

## BUSINESS

### OVERVIEW

We are a leading developer and operator of theme parks and ancillary commercial properties in China. Our theme parks provide a comprehensive marine theme park, leisure, dining and shopping experience to their customers through both their in-park offerings and the complementary services offered by the ancillary commercial properties adjacent to our theme parks. According to Euromonitor, we are the largest marine theme park operator in China in terms of admission attendance in 2012. We currently operate six marine theme parks with a focus on polar animals across China located in Dalian, Qingdao, Tianjin, Yantai, Wuhan and Chengdu. As part of the Reorganization, we will complete the acquisitions of the Additional Theme Parks, namely Dalian Discoveryland and Chongqing Caribbean Water Park, by the end of 2014. Prior to the Reorganization, the Additional Theme Parks had been operated by our senior management team, together with our other theme parks, since their inception. Our marine theme parks and the Additional Theme Parks together hosted more than 9.4 million visitors in 2012 in terms of admission attendance. Our key assets are a large and diverse animal collection, amounting to more than 40,000 marine and polar animals and fish, which are showcased creatively in our theme parks. To offer our park visitors an integrated travel experience and benefit from the potential appreciation in value of the properties adjacent to our theme parks, we develop, sell and selectively hold ancillary commercial properties adjacent to our theme parks. These ancillary commercial properties not only increase theme park visitors' lengths of stay and create more consumption options for them, but also provide us with additional sources of funds through property sales and rental income to further develop and upgrade our theme parks.

We opened our first theme park in Dalian in 2002 as an initial step towards building a professionally managed marine theme park portfolio with a polar focus. In the following decade, we replicated our business model in other major cities with high growth potential in China by leveraging our core competitive strength – our industry-leading capabilities in marine and polar animal breeding, husbandry and display. Our marine theme parks are designed to offer our visitors memorable entertaining, interactive and educational encounters with our animals with the goal of fostering both a deeper appreciation of, and a more harmonious relationship with, nature. As of December 31, 2013, our animal collection comprised more than 500 marine and polar animals of approximately 30 species and more than 40,000 animals such as fish, coral and jellyfish, including approximately 500 large-size sharks of more than ten species such as whale sharks, sand tiger sharks and hammerhead sharks. In addition, the Additional Theme Parks offer their visitors a variety of exhilarating rides, attractions and shows catering to both regional residents and destination tourists. These eight theme parks have received numerous awards and recognitions, including two 5A ratings and five 4A ratings – the highest and the second highest ratings, respectively – from NTAQRAC, five “Polar Science Public Education Center (極地科普教育基地)” designations from the PRC polar exploration administration and a “National Cultural Industry Exemplar Center (國家文化產業示範基地)” designation from the Ministry of Culture.

In line with the practice of international theme park operators, our ancillary commercial property business is an integral part of our project development process. It is usually the same project company that acquires the land for both our theme park and its ancillary commercial properties pursuant to a comprehensive project design developed by us in consultation with the relevant local government authorities. The project design usually envisages that the theme park plays a key role in attracting visitor traffic and promoting the general development of the area, while the ancillary commercial properties support and complement the theme park operations.

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Our park operations have experienced significant revenue growth in recent years. Revenue from our park operations segment increased from RMB386.3 million in 2010 to RMB536.4 million in 2011, and to RMB633.4 million in 2012 and was RMB590.1 million for the nine months ended September 30, 2013. Revenue from our property development and holding segment amounted to RMB413.0 million, RMB146.9 million, RMB250.1 million and RMB147.0 million in 2010, 2011 and 2012 and the nine months ended September 30, 2013, respectively. Our total revenue was RMB799.2 million, RMB683.7 million, RMB889.0 million and RMB779.2 million in 2010, 2011 and 2012 and for the nine months ended September 30, 2013, respectively. Assuming the Additional Theme Parks had been acquired by us on the first day of the relevant period, on a pro forma basis, our total revenue would have amounted to RMB1,112.9 million and RMB1,015.6 million for 2012 and the nine months ended September 30, 2013, respectively.

For the avoidance of doubt, the term “theme park” as used in this prospectus is as defined in the section entitled “Glossary of Technical Terms,” and differs from a “Theme Park Under 2013 Opinions” which is defined in the section entitled “Definitions” with reference to the relevant PRC regulations. See “Definitions” and “Glossary of Technical Terms.”

### OUR STRENGTHS

#### Largest Marine Theme Park Operator in China

We have successfully launched and are currently operating six marine theme parks. In addition, we have entered into equity transfer agreements to acquire the Additional Theme Parks from our Controlling Shareholders as part of the Reorganization, which we expect to complete by the end of 2014. According to Euromonitor, we are the largest marine theme park operator in China with 7.2 million visitors in 2012, more than twice the number of visitors hosted by our closest competitor. In addition, the Additional Theme Parks attracted approximately 2.2 million visitors in the same year. Our marine theme parks currently hold approximately 100,000 cubic meters of water in aggregate, making us the largest among China’s marine theme park operators in terms of volume according to the CNAW article. In addition, according to the CNAW article, we have the largest water tank among marine theme park operators in China, holding 7,000 cubic meters of water. According to Euromonitor, when taking into account the Additional Theme Parks, we would have been ranked as the second largest theme park operator in China and one of the top ten theme park operators worldwide based on visitor attendance in 2012. In a survey conducted by the China Tourism Research Institute (中國旅遊研究院) and the China Tourism Association (中國旅遊協會), when taking into account the Additional Theme Parks, we were recognized as one of the top 20 PRC tourism businesses in 2012 based on revenue and were one of the only two theme park operators making the prestigious list.

Our theme parks and the Additional Theme Parks are strategically located in major metropolises in the economically developed Bohai Sea Economic Rim, central China and the Chengdu-Chongqing Economic Rim and provide versatile themed offerings that attract both regional and destination visitors. Such diversification in terms of location and offerings not only helps mitigate our exposure to the adverse impact of regional incidents or inclement local weather conditions, but also increases the individualized appeal of each of our theme parks to the visitors. All the theme parks have achieved high levels of brand name recognition in the markets they serve and are regarded as key destinations for the tourists visiting the cities where they are situated, with each receiving awards from local and regional media recognizing their popularity.

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### **Largest Marine Animal Collection in China with Industry Leading Animal Care Expertise**

We believe we are attractively positioned in our industry with our extensive animal collection and our ability to design differentiated and interactive attractions showcasing our animals. The marine wildlife and polar animals under our care are numerous in quantity and diverse in species, including the emperor penguin, beluga whale, walrus, Steller sea lion, pacific white side dolphin, spotted dolphin, bearded seal, baikal seal, gray seal and whale shark. We were one of the first theme park operators to introduce these animals to China for public display. As of December 31, 2013, our animal collection comprised more than 500 marine and polar animals of approximately 30 species and more than 40,000 animals such as fish, coral and jellyfish, including approximately 500 large-size sharks of more than ten species such as whale sharks, sand tiger sharks and hammerhead sharks. Our marine and polar animal collection included more than 170 penguins of six species, more than 90 seals of four species, more than 120 sea lions of four species, more than 60 dolphins of three species, more than 30 beluga whales, eight false killer whales, 21 walruses and 13 polar bears. We have also established and maintained stable relationships with top international animal suppliers. In particular, our relationships with suppliers of rare polar animals have been instrumental in the successful expansion of our animal collection and our ability to meet evolving consumer demand.

Our successful and innovative breeding programs have produced, in less than a decade, more than 150 marine animals and large-size sharks including black-tip sharks and white-tip sharks. We have the world's largest numbers of human-bred emperor penguins and polar bears, being 16 and seven, respectively and our collection of 75 South American sea lions also established us as one of the leading organizations in breeding the species, according to the CNAW article. We have also successfully bred the first rock-hopper penguin in China and the first false killer whale in the world according to the CNAW article. We strive to provide our animals with as natural an environment as possible by installing suitable life support system. In addition, we have completed the challenging transportation of more than 100 marine animals and implemented an advanced system of husbandry for our animals. We have approximately 600 zoological staff, a majority of whom have industry experience of more than five years. We have made continuous investments in animal husbandry and research through both internal research activities and cooperation with reputable and expert scientific research institutions.

### **Our Industry Leading Operational Capabilities**

With over a decade of experience in developing and operating marine theme parks, we have accumulated extensive knowledge and execution capabilities in the marine theme park industry and trained and developed a team of highly qualified staff, solidifying our first-mover advantage in the industry. Our six marine theme parks and the Additional Theme Parks have received numerous awards and recognition, including two 5A ratings and five 4A ratings – the highest and second highest ratings, respectively – from NTAQRAC, five “Polar Science Public Education Center (極地科普教育基地)” designations from the PRC polar exploration administration and a “National Cultural Industry Exemplar Center (國家文化產業示範基地)” designation from the Ministry of Culture.

We have extensive experience in project site selection, planning and designing, development and operation of theme parks and have developed a rigorous cost control system. We have also been selected by CNTA as one of a few tourism enterprises to participate in the industry standardization pilot programs for the management of tourism businesses, the results of which may be used to formulate quality standards in the PRC tourism industry. In addition, since 2005, we have been invited to participate in preparing various industry standards for the husbandry of aquatic animals for implementation throughout China's aquarium industry.

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In recognition of our operational capabilities, a number of domestic and international peers and scientific research institutions have established cooperative arrangements with us on husbandry and breeding of marine and polar animals. These include our strategic cooperation agreements with renowned international theme park, zoo and aquarium operators such as the Parques Reunidos (西班牙團圓娛樂公園集團), Berlin Zoological Garden (德國柏林動物園), Hong Kong Ocean Park (香港海洋公園) and Hualien Farglory Ocean Park of Taiwan (台灣花蓮遠雄海洋公園), as well as our continually expanding relationship of mutual assistance and support with Chinese Academy of Sciences (中國科學院) and other scientific research institutions.

We are committed to raising public awareness of the environmental and social issues surrounding the marine and polar habitats. For instance, we sponsored exploratory scientific work carried out by China's Arctic and Antarctic research institutions. In 2012, we partnered with Xinhua News Agency to launch a nation-wide public interest campaign named "The Touched Penguin: 2012 Zero Distance Antarctic Environmental Initiative." The campaign attracted a wide media following and was named the "Annual Best Public Interest Communication Award (年度最佳公益傳播獎)" and the "Annual Public Interest Program Award (年度公益項目獎)" in the 2012 Public Interest Ceremony of China (2012年中國公益節).

### **Strong Position to Capitalize on Significant Growth Potential of China's Tourism and Theme Park Markets**

We operate in a tourism market with significant growth potential. China's growing urban population, with increasing discretionary spending power, is expected to further boost the number of domestic tourists and overall domestic tourism expenditure. According to Euromonitor, China's urban population increased from 47.0% in 2008 to 52.6% in 2012 as a proportion of its total population and the per capita annual disposable income of urban households in China experienced a CAGR of 11.7% from 2008 to 2012. Over the same period, China's tourism market experienced a CAGR of 14.7% in the number of domestic tourists.

In addition, the PRC government has enacted a series of policies, laws and regulations such as the National Travel Leisure Outline (《國民旅遊休閒綱要》) and the Tourism Law (《旅遊法》) to promote the domestic tourism, culture and popular science education industries. According to Euromonitor, the PRC government has been gradually positioning the PRC tourism industry as a pillar of the nation's service sector, expecting it to grow into a cross-industry business spanning the political, cultural, social and ecological sectors. The PRC government has also laid out a variety of support measures such as improving transportation and ancillary infrastructure for tourist destinations and encouraging allocation of financial resources to tourism businesses. In parallel with the policies of the PRC government, local government authorities have also implemented measures to promote tourism development projects, such as implementing preferential tax policies and providing financial support through grants and loans with subsidized interest from which we have been able to benefit.

We believe we are well positioned to take full advantage of the potential growth in the PRC tourism and theme park markets through our established national network of theme parks in major metropolises that diversifies our geographical risk, extensive and diverse animal collection, well-recognized brands and continuous efforts to broaden our appeal to visitors with different profiles.

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### **Synergy between Theme Parks and Ancillary Commercial Properties**

We focus on providing our visitors with an integrated travel experience by combining a memorable theme park visit with other travel-related services supplied by businesses on the ancillary commercial properties adjacent to our theme parks. To offer our park visitors a fullsome, integrated experience and enhance the appeal of our total portfolio of offerings, as an integral part of our project development process, we develop, sell and selectively hold commercial properties adjacent to our theme parks. These properties provide amenities and more consumption options such as lodging, dining and shopping venues, which also tend to increase the length of stay, the likelihood of revisits and other spending of our visitors.

The established brand names of our theme parks attract a sizable and stable pedestrian traffic to the diverse businesses operating on the adjacent commercial properties, enhancing the economic value of the ancillary commercial properties. We also derive additional sources of funding through property sales and rental income to further develop and upgrade our theme parks. When choosing a project site within a city, we typically select up-and-coming residential and commercial districts with significant growth potential so that our theme park projects may contribute to, and benefit from, the increasing affluence of these areas.

We believe the synergy between our theme parks and their ancillary commercial properties resulting from our integrated development approach provides us with higher growth prospects in the long run when compared to business models focusing solely on developing and operating theme parks. In addition, our business model enables us to control the overall positioning of the theme park and its adjacent areas. As a result, we may adjust the businesses operating on the ancillary commercial properties held by us in line with our innovation of offerings in the theme parks, which provides us with an opportunity to maximize the benefit of any such innovation.

### **Our Experienced Management and Technical Teams**

Throughout the development of our theme park business for more than a decade, we have maintained a strong core management team while continuing to attract new talent. The team we have assembled consists of some of the most experienced technical experts and managers specialized in marine theme park development and operation in China. Members of our senior management were among the pioneers in our industry in setting our strategic direction and possess abundant knowledge and experience in marine and polar animals. For example, our joint president, Mr. Zhao Wenjing, is a special member of the European Union of Aquarium Curators (歐盟水族館館長聯盟), advisor to the Japanese Aquatic Wildlife Society (日本水棲野生生物協會), co-founder and vice president of the Aquarium Special Committee of Chinese Association of Natural Science Museums (中國自然科學博物館協會水族館專業委員會), vice president of China Association of Amusement Parks and Attractions (中國遊藝機遊樂園協會) and vice president of China Tourist Attractions Association (中國旅遊景區協會). Our technical director, Mr. Tan Guangyuan, is a special member of the European Union of Aquarium Curators (歐盟水族館館長聯盟), advisor to the Japanese Cetaceans Center (日本海豚中心) and vice president of the National Aquatic Wildlife Conservation Association (全國水生野生動物保護分會). Our operation director, Mr. Wang Wei, is a member of the Chinese Association of Natural Science Museums (中國自然科學博物館協會) and a member of the Ornamental Fish Sub-committee of the China Society of Fisheries (中國水產學會觀賞魚分委員會). Our marketing director, Ms. Zheng Fang, is a standing committee member of the Liaoning Wildlife Conservation Association (遼寧野生動物保護協會). Our senior management team has proven execution capability in marine theme park operations with an average industry experience of over ten years.

