 (2016: HK$1,513,000).

## 37. Capital Commitments

The Group had the following capital commitments:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Capital expenditure contracted for but not provided in the consolidated financial statements in respect of | | |
| – acquisition of property, plant and equipment and intangible asset | 7,621 | 7,536 |
| – investments in subsidiaries | 33,622 | 34,608 |
| – investment in an associate | 5,992 | – |
| – acquisition of equity interest on non-controlling interests from Sega Sammy (note) | 13,930 | – |
| | 61,165 | 42,144 |

note: The amount represents the maximum exposure on the put price if the put option had been exercised on or after the fifth anniversary of the Completion Date and until the day immediately before the sixth anniversary of Completion Date.

## 38. Operating Lease Commitment

### The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| **Office and other premises** | | |
| Within one year | 49,757 | 15,064 |
| In the second to fifth years inclusive | 86,782 | 22,615 |
| Over five years | 4,857 | – |
| | 141,396 | 37,679 |
| **Motor vehicle** | | |
| Within one year | 169 | 130 |
| In the second to fifth years inclusive | 254 | 54 |
| | 423 | 184 |

Included in the above are commitments for future minimum lease payments under non-cancellable operating leases payable to the Controlling Shareholder as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| **Office premises** | | |
| Within one year | 2,767 | – |
| In the second to fifth years inclusive | 2,231 | – |
| | 4,998 | – |
| **Motor vehicle** | | |
| Within one year | 169 | 130 |
| In the second to fifth years inclusive | 254 | 54 |
| | 423 | 184 |

Operating lease payments represent rentals payable by the Group for certain of its office and other premises and motor vehicle. Leases are negotiated for three years for motor vehicles and for one to six years for office and other premises. The majority of lease agreements are renewable at the end of the lease period at market rentals.

### The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Within one year | 558 | – |
| In the second to fifth year inclusive | 457 | – |
| | 1,015 | – |

## 39. Related and Connected Party Disclosures

### (a) Related and connected party transactions

During the year, the Group entered into following transactions with related parties, certain of which is also deemed to be connected parties pursuant to the Listing Rules. Significant transactions with these parties during the year are as follows:

| Name of parties | Natures of transacting | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| Controlling Shareholder | Rental expense for motor vehicle | 150 | 130 |
| | Rental expense for premises | 2,249 | 942 |
| SEGA Holdings | Royalty expense for trademark licence | 856 | – |

(b) Details of the outstanding balances with other related parties are set out in the consolidated statement of financial position and in note 27.

### (c) Compensation of key management personnel

The remuneration of key management personnel which represent the executive directors and key executives of the Company during both years was as follows:

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Salaries and other benefits | 6,805 | 6,922 |
| Retirement benefit schemes contributions | 221 | 240 |
| Incentive performance bonuses | 333 | 283 |
| Share-based payments expense | 3,431 | 471 |
| | 10,790 | 7,916 |

The remuneration of the key executives is determined having regard to the performance of individuals and market trends.

## 40. Share-Based Payments

### Equity-settled share option scheme of the Company

The Company's share option scheme (the "**Scheme**") was adopted pursuant to a resolution passed on 16 February 2015 for the primary purpose of attracting and retaining the best available personnel, providing additional incentive to employees (full-time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers ("**Eligible Participants**") of the Group and promoting the success of the business of the Group and will remain in force for a period of ten years commencing on the adoption date and shall expire at 15 February 2025. The board of directors of the Company may grant options to Eligible Participants to subscribe for shares in the Company.

At 31 March 2017, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 21,455,400 (31 March 2016: 21,455,400), representing 2.33% (31 March 2016: 2.50%) of the shares of the Company in issue at that date. As at 31 March 2017, the number of securities of the Company available for issue under the Scheme was 70,550,800, representing approximately 7.67% of the issued share capital of the Company as at 31 March 2017. The total number of shares of each Eligible Participant in respect of which options that may be granted under the Scheme is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. However, the total maximum number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Scheme and any other share option scheme of the Company must not exceed 10% of the issued share capital of the Company from time to time. Options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares as stated in the daily quotation sheet issued by the Stock Exchange at the date of the grant) in excess of HK$5 million, within any 12-month period up to and including the date of grant, are subject to shareholders' approval in advance in a general meeting.