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Our experienced management team is also supported by a strong team of zoological staff with rich know-how in marine and polar animal husbandry and research, many of whom have been invited to be members of major international marine animal associations such as the International Marine Animal Trainer's Association (國際海洋動物訓練員協會), the International Association for Aquatic Animal Medicine (國際水生動物醫學協會), European Association of Aquatic Mammals (歐洲水生哺乳動物協會) and Animal Behavior Management Association (動物行為管理聯盟). We believe in the benefits of improving the skills and knowledge of our management team and employees and regularly provide them with opportunities to attend both in-house and external management and professional training programs.

### **Strategic Investors with Strong Commitment to Our Business Model**

Our strategic shareholders have provided us with strong support and are committed to our business model and prospects. Our largest strategic investor in terms of equity interest, ORIX, is a Japanese conglomerate listed on the New York Stock Exchange and the Tokyo Stock Exchange with businesses ranging from corporate financial services, leasing and investment to real estate development. ORIX's investment portfolio includes three aquariums and a number of resort hotels across Japan, in particular the Enoshima Aquarium in Japan. ORIX has supported us through various programs including sharing their expertise in the development and operation of aquariums, theme parks and amusement facilities. As an experienced conglomerate with its own long-term aquarium holdings, ORIX's strategic investment in us attests to the international recognition of our business model.

Our second largest strategic investor, Hony Capital, is a leader and pioneer in China's private equity industry and has been consistently supporting us in respect of development strategy, internal control, structuring of our management system, senior management recruitment, brand building, marketing design and employee incentive programs, all of which have helped us enhance the corporate governance and operational capability of our Group.

### **OUR STRATEGIES**

We plan to continue growing our portfolio of theme parks as a leading integrated theme park developer and operator in China focusing on marine theme parks. Our strategies include the following components:

#### **Continue to Promote Our National Theme Park Brand**

Keenly aware of the benefits of owning a nationwide, unified brand, we have recently developed a new branding system in 2013. Our focus is to establish the *Haichang China* brand as a leading PRC provider of leisure tourism products with a portfolio comprising primarily marine theme parks. We aim to achieve our goal in stages through a variety of channels, such as:

- unifying our theme parks under the *Haichang China* brand, during which we will leverage the strong regional recognition of the brands of our individual parks to establish a nationally recognized brand commensurate with our national network of theme park offerings;
- intensively enhancing our marketing efforts by coordinating the resources of both the group company and our project companies and evaluating and utilizing both traditional and new media, including emerging innovative advertising channels such as social media;

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- developing merchandise carrying our *Haichang China* brand and proprietary signature characters including a series of proprietary-themed products and cartoon series focusing upon marine and polar animals and characters;
- seeking to establish partnerships with additional internationally renowned industry leaders; and
- exploring corporate sponsorship opportunities with leading enterprises from other industries based on our recent trials with China Southern Airlines, Xinhua News Agency and Sina.com.

### **Continue to Increase the Profits of Our Existing Theme Parks**

Leveraging our experience in the theme park industry, we aim to continue to improve the variety of our offerings to provide our visitors with more diversified entertainment experiences to drive attendance, lengthen visitors' stays, increase in-park spending and the likelihood of re-visits. Such measures include increasing the frequency and variety of our performances, offering more interactive opportunities with our animals and upgrading our products through advanced technology. In addition, we plan to strengthen our family and teenager customer base through setting up more science-themed educational programs and interactive experiences for children such as "Touch Pools" and science-themed exploration centers.

We will continue our efforts to improve the appeal and convenience of our in-park services such as dining and shopping venues to offer a better consumption experience to our visitors. Moreover, we plan to develop more proprietary-themed consumer products to offer our visitors more unique and value-added shopping options. We intend to gradually take over the operation of high-margin products and services such as ice cream and beverage outlets from third-party operators currently leasing venues in our theme parks. In 2012, revenue from the sale of food, beverage and merchandise of our theme parks accounted for 8.8% of revenue of our park operations. We aim to increase the proportion of the sale of food, beverage and merchandise to total revenue from our park operations to approximately 40% achieved by leading international industry peers.

In addition, to attract more visitors during off seasons, we plan to adopt a dynamic pricing model and a series of seasonal promotions. To the extent permitted by the natural conditions at our theme parks, we plan to offer more attractions during the winter season (such as interactive attractions on artificial snow) and promote our theme parks as the choice facilities for film and television program production.

We also expect to gain from our new branding campaign and continued marketing efforts as well as expansion of our ticket sale and travel agency networks to reach a wider spectrum of potential visitors, in particular in markets where we determine that we have not achieved the desired market penetration levels. In addition, we are consolidating the existing online sales platforms of the individual theme parks to establish a multi-channel and multi-platform e-commerce system and capture direct sales opportunities through innovative online marketing. We will fully utilize new media to expand our sales channels and increase our innovative service contents, such as smart phone applications, "WeChat" and online sales.

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In the meantime, we will continue to contain and decrease our operating costs through leveraging our theme park operational experience and innovative technological means so as to further improve our profit margins.

### **Continue to Expand Our Portfolio and Offerings**

We will continue our efforts in exploring new theme park projects in strategically located cities across China to expand our investment portfolio and increase our revenue. We intend to develop the planned Shanghai Haichang Polar Ocean World into our flagship marine theme park and one of Shanghai's tourism landmarks with a focus on the display and performance of marine and polar animals, integrating the popular features of our existing theme parks and bolstering our national brand name *Haichang China* as the innovator and leader in the marine theme park industry. We also intend to develop the Sanya Haitang Bay Dream World into a marine-themed destination resort in Sanya to capitalize on the growing number of tourists expected in the Haitang Bay area.

In addition, we will continue to proactively identify and assess other project opportunities in China to further diversify our portfolio of theme parks with appropriate localization in other regions with high economic growth potential and strong consumer demand. We are currently assessing investment opportunities in mature markets of first-tier cities in China and are also exploring the prospects of replicating our project development model in the western region and second-tier cities in China.

We will continue to evaluate opportunities to leverage our core expertise into other related fields to generate additional sources of revenue and higher profits. We have begun and will continue to provide consultancy and operational management services for small-scale aquatic displays in shopping malls and office buildings. We may also consider the feasibility and compatibility of serving as an advisor on project design and cost estimation or as an operational manager for other marine theme park projects if the benefits derived from such cooperation exceed the potential competitive risks.

We intend to further leverage our marine animal expertise and brands into new cultural, media and consumer products to extend our value chain. Capitalizing on our experience of cooperation with international entertainment enterprises, we plan to cooperate with renowned professional media companies to jointly produce proprietary cartoon series focusing on marine and polar animals and proprietary characters and, based on that, to produce special effects films for 3D/4D spherical screens. We also plan to cooperate actively with children's programs of both national and local television channels to promote awareness of marine life and habitats among children and teenagers. Moreover, we plan to develop internet-based virtual theme parks and games to complement our projects to keep our existing visitors engaged, attract new visitors and serve as the basis for developing new proprietary-themed merchandise that may become a key driver for our future revenue growth.

### **Continue to Further Strengthen Ancillary Commercial Property Development**

As an integral part of our project development process, we will continue to develop ancillary commercial properties adjacent to our existing and planned theme parks to generate an optimal mix of income from selling, leasing and operating the properties that best suits our overall branding and development strategy. Our business strategy has always been, and is expected to continue to be, developing ancillary commercial properties together with theme parks as integrated tourism and leisure projects. We have cooperated with leading retail property management organizations in conducting the research, design, operation and management of the ancillary commercial



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properties of our theme parks. We plan to develop the ancillary commercial properties now completed in Chongqing and Chengdu, under construction in Tianjin and Wuhan as well as those to be developed in Shanghai and Sanya into multi-purpose and multi-functional projects. We aim to offer a range of experiential products and services including marine themed dining, leisure shopping, themed resort hotel and serviced apartments for vacation-oriented living. We aim to take full advantage of the potential appreciation in value of the properties adjacent to our theme parks, promote the synergy between the values of our theme parks and their ancillary commercial properties and maximize our unique competitive strength from their complementary functions. Through the ancillary commercial properties, we may also offer the local neighborhoods high quality and convenient commercial services and weekend leisure experiences.

### **Continue to Support Species Preservation, Sustainability and Animal Welfare**

Our corporate mission is to promote a friendly and harmonious relationship with nature through our support of animal-related environmental initiatives and our own principled animal-friendly practices. Not only will we continue to adhere to our mission in our daily operations from animal collection, transportation to husbandry and breeding, we will also actively participate in organized animal rescue efforts by sharing our expertise and resources. We also intend to continue our investments in marine and polar animals including the establishment of specialized research institutions.

Our zoological staff are trained to uphold these principles in their day-to-day contact with animals under our care. In addition, we plan to continue our support for marine and polar life research and species preservation efforts nationwide by, for instance, sponsoring National Aquatic Wildlife Conservation Association's nationwide "Aquatic Wildlife Conservation Haichang Award," which aims to promote the protection of aquatic wildlife and aquatic ecological system through publicizing and rewarding exemplary individuals and promoting events in aquatic wildlife conservation efforts. We believe our unwavering focus on animal welfare and preservation will continue to benefit the maintenance and protection of one of our key assets – our animals. It will also further our goal to enhance the public's understanding of animals and nature and awareness of related environmental and social issues, strengthening our brand name at the same time. These efforts are the core of our corporate culture and identity and leave a lasting impression with our customers.

### **OUR BUSINESS MODEL**

We are a leading developer and operator of theme parks and their ancillary commercial properties in China. According to Euromonitor, we are the largest marine theme park operator in China in terms of visitor attendance in 2012. When taking into account the Additional Theme Parks, we have established a national footprint with eight theme parks located across China in major populous coastal and inland tourist cities, including Dalian, Qingdao, Tianjin, Wuhan, Chengdu, Chongqing and Yantai.

We are focused on developing large-scale marine theme parks and, as of December 31, 2013, had a diverse marine and polar animal collection with more than 500 marine and polar animals of approximately 30 species and more than 40,000 animals such as fish, coral and jellyfish. We strive to establish our competitive strength through our marine and polar animal expertise in breeding, husbandry and display, providing visitors with an integrated travel experience and creating profits from ticket sales and in-park consumption. We have established a highly efficient operational system in theme park management which enables us to replicate our development model in new locations. We also have a diversified theme park portfolio, such as the Additional Theme Parks to

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be acquired by us as part of the Reorganization, which broaden and diversify our product offerings. Our leading market position as a developer and operator of theme parks in China is based on the business scale, attendance, brand name, operational capabilities and other business features of our theme parks and the Additional Theme Parks. Theme parks as defined in the section entitled “Glossary of Technical Terms” and used throughout this prospectus are however different from Theme Park Under 2013 Opinions as defined under the relevant PRC regulations. Our Sanya project is not deemed as a Theme Park Under 2013 Opinions based on our interviews with the local government authorities in Sanya and the advice of our PRC legal advisor, as it is planned to be operated in an open manner as a themed entertainment park area, as opposed to an enclosed park with a specific theme. See “Business – Theme Parks To Be Developed – Sanya Haitang Bay Dream World” and “Regulatory Overview – Regulations – Theme Parks – Project Approval.”

In line with the practice of international theme park operators, we develop our ancillary commercial properties as an integral part of the project development process with a view to achieving synergy between our theme parks and their ancillary commercial properties. We develop our project design on the basis that a theme park and its ancillary commercial properties constitute an integrated project with complementary functions to serve, and benefit from the prosperity and business opportunities brought by the increase in, visitors attracted to the theme park area. It is usually the same project company to acquire and develop different parcels of land for the development of both the theme park and ancillary commercial properties according to the same project design. Through such integrated development approach, we are able to provide visitors with amenities and more consumption options such as lodging, dining and shopping venues. These properties typically increase the length of stay, likelihood of re-visit and other spending by our visitors who may enjoy the “one-stop shop” travel and leisure experience through a variety of leisure and travel offerings provided by us. They also provide us with stable rental income and sizable revenue from property sales. In addition, through our development, sale and selective holding of the ancillary commercial properties, we are able to enjoy the benefit from potential appreciation on the value of the properties and derive cash flows from property sales to further support the upgrading and development of theme parks.

In addition, our business model is also in accord with the policy direction of the PRC government in promoting the development of the tourism and culture industries. Such policies provide us with the opportunities of obtaining policy, tax or financial support from the PRC government at various levels and permit us to fully capitalize on the expected significant growth in the number of Chinese tourists and theme park visitors.

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### OVERVIEW OF OUR THEME PARKS AND ANCILLARY COMMERCIAL PROPERTIES

We currently own and operate six marine theme parks and expect to acquire the Additional Theme Parks by the end of 2014 as part of the Reorganization. These theme parks offer visitors a variety of exhilarating and educational experiences, including animal encounters and displays that invite exploration and appreciation of the natural world, thrilling rides, water slides and spectacular shows. Of the eight theme parks, two are rated 5A by the NTAQRAC, the highest rating that can be assigned to China's tourist destinations, and five are rated 4A, the second highest rating that can be assigned. In addition to our core marine animal centered offerings, we also provide a multitude of consumption options within our theme parks to drive in-park spending of our visitors. These in-park consumption options mainly include themed restaurants featuring the characteristics of a particular theme park and retail stores selling a variety of proprietary-themed consumer products from clothing, toys and souvenirs to specialty snacks. In 2012, our theme parks and the Additional Theme Parks attracted more than 9.4 million visitors in terms of admission attendance, including approximately 7.2 million visitors in terms of admission attendance of our six marine theme parks.<sup>(1)</sup>

We also develop our ancillary commercial properties with a view to both supplementing the offerings of our theme parks and deriving additional revenue from property sales and rental income of our investment properties. As an integral part of our project development process, our ancillary commercial properties are typically situated near our theme parks and developed when we have substantially completed the construction of the theme parks. We develop the ancillary commercial properties by taking into account both our overall positioning strategy and the demand of the local markets. To provide the "one-stop shop" travel and leisure experiences, our ancillary commercial properties include a variety of products such as commercial streets providing dining, shopping and entertainment experiences, themed hotels, serviced apartments and customized offerings for specific locations such as a hot spring resort and clubhouses.

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Note:

- (1) The number of ticket attendance, which is based on the number of visitors to whom our theme parks sell tickets, is different from the number of admission attendance, which is based on actual admissions of visitors to our theme parks. The difference in the two sets of attendance data in 2012 was mainly due to the following reasons: (i) when a combo ticket is sold by Qingdao Polar Ocean World for the ocean world and a happy theater within the park as a package, the number of ticket attendance is calculated based on the number of combo tickets sold while the admission attendance is calculated based on the actual admissions to each of the ocean world and the happy theater, thus resulting in a higher admission attendance of the park compared to its ticket attendance data; (ii) we provide certain free admissions to visitors from time to time as promotions or benefits to children or the elderly; and (iii) certain visitors use their annual passes for multiple entries into our theme parks.

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The table below sets forth details about our theme parks, the Additional Theme Parks and their respective ancillary commercial properties.

	Year Opened	Site Area of the Occupied Land of Theme Park (sq.m.) <sup>1</sup>	GFA of Theme Park (sq.m.) <sup>2</sup>	Exhibition Tanks and Amusement Facilities	Types of Performances <sup>4</sup>	Shopping and dining venues	NTAQRAC Rating	Operating Season	Use or Planned Use Ancillary Commercial Properties <sup>8</sup>	GFA of Completed Properties Held for Investment or for Sale (sq.m.) <sup>8</sup>	GFA of Properties Under Development (sq.m.) <sup>8</sup>	GFA of Properties Held for Future Development <sup>8</sup>
<b>Our Theme Parks</b>												
Dalian Laohutan Ocean Park . . . . .	2002	20,353	38,151	29	3	28	5A	Year-round	Commercial street <sup>9</sup>	12,671 <sup>9</sup>	Nil	Nil
Qingdao Polar Ocean World . . . . .	2006	117,675	45,357	44	4	27	4A	Year-round	Commercial street	16,735	Nil	Nil
Chengdu Polar Ocean World . . . . .	2010	240,048	48,600	16	4	17	4A	Year-round	Commercial street, club house, office and hotel	44,087	46,126 <sup>11</sup>	Nil
Tianjin Polar Ocean World . . . . .	2010	30,495	49,289	60	11	24	4A	Year-round	Commercial street <sup>10</sup> and serviced apartments	44,291	59,006 <sup>12</sup>	120,749 <sup>13</sup>
Yantai Whale Shark Aquarium and Yantai Yudaishan Hot Spring Resort . . . . .	2011	156,604	31,886	29	3	10	4A <sup>5</sup>	Year-round	Commercial street	10,649	Nil	Nil
Wuhan Polar Ocean World . . . . .	2011	279,476	42,788	32	2	27	4A	Year-round	Commercial street and serviced apartments	45,929	Nil	250,542 <sup>14</sup>
<b>Additional Theme Parks</b>												
Dalian Discoveryland . . . . .	2006	466,896	70,756	37	6	61	5A <sup>6</sup>	March-November <sup>7</sup>	Nil	Nil	Nil	Nil
Chongqing Caribbean Water Park . . . . .	2009	65,130	nil <sup>3</sup>	12	6	27	4A	April-October <sup>7</sup>	Commercial street	46,191	Nil	54,095 <sup>15</sup>

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Notes:

- 1 As the land use rights in respect of certain theme parks and their ancillary commercial properties are recorded in one or more land use right certificates without allocation of the land between theme parks and their ancillary commercial properties, the site area shown in this column may also cover land used for ancillary commercial properties.
- 2 The GFA shown in this column is based on our internal records regarding the buildings that form theme parks.
- 3 Because Chongqing Caribbean Water Park is a water park without above-the-ground buildings, the total GFA of the park is nil.
- 4 Performances include animal shows, parades and other entertainment shows.
- 5 This rating is pending and an application has been filed.
- 6 The 5A rating was assigned to the Dalian Jinshitan National Tourist Resort Area, of which Dalian Discoveryland is a key component in providing entertainment experience to the visitors of this area.
- 7 The actual operating season of the Additional Theme Parks in any given year is subject to weather conditions.
- 8 The statistics set out below in respect of the ancillary commercial properties of the relevant theme park are based on information of the relevant properties as of December 31, 2013 included in the property valuation reports set out as Appendix IVA and Appendix IVB of this prospectus.
- 9 See “History, Reorganization and Corporate Structure – Our Reorganization – Phase 5 of the Reorganization” for details on the acquisition of the ancillary commercial properties of Dalian Laohutan Ocean Park. The acquisitions were completed in January 2014 and the total GFA included a GFA of 2,299 sq.m. that was acquired in January 2014.
- 10 The construction of some of the commercial streets was completed in October 2013. See “– Marine Theme Parks – Tianjin Polar Ocean World.”
- 11 Including approximately 12,135 sq.m. of underground GFA.
- 12 Including approximately 12,118 sq.m. of underground GFA.
- 13 Including approximately 37,938 sq.m. of underground GFA.
- 14 Including approximately 58,190 sq.m. of underground GFA.
- 15 Including approximately 9,758 sq.m. of underground GFA.

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### MARINE THEME PARKS

#### Dalian Laohutan Ocean Park

Dalian Laohutan Ocean Park consists of Dalian Laohutan Polar Aquarium and other attractions operated by us, all located in the Dalian Laohutan Park. We opened Dalian Laohutan Polar Aquarium in 2002, which exhibits the landscapes of the north and south poles and polar animals, as our first foray into the marine theme park business. This park soon became a landmark tourist attraction of Dalian, a nationally popular tourist city in China. Its beluga whale, “Child of the Sea,” has been the designated tourism mascot for Dalian since 2002. The park introduced several polar animals such as the beluga whale, the walrus, the polar bear and the penguin to the Chinese audience for the first time and won the certificate of “Exhibitor of the Most Diversified and Numerous Polar Animals in China” from the China Records Headquarters (上海大世界基尼斯總部).

Apart from Dalian Laohutan Polar Aquarium, we have expanded our theme park operations in Dalian by adding five other venues, including the Happy Theater, the Sea Animal Aquarium (exhibiting seals, fur seals and sea lions), the Whale and Dolphin Interaction Plaza, the Zhongshan Station Penguin Reproduction Center (for internal research purposes) and a 4D cinema (admission to the cinema is separately charged).

We operate our theme park in Dalian through our project company, Dalian Laohutan, in which we own a 58.3% equity interest, with the remaining interest owned by Hutan Park. Since 2008, we have entered into ticketing cooperation agreements with Hutan Park which are renewed on an annual basis. Under such arrangement, Hutan Park is responsible for the sale of a single admission ticket to visitors for the entrance to the attractions located in Dalian Laohutan Park operated by us and Hutan Park itself at a price set out in the agreement. The agreements also provide a revenue split mechanism in respect of the amount of revenue received by us from the ticket sales in each year by taking into account various factors, such as the historical operating results of our theme park attractions and other attractions located within Dalian Laohutan Park, the applicable current ticket price and the expected pricing adjustment for the next year, the in-park spending of visitors, the estimated attendance and revenue generated from the ticket sales. The revenue we receive from the ticket sales is settled periodically (typically daily during the peak season and weekly to monthly during the non-peak season) during the year. After the end of each year, if the actual revenue received by us during that year is less than the agreed amount of revenue we are entitled to receive for that year, Hutan Park shall pay us the shortfall. In addition, the agreed amount of revenue we are entitled to receive may be adjusted upward based on our negotiation with Hutan Park at the end of each year based on factors such as the actual attendance to Dalian Laohutan Ocean Park. If the actual revenue received by us during the year exceeds the agreed amount of revenue, we are not required to return the excess to Hutan Park. Our ticketing cooperation agreement with Hutan Park for the year of 2013 further provides that a party may be excused from performing its obligations under the agreement if it is affected by certain force majeure events that are beyond its control without fault on its part. We expect to continue our ticketing cooperation arrangement with Hutan Park in the foreseeable future. See “Risk Factors – Risks Primarily Relating to Our Theme Park Business – Our revenue from Dalian Laohutan Ocean Park may be adversely affected if we are unable to continue our ticketing cooperation arrangement with Hutan Park or if we experience difficulties in enforcing the terms of the arrangement” for details on the risks of our ticketing cooperation arrangement.

In 2010, 2011 and 2012 and the nine months ended September 30, 2013, revenue from ticket sales of Dalian Laohutan Ocean Park (including ticket sales from the 4-D cinema in Dalian) amounted to RMB122.7 million, RMB128.4 million, RMB136.7 million and RMB123.2 million, respectively, accounting for 15.4%, 18.8%, 15.4% and 15.8% of our total revenue in the respective period. The agreed portion of revenue from tickets sales of Dalian Laohutan Ocean Park only for the year of 2013 we are entitled to receive is RMB145.0 million.

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As there was no land adjacent to Dalian Laohutan Park (within which we developed the attractions of Dalian Laohutan Ocean Park) that was available to us to develop ancillary commercial properties, our Dalian Laohutan Ocean Park was developed without the contemporaneous construction of the adjacent commercial properties typically seen in our other theme park projects. A Connected Person of ours, Shibo Real Estate, developed the Dalian Laohutan Fishermen's Wharf in the nearby tourist area as a commercial area mainly providing leisure shopping, dining and entertainment services. Due to its proximity to Dalian Laohutan Ocean Park and the leisure and travel experiences it offers, we believe Dalian Laohutan Fishermen's Wharf to be a good supplement to the theme park business at Dalian Laohutan Ocean Park. Consistent with our business model of integrating theme park operations with ancillary commercial property development, we have completed the acquisitions of the commercial properties of the Dalian Laohutan Fishermen's Wharf that have not been sold by Shibo Real Estate, which have a total GFA of 12,671 sq.m. The acquisitions were completed in January 2014. The existing tenants on these properties to be acquired by us mainly operate restaurants, clubs and a wedding photography business.

### **Qingdao Polar Ocean World**

We opened Qingdao Polar Ocean World in 2006 in the Shilaoren national tourist resort area of Qingdao, an internationally known tourist destination in eastern China. Qingdao Polar Ocean World comprises a polar aquarium and a Happy Theater. Its polar bear "Guang Guang" has been the tourism mascot for Qingdao since 2006.

It has an indoor marine animal performance theater with a 3,600-person seating capacity. It also features an undersea tunnel six meters wide to give our visitors a special experience of the undersea world. In addition, it has display areas for beluga whales, sea lions and seals where our visitors may interact with these animals. Several television series and films have been produced utilizing the theme park's facilities and the park has become a popular choice with producers of marine-themed TV programs and films, which helps promote the popularity of the theme park among both the local population and visitors to Qingdao.

Our ancillary commercial properties adjacent to Qingdao Polar Ocean World are in the form of a tourism complex offering high-end dining and lodging as well as a variety of bay-themed leisure experiences. We have sold a portion of the properties and hold the remaining portion for leasing to tenants engaged in various businesses including fast food chains, other restaurants and business hotels. As of December 31, 2013, the total GFA of our investment properties in Qingdao was 16,735 sq.m. See "– Operation of Ancillary Commercial Properties."

### **Chengdu Polar Ocean World**

We opened Chengdu Polar Ocean World in 2010 in Chengdu, the capital city of the populous Sichuan province and a popular tourist destination in western China. As our first marine theme park in western China, this large-scale park was an important step in establishing our national footprint.

Given the geographical location and climate and other conditions, we combined multiple aquariums and animal exhibition halls in an open park, which occupies an area of approximately 70,000 sq.m. Apart from exhibition halls for polar bears, walruses, sea lions, penguins and sharks and a dolphin and whale performance center, the park also has a man-made wave-making pool, a seal bay and several experiential offerings popular among children. To further enrich our offerings, we added a new 4D cinema in 2013, which offers our visitors an opportunity to appreciate the landscape of the polar world and the importance of protecting the polar environment.

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Our ancillary commercial properties adjacent to Chengdu Polar Ocean World comprise a commercial street, a hotel and office complex and clubhouses for corporate use. We have completed the construction of the commercial street and clubhouses. We have sold a portion of the commercial street and leased the remaining portion to tenants engaged in a variety of businesses. We have sold a portion of the clubhouses and plan to sell the remaining portion. The hotel and office complex is currently under development. As of December 31, 2013, the total GFA of our investment properties in Chengdu was 20,545 sq.m. and the total GFA of our properties held for sale in Chengdu was 23,542 sq.m. The hotel and office complex under development is expected to have a total GFA of 46,126 sq.m. See “– Operation of Ancillary Commercial Properties.”

### **Tianjin Polar Ocean World**

Tianjin Polar Ocean World was opened in the coastal city of Tianjin in 2010 as part of our continuing expansion of theme park operations in northern China, in particular the strategic market surrounding Beijing, China’s capital and Tianjin, one of the four municipalities in China under direct administration of the central government. The theme park is an approximately 49,000 sq.m., whale-shaped complex. The park’s highlights include a “Waterless Ocean” exhibiting the wonders of the deep sea, an interactive science-themed experiential center for children, a “Mermaid Show” performed by our divers, a guided diving experience and an underwater show of beluga whales. The park has successfully bred five polar bears that attracted wide industry attention in China and internationally.

The ancillary commercial properties adjacent to the Tianjin Polar Ocean World comprise commercial streets, a portion of which is completed with the remaining portion to be developed, and serviced apartments, a portion of which is currently under development with the remaining portion to be developed. As of December 31, 2013, the completed commercial streets in Tianjin had a GFA of 24,959 sq.m. held for investment and a GFA of 19,332 sq.m. held for sale. The serviced apartments currently under development in Tianjin are expected to have a total GFA of 59,006 sq.m. In addition, a commercial street together with serviced apartments having a total planned GFA of 120,749 sq.m. are expected to be developed by us in Tianjin starting from 2015. See “– Operation of Ancillary Commercial Properties.”

### **Yantai Whale Shark Aquarium**

We opened Yantai Whale Shark Aquarium in 2011 as a unique offering in the theme park market in China focusing on whale sharks, the largest fish in the world. The park is one of the few aquariums with whale sharks in the world. The Yantai Whale Shark Aquarium is a nautilus-shaped building, the central component of which is a large acrylic whale shark display tank holding 3,000 cubic meters of water that provides the visitors with an exhilarating up-close view of our whale sharks. Our visitors may also dive into the water tank under supervision for closer encounters with the whale sharks. In addition, it has on display more than ten other species of large-size sharks and is among the few aquariums in China with the most numerous and diversified species of sharks on display. Our 360-degree, high-tech spherical screen cinema located within the park is the first in China of its kind focusing on marine culture and offers our visitors an exciting opportunity to “explore the deep sea.”

In addition, we have a Yantai Yudaishan Hot Spring Resort located in the vicinity of the Yantai Whale Shark Aquarium that offers Japanese style super sento, hot stone bath and guest rooms to our visitors to enhance their leisure experience and provide hotel service.

Yantai Fishermen’s Wharf is a commercial street we developed adjacent to the Yantai Whale Shark Aquarium. We have sold a portion of the property and hold the remaining portion for leasing to tenants engaged in various businesses such as restaurants and fitness services. As of December 31, 2013, the total GFA of our investment properties in Yantai was 10,649 sq.m. See “– Operation of Ancillary Commercial Properties.”