Options granted must be taken up within 30 days from the date of grant, upon payment of a nominal consideration of HK$1 in total by each grantee. Options may be exercised at any time for a period determined by its directors which shall not be later than the day immediately preceding the tenth anniversary of the date of grant. The exercise price of the share options must be at least the highest of (i) the closing price of the Company's shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant of the share options; and (ii) the average closing price of the Company's shares as stated in the daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of an ordinary share on the date of grant.

Details of specific categories of options are as follows:

| Date of grant | Vesting period | Exercisable period | Outstanding at 31 March 2017 |
|---|---|---|---|
| 29 February 2016 | 29 February 2016–31 August 2016 | 1 September 2016–28 February 2021 | 4,291,080 |
| 29 February 2016 | 29 February 2016–27 February 2017 | 28 February 2017–28 February 2021 | 4,291,080 |
| 29 February 2016 | 29 February 2016–27 February 2018 | 28 February 2018–28 February 2021 | 4,291,080 |
| 29 February 2016 | 29 February 2016–27 February 2019 | 28 February 2019–28 February 2021 | 4,291,080 |
| 29 February 2016 | 29 February 2016–27 February 2020 | 28 February 2020–28 February 2021 | 4,291,080 |
| | | | 21,455,400 |

## 40. Share-Based Payments (Continued)

### Equity-settled share option scheme of the Company (Continued)

| | Number of shares under option outstanding at 31 March 2016 and 2017 |
|---|---|
| **Categories of participants** | |
| Directors of the Company | **2,574,648** |
| Other employees | **6,007,512** |
| Consultants (note) | **12,873,240** |
| | **21,455,400** |

Note: The Share options were granted to Consultants for services rendered in exploring investment opportunities for the Group.

The following table discloses the movement of the share options during the year ended 31 March 2017:

| | Granted in 2016 and outstanding at 1 April 2016 | Granted during the year | Outstanding at 31 March 2017 |
|---|---|---|---|
| | 21,455,400 | – | **21,455,400** |
| Exercisable at the end of the year | | | **8,582,160** |

The fair value of the options granted on 29 February 2016 was approximately HK$21,611,000. The fair value was calculated using the Binomial option pricing model. The inputs into the model were as follows:

| | |
|---|---|
| Closing price of the Company's shares on grant date | HK$2.94 |
| Exercise price | HK$3.03 |
| Risk-free rate* | 1.001% |
| Expected volatility | 44.23% |
| Expected dividend yield | 0.34% |

* Risk-free rate represents the yields to maturity of Hong Kong Sovereign Curve with respective terms to maturity as at the grant date.

Expected volatility was determined with reference to the annualised standard deviation of the continuously compounded rates of return on the daily average adjusted share price.

During the year ended 31 March 2017, the Group recognised the total expense of approximately HK$11,590,000 (2016: HK$1,408,000) in relation to share options granted by the Company.

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

## 41. Particulars of Subsidiaries of the Company

Particulars of the Company's subsidiaries as at 31 March 2017 and 2016 are as follows:

| Name of subsidiary | Place of incorporation/ establishment/ operation | Issued and fully paid share capital/ registered capital | Attributable equity interest held by the Group As of 31 March 2017 % | 2016 % | Principal activities |
|---|---|---|---|---|---|
| **Directly held** | | | | | |
| China Animation Holding (BVI) Limited 華夏動漫集團(英屬處女島)有限公司 | BVI | US$1 | 100 | 100 | Investment holding |
| **Indirectly held** | | | | | |
| China Animation Group Limited 華夏動漫集團有限公司 | BVI | HK$1,000,000 | 100 | 100 | Investment holding and trading of animation derivative products and licensing of animation characters |
| China Animation Group (HK) Limited 華夏動漫集團(香港)有限公司 | Hong Kong | HK$1 | 100 | 100 | Investment holding |
| Network China Technology Limited 華夏網路科技有限公司 | BVI | US$1 | 100 | 100 | Investment holding |
| Network China Technology Limited 華夏網路科技有限公司 | Hong Kong | HK$1 | 100 | 100 | Investment holding |
| 深圳華爾德動漫科技有限公司 Shenzhen Wald Animation Technology Company Ltd*# | PRC | RMB500,000 | 100 | 100 | Animation derivative product design, trading of animation derivative products and multimedia animation entertainment |
| China Theme Park Limited 中國主題樂園有限公司 | BVI | US$1 | 100 | 100 | Investment holding |
| China Theme Park Incorporation Limited 華夏樂園有限公司 | Hong Kong | HK$1 | 100 | 100 | Investment holding |
| Animate China Technology Limited 華夏動漫科技有限公司 | BVI | US$1 | 100 | 100 | Investment holding |
| Animate China Technology (HK) Limited ("**Animate HK**") 華夏動漫科技(香港) 有限公司 | Hong Kong | HK$1 | 100 | 100 | Investment holding |