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### **Wuhan Polar Ocean World**

Wuhan Polar Ocean World was opened in the hub city of Wuhan in central China in 2011 as our most recent effort to extend our national presence. The theme park is a beluga-shaped complex occupying more than 60,000 sq.m of land. The park combines a series of indoor and outdoor exhibition halls. In particular, its 270-degree undersea tunnel, the penguin exhibition hall and the exhibition hall with our human-reared polar bear twins are the most popular among our visitors. The park was designated in 2013 as the research center of Chinese Academy of Sciences (中國科學院) for black finless porpoises – one of the most treasured animals on the list of category one wildlives designated by the PRC government for preservation.

The ancillary commercial property adjacent to Wuhan Polar Ocean World comprise commercial streets, a portion of which has been completed with the remaining portion to be developed, and serviced apartments, which are to be developed. We plan to hold a majority of the completed commercial street for leasing to tenants engaged in the restaurant and other businesses. As of December 31, 2013, of the completed commercial street, the total GFA of our investment properties was 40,762 sq.m. and the total GFA of our properties held for sale was 5,167 sq.m. In addition, a commercial street (with a total planned GFA of 97,384 sq.m.) and serviced apartments (with a total planned GFA of 153,158 sq.m.) are expected to be developed in Wuhan starting from 2014. See “– Operation of Ancillary Commercial Properties.”

### **NON-MARINE THEME PARKS**

#### **Dalian Discoveryland**

In order to capitalize on the increasing tourist traffic in Dalian, Dalian Discoveryland, an adventure-themed amusement park, opened in 2006 as one of the largest amusement parks in northeastern China. The park, with its 37 large-scale discovery-themed amusement facilities, occupies approximately 470,000 sq.m. of the Dalian Jinshitan National Tourist Resort Area, a 5A-rated tourist destination.

The theme park comprises seven areas including the “Discovery Plaza,” “Knight Castle,” “Magical Forest,” “Metal Factory,” “Mysterious Desert,” “Frenzied Town” and “American Streets.” Our visitors can enjoy foreign culture and landscapes as they walk from medieval European castles to 19th century American streets, North African deserts and South American tropical forests. The theme park offers a variety of entertainment experiences including adventure rides, interactive games and memorable shows, such as a 57-meter high space shuttle, a kilometer-long boating canal, a variety of exciting parades and a 3,000 sq.m. water-borne theater. A western-style wedding hall is located within the park, hosting special events such as wedding ceremonies, banquets and press conferences. In addition, the park hosts seasonal events such as the “Comics and Animation Carnival” and “Cooler Birthday Parties,” “Water Splashing Parade” and “Nightly Light and Shadow Parade” in the summer and “Happy Halloween” in the fall. Continuous investments have been made to upgrade the park to enhance its appeal and increase attendance, the latest addition being to construct a 4D “Ice Age” cinema that opened in 2012. Dalian Discoveryland is generally open from March to November each year.

As a complementary offering to the theme park, a resort hotel was opened in 2008 adjacent to the theme park. The resort hotel has 171 guest rooms and provides themed restaurants, a “Beer Garden” and a number of conference rooms for business meetings of different sizes. Having a resort hotel near to the theme park not only helps lengthen the stays of our park visitors and increase their in-park consumption, but also attracts hotel guests who may become interested in visiting the theme park.

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### **Chongqing Caribbean Water Park**

Chongqing Caribbean Water Park was opened in 2009 as an important addition to the Nanshan tourism area of Chongqing, a strategically located hub city in western China with a population of approximately 30 million people.

The water park occupies approximately 65,000 sq.m. of land and was designed by internationally renowned designers who had participated in the design of Disneyland. The park features a vast collection of both large-scale water-borne facilities for adventure seekers and family-oriented water-borne entertainment programs. Its Caribbean-themed facilities supported by high-tech equipment include a water slide of 135 meters, a wave pool capable of creating eight different types of artificial waves and a cinema featuring a curtain formed by water. The park also organizes Mayan-style folklore performances on its plaza and rock music band performances on its water-borne stage in the evening. Given its diverse collection of water-borne amusement facilities, the park co-hosted with Chongqing TV Station, a popular water-borne competition program in 2013 that once achieved top audience ratings among the programs broadcast at the same time on China's provincial satellite TV channels.

The ancillary commercial properties adjacent to the Chongqing Caribbean Water Park consist of two commercial streets. Chongqing Haichang Caribbean has completed the construction of one and plans to develop the other. Chongqing Haichang Caribbean plans to sell a portion of the completed commercial street while holding the remaining portion for leasing. As of December 31, 2013, the total GFA of the investment properties in Chongqing was 24,437 sq.m. and the total GFA of the properties held for sale was 21,754 sq.m. The commercial street to be developed by Chongqing Haichang Caribbean is expected to have a total planned GFA of 54,095 sq.m. and its construction is expected to start in 2015. See “– Operation of Ancillary Commercial Properties.”

Pursuant to two equity transfer agreements we entered into in September 2013, we agreed to acquire 100% equity interests in Dalian Haichang Discoveryland for a total consideration of approximately RMB416,621,420.83, and 100% equity interests in Chongqing Haichang Caribbean for a total consideration of RMB10,210,831.35, both subject to the price adjustment mechanism stated therein. Pursuant to the Share Subscription Agreements, any payment made by our Company to the shareholders of Dalian Haichang Discoveryland and Chongqing Haichang Caribbean as consideration in connection with the Acquisitions will be fully repaid to our Company as their deferred payment for the subscription premium of our Shares. Taking into account the receipt of such deferred payments, we do not expect the payment of consideration for the Acquisitions to affect the financial condition or cash flow of the Group. See “History, Reorganization and Corporate Structure – Phase 5 of the Reorganization” and “History, Reorganization and Corporate Structure – Pre-IPO Investments.”

### **THEME PARKS TO BE DEVELOPED**

The two projects described in this section are still to be developed by us. The development of these two projects is subject to various risks and may not be completed as expected, or at all. See “Risk Factors – Risks Primarily Relating to Our Theme Park Business – Development of Sanya Haitang Bay Dream World and Shanghai Haichang Polar Ocean World is subject to uncertainties” for the associated risks.

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### **Sanya Haitang Bay Dream World**

#### ***Overview***

Sanya Haitang Bay Dream World is planned to be an international tourist destination situated on the “national seashore” of the Sanya Haitang Bay that occupies land of approximately 980,000 sq.m. The tourism-related part of the project is expected to occupy approximately 650,000 sq.m. with the rest allocated to the ancillary commercial properties. The project is planned to capitalize on the strategic positioning of Hainan Island by the PRC government as an international tourist destination and the new development initiatives formulated for Sanya Haitang Bay to be developed into a “national travel resort areas.” Focusing on the theme of “One Thousand and One Nights” and marine fantasy and adventure, the project is currently planned to feature 14 themed zones such as Dolphin Bay, Marine Circus, Waterfall Town and Wildland Camp. Such versatile themed offerings will be able to give visitors an array of different theme park experience, embodying the spirit of adventure and exploration, leisure entertainment and one-stop travel experience. We plan to build five functional areas aiming to bring realistic marine experiences, nightly carnivals and fantastic adventures to the visitors including: “Children’s Dreamland,” “Adventure Land,” “Discovery Cove,” “Haitang Feast” and “Arab Wonders.” The project is expected to provide all-weather entertainment programs to its visitors and be positioned as a world-class, large-scale integrated project that blends theme park attractions, leisure, dining, shopping, culture and entertainment.

#### ***Status of Development***

We entered into a cooperation agreement regarding Sanya Haitang Bay Dream World with the local government authority of Sanya Haitang Bay in October 2012. Pursuant to the cooperation agreement, the local government authority will liaise with other relevant government authorities in helping us set up the relevant project companies, obtain the land use rights or enter into land lease contracts for the project land and ensure that the supporting infrastructure will be in place when the land is delivered to us. Under the cooperation agreement, we may also obtain certain financial support in the form of government grants to defray part of our land acquisition costs. Under the cooperation agreement, the land use rights will be granted by the relevant government authorities via public listing-for-sale procedure. We also set out certain commitments and milestones in the cooperation agreement as to the total investment and construction schedule for the project’s development.

According to the cooperation agreement, we expect to obtain two parcels of land with a site area of approximately 980,000 sq.m. We have also engaged international design firms and completed detailed conceptual planning and a product positioning strategy for the project. Due to delays in completing the procedures of changing the planned usage of and requisitioning the relevant project land, the local government authority has not held the relevant procedures for the disposition of the project land in accordance with the schedule set out in the cooperation agreement. We have been in discussions with the local government authority with regards to such delay. In respect of the project land for the tourism-related part of the project, we entered into a land lease contract with the local government authority on January 16, 2014, following which we have started developing the tourism-related portion of the project. In respect of the project land for the ancillary commercial properties, we expect the local government authority to announce the land tender, auction or listing-for-sale procedures for a small portion of the relevant project land in early 2014 and for other portions in phases in 2014. If we can obtain the land use rights for the ancillary commercial properties as currently expected, we also expect to start the construction of the ancillary commercial properties in 2014.

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Under the Theme Park Opinions, a Theme Park Under 2013 Opinions is defined as a park area with the following features: (i) constructed for the purpose of profit-making and with a certain scale of land area and investment; (ii) managed in an enclosed manner; (iii) having one or more specific cultural and tourist themes; (iv) providing visitors with paid leisure experience, cultural entertainment products or services.

Our Sanya project is planned to be a project that is operated in an open manner rather than an enclosed park with one specific theme, given that the project will be an open, public leisure entertainment park area in the Haitang Bay area without surrounding walls or ticketed entrances where visitors will be free to enter into and exit from without the need to purchase or present tickets for admission and which will be planned to feature 14 different themed zones. Given the scale of the project and the area of the park, the open manner operation model will give our visitors the flexibility to choose to buy tickets for particular themed zones and/or entertainment activities that they are most interested in without being subject to the restrictions of traditional theme parks operated in an enclosed manner, such as the requirement for purchasing an admission ticket before entering into the park area. According to the studies by international design firms engaged by us, our communications with the local government authority as well as our experience in developing our existing theme parks and other considerations, we expect such open manner operation and multi-purpose themed-zone park will potentially be able to attract a higher number of visitors of different ages and background to visit the park area of our Sanya project and the nearby ancillary commercial properties.

Based on our interviews with the relevant local government authorities in Sanya and the advice of our PRC legal advisor, our Sanya project should not be deemed as a Theme Park Under 2013 Opinions as it is not a project with enclosed management. See “Regulatory Overview – Regulations – Project Approval Regime” for details on the definition and classification of Theme Park Under 2013 Opinions under the relevant PRC regulations. In addition, we do not plan to build the Sanya project around a particular cultural or tourist theme and instead there will be multiple components on the site of the project as disclosed above which arguably make the project more akin to a multi-purpose complex than a traditional theme park operated in an enclosed manner. Notwithstanding the project’s classification under the Theme Park Opinions, we believe the project will be a themed entertainment park area and viewed as such by the public as it embodies all the essential features of a theme park, including various marine-related themed zones, with respect to which we can leverage our expertise in developing marine and other theme parks.

Should our Sanya project be deemed by the local government authority as a theme park in the future, our Sanya project will fall within the category of “large theme parks” under the Theme Park Opinions given its planned size and projected investment amount, whose construction will be subject to the approval by NDRC. As NDRC has not issued detailed rules on how “large theme parks” would be approved, our PRC legal advisor cannot opine on the criteria under which our Sanya project would be approved should it be deemed as a “large theme park.” See “Risk Factors – Risks Primarily Relating to Our Theme Park Business – Development of Sanya Haitang Bay Dream World and Shanghai Haichang Polar Ocean World is subject to uncertainties” for details on the regulatory uncertainties.

### **Shanghai Haichang Polar Ocean World**

#### ***Overview***

Shanghai Haichang Polar Ocean World is expected to be developed into our flagship marine theme park along the east side of Dishui Lake, Lingang New City of Shanghai and to occupy land of approximately 500,000 sq.m. We expect the park to occupy approximately 320,000 sq.m. and the ancillary commercial properties to take up the rest. We plan to develop this flagship project into a world-class marine theme park with interesting exhibitions, strong science-themed interaction between the exhibits and the audience, entertaining interactive activities and exciting performances. The marine theme park will showcase marine animals from the north and south poles, marine fish and marine wildlife together with large-scale amusement equipment, special effects films, animal performances and water-borne parades.

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### ***Status of Development***

In early 2013, we entered into an investment agreement with Shanghai Harbor City Development (Group) Co., Ltd. (上海港城開發(集團)有限公司) (“**Harbor City**”), a Shanghai government-owned enterprise responsible for primary land development. Under the investment agreement, Harbor City is committed to assisting us in completing the project establishment approval and obtaining the relevant land use rights and ensure relevant infrastructure and transportation arrangements will be in place in accordance with the development schedule. However, we are required to obtain the land use rights through the relevant land disposition proceedings organized in accordance with local laws and regulations. Under the investment agreement, we have also set out certain commitments and milestones as to the total investment and construction schedule for the planned project.

According to the investment agreement, we expect to acquire two parcels of land with a site area of approximately 500,000 sq.m. We have engaged international design firms and completed a detailed product positioning strategy and commenced the conceptual planning. The relevant local government authorities have not completed the procedures required for the disposition of the project land for us to obtain the project land in accordance with the schedule originally anticipated under the investment agreement. We have been consulting with the relevant local government authorities and Harbor City with a view to resolving the delay and understand that the relevant land tender, auction or listing-for-sale procedures are expected to be carried out in 2014 in phases, with the procedures for the land to be used for the park portion expected to be announced in early 2014. If we can obtain the relevant land use rights in such procedures, the construction of the project is expected to commence in 2014. We also acquired a project company from Haichang Group Co to be responsible for the development and operations for the Shanghai project in January 2014.

As of the Latest Practicable Date, the relevant local government authorities have not issued any planning document in respect of the Dishui Lake area in which our Shanghai project will be located. The park-portion of our Shanghai project is projected to occupy a piece of land of approximately 320,000 sq.m. If our Shanghai project is deemed by the local government authority as a theme park after the relevant planning document is issued, our Shanghai project will fall within the category of “small to medium theme parks” under the Theme Park Opinions given its planned size and projected investment amount, whose construction will be subject to the approval by the Shanghai branch of NDRC, which shall file the approval with NDRC. As NDRC and Shanghai local government authorities have not released the detailed rules on how theme park projects would be approved, our PRC legal advisor cannot opine on the criteria under which our Shanghai project will be approved. However, based on the current PRC rules and regulations and advice of our PRC legal advisor, we are not aware of any substantial legal hurdle to the project approval for our Shanghai project. See “Risk Factors – Risks Primarily Relating to Our Theme Park Business – Development of Sanya Haitang Bay Dream World and Shanghai Haichang Polar Ocean World is subject to uncertainties” for details on the regulatory uncertainties.

## **OUR ANIMALS**

### **Overview of Our Animal Collection**

We are a leader in China in terms of our comprehensive capability in marine and polar animal husbandry, welfare and veterinary care. Our mission is to inspire our visitors to care for and protect marine and polar animals through educational and up-close experiences. As of December 31, 2013, our animal collection comprised more than 500 marine and polar animals of approximately 30 species and more than 40,000 animals such as fish, coral and jellyfish, including approximately 500 large-size sharks of more than ten species such as whale sharks, sand tiger sharks and hammerhead sharks. Our marine and polar animal collection included more than 170 penguins of six species, more than 90 seals of four species, more than 120 sea lions of four species, more than

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60 dolphins of three species, more than 30 beluga whales, eight false killer whales, 21 walrus and 13 polar bears. Our marine theme parks currently hold approximately 100,000 cubic meters of water in aggregate, making us the largest among China's marine theme park operators in terms of water volume according to the CNAW article. In addition, according to the CNAW article, we have the largest water tank among marine theme park operators in China, holding 7,000 cubic meters of water.

### **Procurement of Animals**

Our animal collection has been established and enlarged mainly through the following means: purchase from foreign animal suppliers, purchase or lease from domestic animal suppliers, additions through animal rescue efforts and our own breeding efforts. All these activities have been conducted by us in compliance with the applicable laws and regulations, including pursuant to applicable licenses and permits from the relevant PRC government authorities. We are also subject to inspections from the government authorities in our daily care of our animal collection in respect of various aspects of our operations such as whether the number, quarantine positions and actual places of our animals comply with the relevant licenses and permits.

In particular, purchases from foreign animal suppliers and our own breeding efforts contribute to a majority of our current animal collection. In purchasing animals from foreign animal suppliers, we need to obtain documents including import approvals, quarantine licenses, tax exemption certificates and customs clearance forms from the various government authorities involved in the administration and regulation of the animal importation. See “– Breeding” on our own breeding efforts.

### **Husbandry, Care and Research**

We have set up a comprehensive system and work procedure for the husbandry of our animals. We establish individual profiles for our animals and analyze their data periodically to reveal trends and potential problems.

In establishing the system and work procedure for the husbandry and care of our animals, we have incorporated useful and appropriate elements from international and domestic aquarium administration standards (including those promulgated by organizations such as IMATA, IAAAM, ABMA and WAZA), and international quality assurance certification systems, such as standards, rules and procedures in respect of animal import and transportation, living environment monitoring, inspection and processing of feeds, disinfection and quarantine, medical care and training, animal file recordation and environment enrichment. For example, when we set up our standards and procedures relating to rearing environment and water disinfection in animal care, we considered international standards and regulations adopted by the United States Department of Agriculture (USDA) concerning requirements in the management of marine mammals, such as space, water quality, sterilization of marine mammal pool waters, as well as international practice described in the CRC handbook of Marine Mammal Medicine, an international publication devoted to marine mammal medicine and health. We also considered international standards adopted by USDA and described in the above handbook with respect to feed processing, nutrition and sterilization of animal feed. In addition, we have adopted domestic regulations and standards issued by the Ministry of Agriculture and other PRC government authorities relating to, for instance, aquatic mammals breeding facility, aquarium aquatic mammals domesticated technical classification, aquarium aquatic mammals feeding water, and aquatic mammals pedigree record specifications. We monitor the entire process of feeding from food acquisition, inspection, storage to processing and feeding. We have also established internal animal husbandry centers, formulated detailed

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disease prevention procedures for our animals and made constant investments to improve our veterinary capability including both the medical skills of our staff and the medical equipment we utilize. We successfully conducted a series of operations on our animals such as tooth extractions for Californian sea lions and walruses and midwifery for Stellar sea lions, which, according to the CNAW article, were internationally cutting edge and unprecedented in China. We were a pioneer in using traditional Chinese medicine to treat diseases of marine animals and have accumulated rich experience in this regard, with relevant research results published in academic conferences such as the Japanese Aquatic Wildlife Association and the Seventh World Aquarium Congress. Despite the technical difficulties in transporting marine animals, we have successfully completed the transportation of more than 100 marine animals of more than ten species.

The well-being of the animals in our care is our top priority. As of December 31, 2013, our zoological staff totaled more than 600, a majority of whom have more than five years experience in caring for animals. See “– Employees – Zoological Staff” for details on our zoological staff. Each of our theme parks has established an internal animal research center, equipped with a variety of research equipment and specialized research staff to focus on research in marine wildlife. We are supported by international veterinary advisors and partners (including internationally and domestically leading aquariums, theme parks and scientific research institutions) in terms of expert support, guidance and training. Our large-scale marine and polar animal husbandry and reproduction efforts have provided rich data for conducting scientific research on relevant animals. As of December 31, 2013, we had more than 50 publications in major domestic and international scientific journals and academic conferences, including “Pulse Decomposition and Feature Analysis of the Sonar Signals of Dolphins” in cooperation with the Acoustics Research Institute of the Chinese Academy of Sciences (中國科學院聲學所), “Research on the Release and Migration Route in Bohai Bay of Spotted Seals” in cooperation with the Korean Cetacean Conservation Research Institute and Liaoning Marine and Aquatic Life Research Institute (遼寧海洋水產研究院), “Application of Yunnan Bai Medicine on Marine Mammals” published in the Seventh World Aquarium Congress, “Application of Traditional Chinese Medicine and Herbal Medicine in Treating Diseases of Marine Mammals” published in the annual proceedings of the Japanese Aquatic Wildlife Association and a series of lectures published in the 40th Annual Meeting of the International Marine Animal Trainer’s Association such as “Conducting Rearing Activities of Polar Bears under Human Feeding Conditions,” “Consolidation of the Feeding and Training of Bottlenosed Dolphins and Sickle Fin Dolphins” and “From Ugly Duckling to White Swan: the Story of the Emperor Penguin Penna.”

In addition, as a result of our industry leading position, since 2005, we have been invited to participate in the drafting of more than ten industry standards for the husbandry of aquatic animals including “National Professional Standards for Aquatic Mammal Trainers,” “Guidelines for Aquatic Mammal Trainers,” “Standards for Medical Record Keeping for Aquatic Mammals of Aquariums,” “Requirements on Feeding Facilities for Aquatic Mammals,” “Water Quality for Feeding Aquatic Mammals of Aquariums,” “Standards for Pedigree Record-keeping of Aquatic Mammals” and “Operational Standards for Transportation of Cetaceans.” See also “– Awards and Memberships – Memberships” for details on our participation in national and international industry organizations.

Our research results and publications have resulted in us being recognized as a very influential enterprise in the marine theme park industry both domestically and internationally. We believe our innovative efforts in specialized areas such as marine animal husbandry, medical care and transportation also contributed to the development and improvement of the industry.

We also deploy quality life support systems at our theme parks to emulate the living conditions of the natural world for our animals, which is a key component of our animal care and reproduction efforts. We purchase such systems based on the principle of suitability and usually organize

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tenders for key equipment. We evaluate the bids from suppliers in terms of both technical specifications and commercial terms and make our decision by giving more weight to the technical specifications and the level of quality assurance of the equipment and its supplier.

Apart from caring for animals in our theme parks, we also actively participate in the conservation and rescue efforts across China. See “– Philanthropy and Community Engagement.”

We have been actively assessing the opportunities of joining the membership of international industry organizations to improve our animal husbandry efforts in accordance with international standards. The decision to participate in a particular organization is usually made after we are fully informed of the practical benefits that can be derived from our membership in such organization and our own needs in a particular aspect of our husbandry efforts.

For example, as disclosed in “– Awards and Memberships – Memberships,” we are a member of several international marine and aquatic animal organizations such as IMATA, IAAAM, ABMA and E.A.A.M.. Among them, IMATA, IAAAM and ABMA are internationally recognized organizations for marine animal training, medical care and behavior administration as well as environment enrichment and provide their members with the latest updates in advanced techniques and experience and regular publications sharing members’ expertise. We intend to, and are currently also assessing the possibility to, join other international organizations such as WAZA. Going forward, we undertake to disclose our compliance with the relevant standards of the PRC or international animal organizations that are applicable to our acquisition and husbandry of animals in our annual reports after the Listing.

In addition to participation in international organizations, we have adopted international best practice in animal husbandry in a practical manner. For example, we have invited senior and experienced industry representatives from international organizations to our theme parks to share their experience from time to time. We have also organized training sessions, technical seminars and workshops whereby international marine animal experts are invited to our theme parks to provide training in respect of marine animal husbandry and medical care to our employees. We also send our employees to attend domestic and international industry meetings and seminars to keep abreast of the latest developments in the industry and provide short-term intensive training opportunities to our employees for them to visit and learn from reputational international aquariums.

### **Breeding**

We have established reproduction centers for cetaceans (such as whales and dolphins), pinnipeds (such as sea lions and walruses) and penguins as well as human-controlled rearing centers for polar bears. We cooperated with leading scientific research institutions on specialized topics in animal reproduction, such as “A Survey of the Historical and Current Status of the Husbandry and Breeding of Cetaceans at China’s Aquariums” conducted in cooperation with Aquatic Wildlife Research Institute of the Chinese Academy of Sciences (中國科學院水生動物研究所) and “Research on the Pedigree of Penguins” in cooperation with the Northeastern Forestry University of China (東北林業大學).

Our successful and innovative breeding programs have produced, in less than a decade, more than 150 marine animals (including the emperor penguin, the king penguin, the Gentoo penguin, the rock hopper penguin, the polar bear, the South American sea lion, the Californian sea lion, the South African/Australian fur seal lion, the spotted seal, the false killer whale and the bottle-nosed dolphin) and large-size sharks including black-tip sharks and white-tip sharks. We have the world’s



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largest number of human-bred emperor penguins and polar bears, being 16 and seven, respectively. We are also recognized as one of the world's leading organizations in breeding the South American sea lions due to our collection of 75 South American sea lions, according to the CNAW article. We have also successfully bred the first rock-hopper penguin in China and the first false killer whale in the world according to the CNAW article.

With our vast collection of marine and polar animals and successful breeding programs, we have gradually reduced not only the risk of disruption to our business due to the loss of any single featured animal in our theme park, but also our need to source animals from external suppliers and the substantial costs incurred in connection with new purchases (notwithstanding our good relationships with such suppliers). The successful reproduction of these animals not only attests to our technical strength in marine animal reproduction, but also provides strong support to our theme parks' sustainable development in terms of animal supply.

### **Animal Welfare and Cooperation in Husbandry**

Throughout our history we have been focused on research in improving animal welfare. To meet the physiological needs of our animals, we provide them with a suitable living environment, appropriate size and gender composition of animal pools and reasonable nutrition. We have created teams that work to enrich animal environments and focus on research in adjusting and managing animal emotions.

In the meantime, in order to benefit from the latest developments in animal husbandry and promote our branding, we have established animal husbandry partnerships with a number of renowned research institutions and industry peers. These include our strategic cooperation agreements with renowned international theme park, zoo and aquarium operators such as the Parques Reunidos (西班牙團圓娛樂公園集團), Berlin Zoological Garden (德國柏林動物園), Hong Kong Ocean Park (香港海洋公園) and Hualien Farglory Ocean Park of Taiwan (台灣花蓮遠雄海洋公園), as well as our continually expanding relationship of mutual assistance and support with Chinese Academy of Sciences (中國科學院) and other scientific research institutions. We also maintain close communications with foreign aquariums and marine theme parks including Seaworld of San Diego of the United States, Barcelona Aquarium of Spain, and Shirahama Adventure World of Japan. On October 28, 2011, we sent three human-bred spotted seals as gifts to Hong Kong Ocean Park on behalf of the Ministry of Agriculture. This was regarded as a milestone in aquatic wildlife conservation cooperation and exchange between the PRC and Hong Kong. It not only attests to our capability in marine animal breeding and transportation, but also actively promotes cooperation in marine animal husbandry work between the PRC and Hong Kong. We have also established animal exchange programs with a variety of domestic and international animal husbandry institutions to share our joint efforts in protecting gene diversity of marine animals and establishing a sound marine animal breeding system.

### **OPERATION OF THEME PARKS**

We manage the operation of theme parks with the goal of providing high-quality services satisfactory to visitors.

#### **Standardized Management System**

To provide visitors with a satisfactory and consistent theme park experience, since 2011, we have been implementing a comprehensive set of approximately 300 standards to manage the various aspects of our theme park operations ranging from finance, human resources and

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marketing to safety and emergency response, equipment management and animal husbandry. The standards are the product of our participation in the tourism industry standardization pilot program organized by China's tourism administrator – CNTA in 2010, during which we leveraged our past experience in managing theme parks, further enhanced our operational system and designed more than 200 enterprise-level standards in addition to incorporating approximately 100 external standards. We passed the examination of CNTA and were named one of the first batch of tourism standardization model enterprises in China in 2011.

In addition to our involvement in the national-level standardization effort, we have participated in local standardization process by sharing our management experience, industry expertise and unique theme park offerings. For example, we drafted a technical standard on the performance of marine animals in 2012 which became the local standard in Dalian for the industry.

### **On-site Management and Staff Training**

We implement our standardized management system through rigorous on-site management and regular staff training. The on-site management in our theme parks is based on detailed rules specifying the responsibilities of our staff at various levels coupled with proper authorization, effective supervision and appropriate incentives. Our management staff pay regular visits to the theme park facilities and make frequent examinations of the services. We have also established a performance assessment program pursuant to which we regularly assess the performance of our on-site staff. We also have dedicated staff to supervise outsourced work performed in our theme parks to make sure that such work complies with our quality standards.

We also require our staff to participate in both regular and special training sessions covering topics such as occupational safety, service skills and business management so that our staff has the necessary skill set to deliver the high-quality services to our visitors we expect.

### **Services**

We set a capital investment budget annually for appropriate upgrading of our offerings and services as well as addition of new attractions. In addition, we seek to innovate new products and services and develop proprietary themed merchandise to promote in-park spending. We have also adopted flexible annual pass programs and marketing strategies customized for individual parks to increase revenue during the off season. We have been making continuous improvements to our theme park services based upon our surveys of the visitors, which collect information about their visiting experience and suggestions and comments on our services.

In addition, we have introduced, and will continue to evaluate, opportunities to introduce new interactive experiences to drive further in-park spending by our visitors, such as our recent introduction of stuffed toys that are handmade on site by our staff. We also have been considering the development of smart phone applications incorporating real-time suggestions for nearby restaurants and retail shops.

### **Sales**

In order to drive attendance and the likelihood of revisits and reach potential visitors with varying levels of recognition of our brands, we have built a diversified portfolio of sales channels for our theme parks comprising:

- *Direct sales:* We target individual visitors at theme park entrances, for whom we will continuously improve the quality of our products and services and enhance the appeal of our branding, which helps to enhance recognition of our brand. In addition, we organize themed events and marketing campaigns in our parks to increase their loyalty to our brand.