## 41. Particulars of Subsidiaries of the Company (Continued)

Particulars of the Company's subsidiaries as at 31 March 2017 and 2016 are as follows: (Continued)

| Name of subsidiary | Place of incorporation/ establishment/ operation | Issued and fully paid share capital/ registered capital | Attributable equity interest held by the Group As of 31 March 2017 % | 2016 % | Principal activities |
|---|---|---|---|---|---|
| **Indirectly held (Continued)** | | | | | |
| China Animation IP Limited 中國動漫知識產權有限公司 | BVI | US$1 | 100 | 100 | Investment holding |
| 華嘉泰(上海)兒童室內遊樂有限公司 Huajiatai (Shanghai) Children Indoor Playground Company Limited*v | PRC | RMB60,000,000 | 51 | 51 | Operation of indoor theme park in PRC |
| 深圳前海華夏動漫有限公司*v Shenzhen Qianhai Huaxia Animation Company Limited ("**Qianhai Huaxia Animation**") | PRC | –^ | 70 | 70 | Inactive |
| CA Sega Joypolis Limited* | Japan | JPY100,000,000 | 85.1 | – | Operation of indoor theme park in Japan |
| 華夏世嘉(青島)娛樂遊藝有限公司 CA SEGA (Qingdao) Entertainment Park Co., Ltd*# | PRC | US$17,000,000 | 85.1 | – | Operation of indoor theme park in PRC |
| Walita Toys (Cambodia) Co., Ltd. | Cambodia | US$125,000 | 100 | – | Inactive |
| CAG Tactics Cultural Enterprise Company Limited | Hong Kong | HK$10,000 | 100 | – | Investment holding |

* The English name is for identification purpose only.
\# Established in the PRC in the form of wholly foreign-owned enterprise.
v Established in the PRC in the form of sino-foreign equity joint investment.
^ The registered capital of Qianhai Huaxia Animation is RMB5 million but was not paid up at the date of report.

None of the subsidiaries had issued any debt securities at the end of the reporting period or at any time during the year.

The directors consider the non-wholly owned subsidiary of the Group has no material non-controlling interest, and accordingly, no summarised financial information in respect of respective subsidiary has been presented.

## 42. Statement of Financial Position of the Company

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| **Non-current assets** | | |
| Intangible assets | 28,500 | – |
| Held-to-maturity investment | – | 14,626 |
| Deposits for acquisition of property, plant and equipment | 20,000 | 20,000 |
| Interest in a subsidiary | – | – |
| | 48,500 | 34,626 |
| **Current assets** | | |
| Other receivables, deposits and prepayments | 1,802 | 1,771 |
| Amounts due from subsidiaries | 685,464 | 399,358 |
| Held-to-maturity investment | 14,171 | – |
| Pledged bank deposit | 95,264 | 95,264 |
| Bank balances and cash | 4,771 | 47,999 |
| | 801,472 | 544,392 |
| **Current liabilities** | | |
| Other payables and accruals | 17,380 | 4,252 |
| Amount due to a subsidiary | 4,558 | 4,596 |
| Secured bank borrowings | 94,550 | 94,550 |
| | 116,488 | 103,398 |
| **Net current assets** | 684,984 | 440,994 |
| **Net assets** | 733,484 | 475,620 |
| **Capital and reserves** | | |
| Share capital | 92,006 | 85,822 |
| Reserves | 641,478 | 389,798 |
| | 733,484 | 475,620 |