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- *Group sales:* We establish long-term cooperation relationships with partnered national and local travel agencies and other travel intermediaries that bring our group visitors, which are expected to increase concurrently with the development of the local tourism market and heightened recognition of our branding. In addition, we have developed a variety of group sales channels based on the source of our group visitors, such as primary and secondary school students, parent-kid tourists, university students, enterprises and institutional clients as well as cross-industry partners. We conduct different types of marketing campaigns and promotion policies and establish different sales channels based on the categorization of different markets.
- *Online sales:* Given the significant increase in visitors making online purchases in recent years, each of our theme parks started using online marketing and e-commerce services provided by reputable internet ticketing agents in 2013. With our improved online advertising efforts, online ticket sales in 2013 increased significantly. In light of these developments, we are actively consolidating the individual online platforms used by our theme parks and plan to set up a unified third-party national online ticketing platform in 2014 to be operated by a properly licensed third-party operator, open our virtual flagship shops on third party national business-to-customer websites and establish sales agency relationships with online travel agency websites so as to accommodate the online shopping trends observed among Chinese tourists. During the Track Record Period, we have not established our own online ticketing website and cooperated with third party online ticketing websites in selling admission tickets through the online channel.

In addition, we develop high-value membership sale opportunities based on our loyal visitors. Our theme parks have developed a variety of annual pass options (in terms of category, combination of benefits and pricing) to different visitors with different consumption demands. We have recognized the popularity of our annual passes, the purchasers of which are usually our loyal customers. We have been regularly organizing membership events to keep them engaged and increase their membership benefits. We are also planning to rollout a nationwide Haichang China membership club in 2014 with more benefits incorporated.

We constantly evaluate the efficiency and effectiveness of both traditional and emerging sales channels so that we can take advantage of the most cost-effective ways of reaching our potential visitors.

### Marketing

We have dedicated marketing departments at the Group and project company levels staffed with approximately 150 experienced marketing specialists, who are supervised effectively through our communication channels between the headquarters and the project companies and supported by the coordination between our project companies and continuous and specialized training programs.

Our marketing efforts are focused on generating profitable attendance, increasing in-park per capita spending and building the value of our brands. We manage our marketing activities at two levels: national brand building at the Group level and regional and local brand building at the theme park operating company level. Our Group level efforts include large-scale advertising campaigns carried by national media such as cooperation through entertainment, education and children's television programs promoting our brand and characters, coordinated themed special events across all of our theme parks and support and sponsorship of online and off-line activities organized by reputable internet websites of nationwide influence. We also partner with national leaders in industries such as aviation to explore and exploit cross-marketing and resource-sharing opportunities.

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Our theme park project companies make use of both traditional and new media to design and place regional advertisements, organize marketing events in their respective regions, maintain public relations, formulate sales plans, increase the influence of our brand in their respective regions and develop annual, holiday-specific, seasonal and serial advertising campaigns. The focus of their work has been on increasing the regional public's recognition of and willingness to engage with our theme parks, thereby driving attendance and in-park spending. They also conduct market research and analysis of operational data to continuously evaluate our market penetration rate, opportunities to further broaden our marketing channels, the impact of our marketing campaigns and our profitability.

### **Admission Ticket Pricing**

We determine the price of our admission tickets through a two-level pricing management system. The project pricing administration – comprising our marketing, finance and operations departments and the project company's management members – evaluates the relevant pricing information and submits a pricing proposal to the pricing administration committee of the Group company. The pricing administration committee comprises our marketing, finance, operations, planning and legal department as well as senior management and is responsible for approving and monitoring the implementation of any pricing proposal. Our pricing decisions for individual theme parks are based on our evaluation of a set of factors including local and national laws on pricing, the local economic development, the prices charged by our local competitors for similarly positioned theme parks, the spending power of our target customers, our estimates of the potential volume of visitors in the coming years and the required level of price for us to achieve a reasonably quick recovery of our initial capital investments. The ticket pricing for our Dalian Laohutan Ocean Park is subject to annual cooperation agreements negotiated with Hutun Park. See “– Marine Theme Parks – Dalian Laohutan Ocean Park” and “Risk Factors – Risks Primarily Relating to Our Theme Park Business – Our revenue from Dalian Laohutan Ocean Park may be adversely affected if we are unable to continue our ticketing cooperation arrangement with Hutun Park or if we experience difficulties in enforcing the terms of the arrangement.”

We usually conduct extensive market research before determining the ticket price for a theme park and any subsequent price adjustment, including consulting relevant government agencies, industry associations and consumer representatives. When evaluating the opportunity to make any price adjustment, we take into account both the market demand for our theme park and moves in pricing made by our competitors and we usually combine price increases with the introduction of significant new attractions we add to our theme parks. As required by the relevant PRC laws, we need to consult with and obtain approval from local pricing regulators in respect of our proposal to increase the ticket price in certain cities such as Dalian and we have been in compliance with the relevant laws and regulations.

Apart from our standard prices, we also offer discount tickets to travel agencies and third-party websites, depending on our assessment of factors such as the conditions of the local tourism market, profitability of the cooperation, the consumption ability and potential of visitors. We also offer annual passes for both single adults and children and families to attract and reward loyal customers and stabilize revenues during the non-peak season. When we operate some of the ancillary commercial properties adjacent to our theme parks, we may also offer an “all-in” package to attract more visitors, such as the Yantai Whale Sharks Aquarium's “Buy One, Get One Free” admission ticket benefit given to our hotel guests at Yantai Yudaishan Hot Spring Resort.

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### OPERATION OF ANCILLARY COMMERCIAL PROPERTIES

#### Overview

Our ancillary commercial properties have been typically developed as an integral part of our theme park project development process, with the same project company responsible for implementing an integrated project design covering the theme park and its ancillary commercial properties. Based on such design, the project company typically acquires the project land with the understanding that both the theme park and its ancillary commercial properties will be constructed in stages to eventually form an integrated theme park project providing visitors with a “one-stop shop” travel and leisure experience and contributing to the general prosperity of the nearby region. In line with our overall positioning of these theme park projects, the businesses operating on the ancillary commercial properties mainly comprise providers of travel and leisure products such as restaurants from fast-food chains to high-end dining places and entertainment venues that both supplement our theme park visitors’ overall travel experience and serve the local residents in the nearby region. Moreover, the serviced apartments developed by us could offer an alternative option to theme park visitors by providing accommodation even during peak seasons when the hotels are fully booked. On the other hand, as a marketing tool for the promotion of serviced apartments, we plan to offer reduced admission price or other discounts to the serviced apartment owners. In addition to selling or leasing out our ancillary commercial properties to third parties, we are also considering the development of proprietary businesses operated on these properties, such as children-oriented play programs and other entertainment programs further extending the value chain of our key offerings within the theme parks.

As of December 31, 2013, we had completed ancillary commercial property projects or project phases located in six cities, namely Tianjin, Qingdao, Chengdu, Wuhan, Dalian and Yantai, with an aggregate GFA of approximately 174,362 sq.m. (including 2,299 sq.m. in Dalian that was acquired in January 2014). As of December 31, 2013, we had property projects or project phases under development located in two cities, namely Chengdu and Tianjin, with an aggregate planned GFA (including underground GFA) of approximately 105,132 sq.m. We also held an aggregate planned GFA (including underground GFA) of approximately 371,291 sq.m. for future development in Wuhan and Tianjin. In addition, as of December 31, 2013, Chongqing Caribbean Water Park, which is one of the Additional Theme Parks to be acquired by us, had completed ancillary commercial properties with an aggregate GFA of approximately 46,191 sq.m. and had commercial properties held for future development with an aggregate planned GFA (including underground GFA) of approximately 54,095 sq.m. As of December 31, 2013, the total development costs estimated to be incurred by us and the Additional Theme Parks for the projects under development and the projects for future development were approximately RMB202.8 million and RMB1,608.5 million, respectively. We expect to incur development costs in an amount of RMB565.4 million in 2014 for projects owned by us and the Additional Theme Parks.

For 2010, 2011, 2012 and the nine months ended September 30, 2013, the property sales derived from our property development and holding segment amounted to RMB397.8 million, RMB133.0 million, RMB230.3 million and RMB125.5 million, respectively, and the rental income derived from our ancillary commercial properties within the segment amounted to RMB15.2 million, RMB13.9 million, RMB19.8 million and RMB21.5 million, respectively, during the same periods.

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The table below set forth selected operational and financial data of the ancillary commercial property projects developed or acquired by us and the Additional Theme Parks as of December 31, 2013.

City-Phase (Usage)	Status	Actual or Planned Construction Period	Development Costs (RMB million)		Property Sales				Total Actual or Planned GFA Held for Sale (sq.m.)	Total Actual or Planned GFA Held for Investment (sq.m.)	Market Value (RMB million)	Interest attributable to the Group	Reference to Property Valuation Report (Property No.)
			Incurred	Estimated to be incurred	Total Actual or Planned GFA (underground GFA, if applicable) <sup>1</sup> (sq.m.)	Total GFA Sold Cumulatively (sq.m.)	GFA Sold During Track Record Period (sq.m.) <sup>5</sup>	Revenue from Property Sales During Track Record Period (RMB million)					
Qingdao (Commercial Street)	Completed	01/2005 – 07/2006	113	Nil	37,623	20,888	10,823	110.3	Nil	16,735	216.0	100%	No. 3 of Appendix IVA
Chengdu – Phase 1 (Commercial Street)	Completed	09/2007 – 07/2011	405.8	Nil	46,400	15,740	24,990	376.5	10,897	20,545	352.0	100%	No. 5 and No. 8 of Appendix IVA
Chengdu – Phase 2 (Clubhouse)	Completed	03/2010 – 09/2011	192.3	Nil	22,554	16,517			12,645	Nil	194.0	100%	No. 9 of Appendix IVA
Chengdu – Phase 2 (Hotel and Office Complex)	Under development	04/2013 – 01/2015	60.1	110.6	46,126 (12,135)	N/A	N/A	N/A	33,991	Nil	163.0	100%	No. 13 of Appendix IVA
Yantai (Commercial Street)	Completed	04/2008 – 06/2012	262.5	Nil	41,273	30,624	41,434	378.3	Nil	10,649	138.0	100%	No. 2 of Appendix IVA
Wuhan – Phase 1 (Commercial Street)	Completed	08/2011 – 03/2013	170.2	Nil	45,929	Nil	Nil	Nil	5,167	40,762	378.0	100%	No. 4 and No. 10 of Appendix IVA
Wuhan – Phase 2 (Commercial Street)	For future development	06/2014 – 03/2016	52.6	374.3	97,384 (22,300)	N/A	N/A	N/A	N/A	N/A	153.0	100%	No. 15 of Appendix IVA
Wuhan – Phase 3 (Serviced Apartments)	For future development	06/2014 – 03/2016	37.2	499.0	153,158 (35,890)	N/A	N/A	N/A	N/A	N/A	182.0	100%	No. 16 of Appendix IVA
Tianjin – Block B (Commercial Street)	Completed	06/2010 – 11/2013	298.0	17.6	33,415 (12,533)	N/A	N/A	N/A	Nil	24,959 <sup>2</sup>	394.0	100%	No. 6 of Appendix IVA
Tianjin – Block D (Commercial Street)	Completed	08/2010 – 11/2013	265.2	13.3	36,382 (10,148)	6,913	N/A	N/A	19,332	Nil	398.0	100%	No. 12 of Appendix IVA
Tianjin – Block E (Serviced Apartments)	Under development	09/2010 – (03/2014 – 03/2015) <sup>3</sup>	242.4	92.2	59,006 (12,118)	N/A	N/A	N/A	46,888	Nil	336.0	100%	No. 14 of Appendix IVA
Tianjin – Block A (Serviced Apartments and Commercial Street)	For future development	10/2015 – 10/2017	74.3	515.1	120,749 (37,938)	N/A	N/A	N/A	N/A	N/A	275.0	100%	No. 17 of Appendix IVA
Chongqing – Phase 1 (Commercial Street)	Completed	04/2008 – 12/2011	300.0	Nil	46,191	Nil	Nil	Nil	21,754	24,437	335.0	100% <sup>4</sup>	No. 1 and No. 2 of Appendix IVB
Chongqing – Phase 2 (Commercial Street)	For future development	09/2015 – 09/2016	119.4	220.1	54,095 (9,758)	N/A	N/A	N/A	N/A	N/A	109.0	100% <sup>5</sup>	No. 3 of Appendix IVB
Dalian (Commercial Street) <sup>6</sup>	Completed	–	–	–	12,671 <sup>6</sup>	–	–	–	12,671 <sup>6</sup>	–	279.0	100%	No. 7 and No. 18 of Appendix IVA

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### Notes:

- 1 Property ownership certificate for underground GFA is usually not available in accordance with the practice of PRC land administrative authorities.
- 2 This includes 4,077 sq.m. of underground GFA for which property ownership certificate will be available according to the relevant property survey conducted by the land administrative authorities.
- 3 The development of Block E is expected to be completed in two stages with different construction completion dates.
- 4 Assuming the acquisition of Chongqing Haichang Caribbean had been completed as of the date of the relevant property valuation report.
- 5 The GFA shown in this column may include underground GFA (which is not recorded on property ownership certificates) associated with the sold properties.
- 6 The ancillary commercial properties in Dalian, namely Dalian Fishermen's Wharf, were not developed by us and were acquired by us recently. As of December 31, 2013, the total GFA of the properties that had been acquired by us was 10,371 sq.m. The acquisition of the remaining GFA of 2,299 sq.m. was completed in January 2014. Therefore, the information about its development is not relevant.

### **Management of Ancillary Commercial Properties**

Our commercial property operation department is responsible for the management, sale and leasing of our ancillary commercial properties. We target our sales efforts at investors interested in stable returns and mid-and high-end leisure-vacation residents.

### ***Sale and Lease Strategy***

In the project design stage, we usually decide the scale based and planned usage of the ancillary commercial properties adjacent to a theme park based on various factors such as our overall development strategy, the planned usage of the property in light of our overall positioning of the area, our projected cash flow requirements, local demand for different types of commercial properties and the anticipated revenue and profits from alternative uses of the property. In addition, we usually identify the potential merchants for our ancillary commercial properties before commencing the construction so as to help us determine the space planning. We may adjust our sale and leasing strategy in respect of a particular piece of the ancillary commercial properties in light of the subsequent developments during the project development process and after the completion of the project's construction.

Currently, our typical sale and leasing strategies for each of the main types of ancillary commercial property are as follows:

- Properties for leisure shopping and themed dining: For properties developed for retail and dining purposes, we may decide to sell or lease the property to business operators interested in investing in the theme park area. We may also operate businesses on some of these properties if we determine that a particular business fits within our overall development strategy, is suitable for the nearby area and we have sufficient resources to manage such businesses.
- Serviced apartments: We sell substantially all of the serviced apartments we develop.
- Themed experiential hotels: We also operate hotels as a complementary service to our theme park business given the vast demand for lodging created by theme park visitors, especially destination visitors, such as the Dalian Discoveryland Hotel located in the vicinity of Dalian Discoveryland, one of the Additional Theme Parks.

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### ***Property Sales***

Our commercial property operation department is primarily responsible for formulating marketing and sales strategies and managing the overall sales process for our ancillary commercial properties. Each of our project companies with properties for sale also has its own dedicated division and staff responsible for implementing the strategies formulated by the Group.

The marketing and sales strategy varies from project to project and depends on a wide range of factors, including our positioning of the ancillary commercial properties in the context of the nearby theme park, the market conditions, our cash position, the size, the phase and location of the project, timing for sales, targeted customer group and latest changes in the regulatory environment for commercial property market. Our marketing strategy is implemented through various components of our commercial property operations, such as the product positioning, pricing, advertisement placement and utilization of sales channels.

We start our marketing for the property with an analysis of potential purchasers and their returns from leasing out the properties and then propose our sale price based on the projected rentals and projected margins for investment return for potential purchasers. Our marketing strategy focuses on providing potential purchasers with fact-based promotional materials and reasonable pricing for the properties.

We may also undertake various promotional initiatives after taking into account factors such as the marketing and pricing campaigns launched by our competitors and the changes in our transaction volumes and contracted average selling prices. Our typical promotional initiatives include (i) discount to customers making full payment and existing customers purchasing new properties from us or referring new customers to us, (ii) seasonal discounts provided during weekends, holidays and special events and (iii) special discounts for units in projects where a substantial portion has been sold.

Our sales channels for ancillary commercial properties also vary from project to project after taking into account various factors such as the demand of the project companies, the features of the projects, the size of the project, the forecast sales progress and the available sales channels. Our sales strategies include establishing our own sales team, establishing exclusive sales agency relationship with certain agents or combining our own sales team with external sales agents.

We aim to deliver properties to our customers within the time frame prescribed in the sale and purchase contracts, including the pre-sale contracts. We are required to obtain the applicable construction completion and acceptance forms before we are able to deliver the properties to our purchasers. To ensure the properties are delivered in satisfactory conditions, we conduct our own inspections of the properties and also arrange for the purchasers to inspect their purchased properties prior to the expected delivery date.

Our commercial property operation department is also responsible for our after-sales customer services which includes assisting our customers in obtaining the individual property title certificates for the individual units, liaising with real estate agencies in the vicinity of the property to provide services at discounts and collecting information on customer complaints and suggestions from our dedicated customer service staff.

### ***Commercial Leasing***

In conducting our leasing business, we seek to maintain long-term relationships with our tenants and to maintain a balanced tenant composition. Our commercial property operation department is responsible for formulating the strategies for our rental properties, such as conducting research to enhance the tenant profile and trade mix. In particular, we seek tenants who may help us promote the branding and popularity of our theme parks.



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Currently, our tenants mainly comprise businesses focusing on providing leisure experiences, such as restaurants, hotels and photo studios. The terms of our leases typically range from five years to 15 years. We typically base our rents on factors such as the market demand and the GFA of the leased property. We may also agree to turnover-based rent with certain tenants, pursuant to which we receive rents from the tenant as a proportion of their turnover for the relevant lease period. For lease agreements with a term of more than one year, we also typically include a rent-escalation clause under which the rent may be increased by a pre-agreed percentage during the term of the lease. We usually require the rent to be paid in advance, i.e., before the corresponding period starts. Consistent with the market practice, we may also grant a rent-free period to certain tenants for their decoration and initial set-up of the operation, during which they are only responsible for the utility charges.

The rental income from our commercial leasing operations was RMB15.2 million, RMB13.9 million, RMB19.8 million and RMB21.5 million for 2010, 2011, 2012 and the nine months ended September 30, 2013, respectively, accounting for 1.9%, 2.0%, 2.2% and 2.8% of our total revenue during the same periods. Set forth below is certain operational information about our commercial leasing operations and the Additional Theme Parks for the periods and as of the dates indicated (for the purposes of the remainder of this section “– Management of Ancillary Commercial Properties – Commercial Leasing,” reference to us or we includes the Enlarged Group assuming the completion of the Acquisitions).

City of the Ancillary Commercial Properties	As of and for the year ended December 31,												As of and for the nine months ended September 30,				
	2010				2011				2012				2013				
	Leasable GFA <sup>1</sup>	Occupancy rate <sup>2</sup>	ARR <sup>3</sup>	WARR <sup>4</sup>	Leasable GFA <sup>1</sup>	Occupancy rate <sup>2</sup>	ARR <sup>3</sup>	WARR <sup>4</sup>	Leasable GFA <sup>1</sup>	Occupancy rate <sup>2</sup>	ARR <sup>3</sup>	WARR <sup>4</sup>	Leasable GFA <sup>1</sup>	Occupancy rate <sup>2</sup>	ARR <sup>3</sup>	WARR <sup>4</sup>	
(sq.m.)	(%)	(RMB/sq.m./day)	(sq.m.)	(%)	(RMB/sq.m./day)	(sq.m.)	(%)	(RMB/sq.m./day)	(sq.m.)	(%)	(RMB/sq.m./day)	(sq.m.)	(%)	(RMB/sq.m./day)	(sq.m.)	(%)	(RMB/sq.m./day)
Chengdu . . .	15,159	99.1	0.81	1.19	15,159	99.1	0.52	1.35	15,159	24.7	1.02	1.26	20,050	100.0	2.31 <sup>5</sup>	1.17	
Yantai . . . .	10,649	Nil	Nil	Nil	10,649	64.4	0.56	1.69	10,649	76.0	1.38	1.69	10,649	76.0	1.59	1.69	
Wuhan . . . .	-	-	-	-	-	-	-	-	40,761	1.5	2.18	1.58	40,761	1.5	2.07	1.58	
Qingdao . . .	16,735	70.9	2.34	1.67	16,735	70.9	1.64	1.67	16,735	70.9	1.67	1.67	16,735	70.9	1.72	1.70	
Chongqing . .	24,437	18.7	0.40	0.84	24,437	31.0	0.40	0.67	24,437	18.7	0.40	0.70	24,437	18.7	0.67	0.90	

**Notes:**

1. Leasable GFA means, in respect of the ancillary commercial properties in the relevant city and as of a particular date, the total GFA of the properties held for investment by us.
2. Occupancy rate means, in respect of the ancillary commercial properties in the relevant city and as of the last day of the relevant period, the percentage derived by dividing the GFA of the properties held for investment that have been leased out by the leasable GFA.
3. ARR means average rental rate, which is, in respect of the ancillary commercial properties in the relevant city, the rental rate calculated using the following formula:

$$\text{ARR} = \frac{\text{Rental revenue of the project for the relevant period}}{\text{Leasable GFA} \times \text{Occupancy rate} \times 360 \text{ (or 270 for the nine months ended September 30, 2013)}}$$

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4. WARR means weighted average rental rate, which is, in respect of the ancillary commercial properties in the relevant city and as of a particular date, the rental rate derived by dividing (a) the aggregate of the rental rate specified to be applicable in each lease multiplied by the leased GFA specified in that lease by (b) the aggregate of the leased GFA specified in each lease.
  
5. For purposes of calculating the ARR for Chengdu for the nine months ended September 30, 2013, the occupancy rate for the ancillary commercial properties in Chengdu as of September 30, 2013 does not take into account the GFA of the properties with respect to which leases were entered into in September 2013 (which amounts to 16,305 sq.m.) because the contribution of these properties to the rental revenue for Chengdu for the nine months ended September 30, 2013 is insignificant and inclusion of them in the calculation of the occupancy rate would have significantly skewed the ARR calculated for the period. The rental revenue of the Chengdu project for the nine months ended September 30, 2013 used in calculating the ARR does not exclude the revenue contributed by the properties with respect to which leases were entered into in September 2013 because such revenue does not significantly impact the result of the ARR calculations.

Set forth below is a breakdown of the leases held by us in terms of leased GFA by the expiry terms as of September 30, 2013.

Expiry Term	10 years or more	5 years or more but less than 10 years	Less than 5 years
Leased GFA (sq.m.) . . . . .	35,885	2,558	15,604

### ***Continued Control of Properties***

We set up functional departments at both the Group level and the project companies, which are responsible for overall control of the property management of our ancillary commercial property projects. We usually put in place a comprehensive property management plan to maintain the quality of the overall positioning and image of the ancillary commercial property project, which sets out detailed requirements on the security, cleaning, customer service and equipment maintenance as well as other aspects of the property management service. We outsource routine property management services such as security, cleaning and customer service to third-party professional service providers, which are selected through tender procedures and supervised by our property management teams to provide high-quality services in conjunction with the services we provide in-house.

We aim to provide the highest quality services to the property owners such as providing guidance on decoration, business operation and maintenance of market discipline and providing assistance in ensuring that the relevant laws and regulations, including the requirements on obtaining particular approvals, are fully complied with by the relevant owners or tenants.

To maintain the commercial value of our ancillary commercial properties, even after the delivery of the properties to the purchasers, we still maintain the overall management of the ancillary commercial properties in conjunction with our operation of the adjacent theme parks, which allows us to dynamically adjust the combination of businesses operating on the ancillary commercial properties. We believe that our continued operational control of the properties helps the appreciation in property value and increases the likelihood of repurchases by existing customers as well as the likelihood of customer referrals. To ensure the compatibility of the businesses operated on our ancillary commercial properties with our overall positioning of the project, we review the profiles of prospective tenants for properties held by us. For properties already sold by us, we maintain continuous communication with the purchasers of the properties about their selection of tenants, including making recommendations about potential candidates so as to achieve the planned positioning for the relevant project.

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### CUSTOMERS

Our major customers are theme park visitors who contribute to our revenue through purchasing admission tickets and in-park consumption. We also derive revenues from purchasers of commercial properties sold by us and other customers such as patrons of businesses on the ancillary commercial properties managed by us and tenants leasing ancillary commercial properties held by us. For the years ended December 31, 2010, 2011 and 2012 and the nine months ended September 30, 2013, our top customer accounted for approximately 4.7%, 4.8%, 3.3% and 4.1% of our total revenue, respectively, and our top five customers accounted for approximately 18.7%, 14.4%, 12.4% and 17.9% of our total revenue. Our Directors confirm that, as of the Latest Practicable Date, all of our major customers were Independent Third Parties and none of our Directors or their associates or our existing Shareholders who, to the knowledge of our Directors, owned more than 5% of our issued share capital, had any interest in any of our top five customers.

#### Theme Park Visitors

We classify our theme park visitors into two groups: destination tourists from outside the region in which our theme park operates and regional visitors who reside in the nearby cities in the region in which our theme park operates. The former group of visitors usually come to our theme parks as part of tour groups organized by travel agencies with which we have cooperation arrangements and spend relatively less in our parks. The latter group of customers usually comes to our parks directly and we believe they generally produce a higher per capita in-park spending and have a greater chance of revisiting our park.

In addition, we observe that the proportion of destination tourists who make visits to our theme parks without joining tour groups organized by travel agencies has been steadily increasing due to the gradual national recognition of our brands, better transportation infrastructure and the growing individuality of Chinese tourists. This growing group of visitors typically spends more and is expected to become an increasingly significant contributor to our revenue.

#### Ancillary Commercial Property Customers

We conduct extensive research on the customers purchasing our commercial properties by integrating both qualitative and quantitative analysis in light of our positioning of a particular project. We also assess the demand and purchasing power of our potential customers by taking into account various factors such as the location, demand drivers (for investment or for self-occupation), age, personal profile and economic position. While the purchasers of our commercial properties are diverse in terms of location and socio-economic background, our purchasers are mainly investors interested in investments in the range of RMB2 million to RMB5 million and who are urban residents with at least middle-class income. These purchasers may operate businesses on the purchased properties or hold them for investment purposes.

See “– Operation of Ancillary Commercial Properties – Management of Ancillary Commercial Properties – Commercial Leasing” for details on our tenant customers.

## BUSINESS

### PROJECT DEVELOPMENT PROCESS

Each of our theme park projects (including both the theme parks and their ancillary commercial properties) is developed based on a procedure that has been constantly updated to reflect our latest experience in expanding our business across China. We develop our projects through implementing the integrated development approach under which the theme park and its ancillary commercial properties are designed from the beginning as two complementary components of the same project. On that basis, our project company typically acquires the project land for both the theme park and the ancillary commercial properties as an integral part of the entire project development process and develops the theme park and its ancillary commercial properties in stages pursuant to the integrated project design.

While the development cycle, which spans from acquiring the project land, obtaining the NDRC approval, commencing the construction work to completing the construction and opening the theme park and/or its ancillary commercial properties for business, varies from project to project, the period of time required from acquiring the project land to opening of the theme park for business usually takes approximately two to four years and the majority of the construction work is typically completed within approximately two years.

#### Project Planning

We review cities and sites in China to identify potential development opportunities. We also regularly receive invitations from local government authorities to discuss potential theme park business opportunities. We involve a number of internal departments and management committees as well as external advisors to evaluate potential development opportunities. Our current projects are chosen after a thorough screening process comprising extensive discussion with local government authorities, numerous site visits and thorough market research and analysis.

Since our development of the Dalian Laohutan Ocean Park in 2002, we have developed and largely followed a tested set of guidelines for our city and site selection, under which we consider factors including the potential customers for our projects (including both local residents and destination tourists) and their consumption ability, whether the proposed project fits into our overall branding and development strategy, competition and local government support.

After completing the necessary project feasibility studies and determining the outline of the proposed project's specifications, we usually enter into a framework agreement or memorandum of understanding with the relevant local government authority. Afterwards, we engage third-party agencies to conduct a detailed project feasibility study, finalize the project's positioning and complete the project's conceptual plan, which we then present to and reach agreement on with the relevant local government authority.

#### Land Acquisition

Once we decide to undertake the development of a project, we will set up a project company to acquire the relevant land use rights from the local government authority. We usually enter into an investment agreement with the local government authority before the local government authority formally launches the procedures for the disposition of the relevant land use rights. Subject to the definitive terms and conditions of the relevant land use right grant contracts we enter into, the investment agreement usually specifies the terms and conditions of our investment such as the site area and estimated price of the land, the schedule for land acquisition, the development schedule of the project and our investment commitment.

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We will bid for the land use rights in land disposition proceedings organized by the local government authority with our comprehensive development plan tailored to the needs and city planning requirements of the local government authority in respect of the area and are usually able to obtain the land use rights for both the theme park and its adjacent commercial properties at competitive prices. While the Theme Park Opinions require the land parcels used for theme parks be supplied by the government authorities separately from those used for other purposes and prohibit land parcels granted for theme park development from being used for hotels or other non-park development projects, we believe our integrated model of developing theme parks and their ancillary commercial properties pursuant to comprehensive design plans is sustainable and will not be materially affected by the Theme Park Opinions because the Theme Park Opinions do not prohibit a comprehensive development design integrating theme parks and their ancillary commercial properties from being developed and we have been and expect to continue using land parcels granted for theme parks only for the development of theme parks and not for other purposes. In addition, we believe our integrated development approach will give us a competitive edge in the public tender, auction or listing-for-sale procedures for the land to be used for ancillary commercial properties even though we are required to bid for such land separately.