## 42. Statement of Financial Position of the Company (Continued)

The movements in the reserves of the Company were as follows:

| | Share premium HK$'000 | Share-based compensation reserve HK$'000 | (Accumulated losses) Retained profits HK$'000 | Total equity HK$'000 |
|---|---|---|---|---|
| At 1 April 2015 | 380,878 | – | (67,239) | 313,639 |
| Profit and total comprehensive income for the year | – | – | 117,662 | 117,662 |
| Bonus shares issued as interim scrip dividend | – | – | (42,911) | (42,911) |
| Recognition of equity-settled share-based payments | – | 1,408 | – | 1,408 |
| At 31 March 2016 | 380,878 | 1,408 | 7,512 | 389,798 |
| Profit and total comprehensive income for the year | – | – | 50,824 | 50,824 |
| Issue of new shares | 200,065 | – | – | 200,065 |
| Transaction costs attribute to issue of new shares | (2,217) | – | – | (2,217) |
| Dividend recognised as distribution (note 10) | – | – | (8,582) | (8,582) |
| Recognition of equity-settled share-based payments | – | 11,590 | – | 11,590 |
| At 31 March 2017 | **578,726** | **12,998** | **49,754** | **641,478** |

## 43. Events After the end of Reporting Period

On 29 May 2017, the Company entered into a placing agreement for placing bonds in an aggregate principal amount up to HK$100,000,000. The bonds denominated in HK$ and bear a fixed annual interest rate of 6% with a maturity period of 3 years, and the interest will be paid on the first date after the bonds issuance date.

Further details of the bond placing are set out in the announcement of the Company dated 29 May 2017.

# FIVE YEARS FINANCIAL SUMMARY

| | Year ended March 31 | | | | |
|---|---|---|---|---|---|
| | **2017** | 2016 | 2015 | 2014 | 2013 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Revenue | **770,651** | 544,880 | 488,283 | 338,744 | 283,493 |
| Cost of sales and services | **(503,571)** | (376,764) | (301,348) | (173,293) | (157,107) |
| Gross Profit | **267,080** | 168,116 | 186,935 | 165,451 | 126,386 |
| Other income | **2,272** | 2,977 | 212 | 13 | – |
| Selling and distribution expenses | **(22,584)** | (19,694) | (3,590) | (3,314) | (8,550) |
| Administrative expenses | **(78,083)** | (47,474) | (30,958) | (14,810) | (17,476) |
| (Loss) gain on held-for-trading investments | **(15,680)** | 17,800 | – | – | – |
| Fair value gain on obligation arising from a put option to non-controlling interests | **656** | – | – | – | – |
| Exchange loss on pledged bank deposit and held-to-maturity investment | **(455)** | (5,581) | – | – | – |
| Share of result of an associate | **(16)** | – | – | – | – |
| Finance costs | **(3,175)** | (805) | – | – | – |
| Other expense | **(22,190)** | (1,598) | (753) | – | – |
| Listing expenses | **–** | – | (56,706) | (5,554) | (1,187) |
| Profit before taxation | **127,825** | 113,741 | 95,140 | 141,786 | 99,173 |
| Taxation | **(23,753)** | (15,351) | (23,169) | (11,184) | (13,966) |
| Profit for the year | **104,072** | 98,390 | 71,971 | 130,602 | 85,207 |
| Other comprehensive income (expense) item that may be reclassified subsequently to profit or loss: | | | | | |
| Remeasurement of defined benefit plans | **197** | – | – | – | – |
| Exchange difference arising on translation of foreign subsidiaries | **(3,745)** | 1,347 | 91 | (7) | (36) |
| Total comprehensive income for the year | **100,524** | 99,737 | 72,062 | 130,595 | 85,171 |
| Profit (loss) for the year attributable to: | | | | | |
| Owners of the Company | **94,840** | 110,372 | 75,632 | 130,602 | 85,207 |
| Non-controlling interests | **9,232** | (11,982) | (3,661) | – | – |
| | **104,072** | 98,390 | 71,971 | 130,602 | 85,207 |
| **ASSETS AND LIABILITIES** | | | | | |
| Total assets | **1,438,197** | 963,044 | 714,868 | 194,085 | 168,250 |
| Total liabilities | **(441,454)** | (272,559) | (159,658) | (109,339) | (131,899) |
| Net assets | **996,743** | 690,485 | 555,210 | 84,746 | 36,351 |
| Total equity attributable to owners of the Company | **971,892** | 670,422 | 558,258 | 84,746 | 36,351 |
| Non-controlling interests | **24,851** | 20,063 | (3,048) | – | – |
| **Total equity** | **996,743** | 690,485 | 555,210 | 84,746 | 36,351 |