### **Project Design**

Our project companies work closely with our internal planning and design department and our external designers and architects in master planning, architectural design, landscape design and interior design. In the project design phase, we decide the positioning of our theme parks and ancillary commercial properties and closely review and monitor the performance of our external designers and architects to ensure that the design of a particular project fits into our overall branding and development strategy and reflects our understanding of the target market. We have worked with renowned domestic and international designers and architects specializing in large-scale theme parks and aquariums such as Forrec Ltd., AECOM Technology Corporation, GGE, Callison and Romero VanRell Jeng & Associates.

### **Project Construction**

Our engineering department at our headquarters is in charge of a project's overall construction. Our engineering department has developed strong engineering and management skills in respect of polar-and marine-related construction based on its experience of developing our six marine theme parks. With such experience, we have consolidated and improved the management process and technological skills unique to polar- and marine-related construction, which differs from generic construction.

Each project company is responsible for managing the daily operations of each project's development under the overall guidance and supervision of the engineering department. Our senior management monitors the construction milestones and approves and oversees the implementation of key construction technical plans. Our engineering department at our headquarters reviews the monthly and annual construction schedules submitted by the project company and supervises the milestones and key technical process through a variety of channels such as reviewing pictures and videos and making site visits.

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We outsource our construction work to third-party construction contractors, which are selected through a tender process. The project companies monitor the entire construction process to ensure that the quality and progress of the construction complies with our project plan. We also engage third-party supervision companies to monitor the quality, progress and safety of the construction works through designated on-site staff. We also pay close attention to our construction costs through detailed cost estimates, appropriate scheduling of contracts, effective procurement procedures as well as close review of bill payments.

In order to ensure that the projects are constructed in accordance with our specifications, we have developed a set of standard contracts and terms for primary third-party general contractors constructing our large-scale projects and smaller sub-contractors. These contracts cover all aspects of our construction management such as technical specifications, construction schedule, pricing and quality control as well as anti-bribery matters.

### OUR BRANDS AND INTELLECTUAL PROPERTY

#### Our Branding

By providing high quality offerings, each of our theme parks operates under its individual brand, each of which brand has been widely popular and achieved local and regional recognition in its respective regional market.

We have been evaluating the integration of our marine brands under a national brand *Haichang China* –  – since late 2012 and have rolled out our new brand building campaign beginning in late 2013 to refresh, internationalize and promote our brand. The campaign will consolidate the local brands of our theme parks under a national brand, *Haichang China*, while retaining as sub-brands the individual brands that have proved popular in their local markets.

We aim to build our *Haichang China* brand into an internationally leading brand for leisure tourism providing our visitors with excellent experience through innovative leisure tourism products. We plan to implement our new branding scheme in three stages as follows:

- First stage: We have clearly defined and improved the new branding and design and started to implement our new visual identification system in 2013. The new branding will be rolled out in phases with the gradual adoption of the images of the new brand in each of our theme parks and the organization of press conferences concurrently with such adoption. In the meantime, we will utilize both traditional and new media channels to advertise our new brand, building up recognition among our key customers and suppliers.
- Second stage: We plan to intensively promote our new brand in 2014. We will unify our branding channels in terms of slogans, core values and physical presentation and launch a nationwide public relations campaign. In addition, we plan to place advertisements on a variety of media including industry-focused media and general public media in the relevant regional markets as well as broadcasting television commercials targeting potential visitors directly. We will also take advantage of new media such as websites, “We Media,” social media and mini-films.

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- Third stage: We plan to deepen the coverage of our branding campaign and expect to see the benefits of our new branding in 2015. We will maintain the continuous flow of advertisements and frequent press conferences in respect of new product launches. We will selectively establish more strategic cooperation relationships with internationally renowned industry peers and seek corporate sponsorships to strengthen our branding and expand our proprietary product chain such as developing proprietary merchandise and producing polar animal cartoons and proprietary branded films.

Going forward, we plan to have each of our theme parks hold annual marketing campaigns that consolidate *Haichang China* and the relevant local brands to raise brand recognition and brand affiliation among our existing and potential visitors as well as the local government authority, thereby increasing our market influence by word-of-mouth. In addition, we plan to leverage our branding, intellectual property and long-term strategic partners to look into new investment portfolios and market opportunities, achieve sustainable development in new media, entertainment and consumer products.

### Media Relationships

In order to maintain the quality and popularity of our individual brands, we have also established a set of measures dealing with public relations matters such as news reports of emergencies. Each of our project companies has a spokesperson dealing with routine news releases and has set up a media control team to draw up plans for monitoring news and responding to news reports of emergencies in our parks. A work team at the group company level will guide, coordinate and monitor the efforts of the project companies. We have a detailed working plan in place to deal with different types of media including maintenance of day-to-day relationships with the media, cooperation in our news releases and crisis management in special circumstances.

### Intellectual Property

We place emphasis on developing our brand image and have resorted to extensive trademark registrations to protect our brand image. We conduct our business under trademarks such as  and have also registered internet domains for our theme parks. We are applying for the registration of trademarks in mainland China and Hong Kong, including  and . See “Statutory and General Information – B. Further Information About Our Business – 2. Intellectual Property Rights of the Group” in Appendix VI to this prospectus. As of the Latest Practicable Date, we are not aware of any infringement of our intellectual property rights by any third parties during the Track Record Period and we did not violate any intellectual property rights of third parties during the Track Record Period. See “Risk Factors – Risks Relating to Our Businesses in General – We may not be able to register our trademarks in Hong Kong” for the risks associated with the possible failure of our registration of certain logos used by us. However, as these logos are mainly used by us for the purposes of the Global Offering and the Listing, we believe any such failure of registration in Hong Kong will not have a material adverse effect on our business operations in mainland China.

## BUSINESS

### AWARDS AND MEMBERSHIPS

We set out below a selected list of the numerous awards granted to us and the Additional Theme Parks as well as our membership of industry associations and social organizations. Some of these awards, such as Polar Science Public Education Center and National Cultural Industry Exemplar Center, may also bring direct financial benefits to recipients through subsidized interest rates on loans, directed governmental subsidies and tax reductions or exemptions.

#### Awards

Name of Award	Recipient(s)	Issuing Authority	Year Awarded
Polar Science Public Education Center (極地科普教育基地) . . .	All our marine life theme parks except the Yantai Whale Shark Aquarium	Chinese Arctic and Antarctic Administration of the State Oceanic Administration (國家海洋局極地考察辦公室)	From 2002 to 2011
Top 10 High-end Travel Brand of China Travel League 2012 (中國旅遊風雲榜 2012中國高端旅遊品牌 TOP 10) . .	Haichang Travel	www.toptour.cn (第一旅遊網)	2012
National 5A Tourist Attraction. . . . .	Dalian Laohutan Ocean Park, Dalian Discoveryland	NTAQRAC	2005, 2007
National 4A Tourist Attraction. . . . .	Qingdao Polar Ocean World, Chengdu Polar Ocean World, Wuhan Polar Ocean World, Tianjin Polar Ocean World, Chongqing Caribbean Water Park	NTAQRAC	2008-2013
Best Amusement Park in China of the Year (2012) (2012 年度中國優秀遊樂園) . . . . .	Chongqing Caribbean Water Park, Dalian Discoveryland	China Association of Amusement Parks and Attractions (中國遊藝機遊樂園協會)	2013
Favorite Theme Park of Internet Users of 2011 (2011年度網友喜愛的主題公園) . . . . .	Dalian Discoveryland	Organization Committee of China Tourism Industry Development Annual Congress (中國旅遊產業發展年會組委會)	2012
“Earth Hour” Environmental Ambassador (“地球一小時”環保大使) . . . . .	Dalian Laohutan Ocean Park	Organization Committee of “Earth Hour” in China (中國“地球一小時”組委會)	2003
Most Favorite Trademark of Dalian People (大連市民喜愛的商標) . . . . .	Dalian Laohutan Ocean Park	Dalian Consumers Society (大連市消費者協會)	2002



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Name of Award	Recipient(s)	Issuing Authority	Year Awarded
National Wildlife Conservation Scientific Education Center (全國野生動物保護科普教育基地) . . . .	Dalian Laohutan Ocean Park	China Wildlife Conservation Association (中國野生動物保護協會)	2005
National Cultural Industry Exemplar Center (國家文化產業示範基地) . . . . .	Dalian Discoveryland	Ministry of Culture	2008
National Science Education Center (全國科普教育基地) . . .	Qingdao Polar Ocean World	China Association for Science and Technology	2012
China Leisure Innovation Awards – Theme Park Innovation Award (中國休閒創新獎主題公園創新獎) . . . . .	Qingdao Polar Ocean World	National Leisure Standardization Technology Committee (全國休閒標準化技術委員會)	2010
Top Ten Leisure Vacation Venue of Chongqing (重慶十佳休閒渡假勝地) . . . . .	Chongqing Caribbean Water Park	Chongqing Times (重慶時報)	2010
The Beautiful Chongqing – 2011 Most Favorite Tourist Attraction (最美重慶2011年度最受歡迎景區) . . . . .	Chongqing Caribbean Water Park	China Tourism Total League (中國旅遊總評榜)	2012
Sichuan Provincial Scientific Education Center (四川省科普基地) . . . . .	Chengdu Polar Ocean World	Department of Science (四川省科技廳), Department of Propaganda of the Sichuan Provincial Committee of Communist Party of China (四川省委宣傳部) and Association of Science and Technology of Sichuan Province (四川省科學技術協會)	2010
Best Theme Park with Most Attractions Recommended by the People (百姓推薦最多看點主題公園) . . . . .	Chengdu Polar Ocean World	Chengdu Daily (成都日報) and Chengdu Tourism Association (成都旅遊協會)	2011

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Name of Award	Recipient(s)	Issuing Authority	Year Awarded
Most Popular Tourism Brand of the Year (2011) (年度最受歡迎旅遊品牌大獎) . . . . .	Wuhan Polar Ocean World	China Tourism Total Ranking Table Committee (中國旅遊總評榜組委會)	2012
Scientific Research Center of Aquatic Animal Research Institute of Chinese Academy of Sciences (中國科學院水生生物研究所科學研究基地) . . .	Wuhan Polar Ocean World	Aquatic Animal Research Institute of Chinese Academy of Sciences (中國科學院水生生物研究所)	2013

### Memberships

We have joined a number of international and national industry organizations to participate in the exchange of information on industry practice and formulation of industry standards. In addition, we have also participated in a number of national and regional animal protection groups to share our resources for animal rescue and preservation efforts including the following:

- IMATA
- IAAAM
- ABMA
- E.A.A.M.
- Aquarium Special Committee of Chinese Association of Natural Science Museums (中國自然科學博物館協會水族館專業委員會)
- National Aquatic Wildlife Conservation Association (全國水生野生動物保護分會)
- Aquatic Wildlife Rescue Center (水生野生動物救護中心)
- Rare and Endangered Marine Wildlife Rescue Network (海洋珍稀瀕危野生動物救護網絡) established by the Ministry of Agriculture (農業部)
- Liaoning Wildlife Conservation Association (遼寧省野生動物保護協會)

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### COMPETITION

We operate our theme parks in direct competition with other destination and regional theme parks, water and amusement parks as well as large-scale aquariums and in indirect competition with other types of recreational facilities and forms of entertainment including films, home entertainment options and sports events. Our principal nationwide competitors include the *Happy Valley* series of thrill-oriented theme parks operated by Overseas China Town Group (which has operations in Tianjin, Wuhan, Chengdu) and the *Fantaworld* series of wonder-oriented, digital effects driven theme parks operated by Fantawild Holdings Inc (which has operations in Qingdao and Chongqing). Neither of them operates marine-related theme parks. However, their theme parks are of a similar nature to Dalian Discoveryland and will be direct competitors of Dalian Discoveryland if they operate in the same market as Dalian Discoveryland. Each of our theme parks also faces competition from other local operators of entertainment facilities. We also face direct competition from other marine theme park operators such as Dalian Sunasia and Qingdao Underwater World, which are currently of a smaller scale compared to us and have not established a national network.

In addition, international theme park operators such as Disneyland and Universal Studios may open their local theme parks in the regions where we have operations and compete with us for potential visitors through their branding, management and product offering advantages. For example, when our Shanghai Haichang Polar Ocean World opens, it will face direct competition from Shanghai Disneyland, which is scheduled to open in late 2015.

We believe we compete effectively by differentiating our products and services from those of our competitors. Relying upon our extensive marine and polar animal collection and strong brand recognition, high-value educational and interactive experiences offered to our visitors and strategic locations of our operations, our theme parks provide an attractive alternative and a complementary experience to the thrill-or wonder-oriented parks. In addition, our integrated approach of developing ancillary commercial properties adjacent to our theme parks also adds to our competitive strengths in providing our visitors with more complete and diversified entertainment and leisure offerings. Moreover, entry of international theme park operators in the PRC may help to cultivate more premium consumers and bring more visitors to the nearby area, which may actually benefit us by attracting more visitors with increased spending potential to our theme parks.

### SUPPLIERS

Other than suppliers of our animals and animal-related life support systems (see “– Our Animals”), our suppliers mainly consist of three categories: construction companies for the construction of our development projects, equipment suppliers for large-scale and high-tech entertainment equipment and suppliers of raw materials and merchandise to support our routine up-keep and operation. Our procurement policy comprises two parts:

- *Centralized procurement:* for key or large-scale supplies, the group company will centralize the procurement in order to ensure quality and obtain a pricing advantage for our project companies. We may also enter into exclusive supply agreements of limited duration with trusted partners for certain supplies such as feed for our marine and polar animals and fish.
- *Localized procurement:* our project companies are responsible for acquiring supplies generally available or more appropriate for local sourcing.

We control our costs of supplies through strict budgeting management and organized tender procedures. We also have a set of standard procurement contracts for a variety of our key and routine supplies, which are used by our procurement teams at our headquarters and our project companies.

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For our key supplies, we maintain a diversified supplier basis to reduce concentration risk and avoid unexpected shortages. In addition, our project companies may share their surplus supplies among themselves in the event of emergencies. We have not experienced any material shortage in our key supplies during the Track Record Period.

For the years ended December 31, 2010, 2011, 2012 and the nine months ended September 30, 2013, our top supplier accounted for approximately 6.7%, 7.5%, 10.2% and 12.8% of our total purchases, respectively, and our top five suppliers accounted for approximately 21.4%, 26.3%, 36.5% and 57.2% of our total purchases, respectively. Our Directors confirm that, as of the Latest Practicable Date, all of the top five suppliers were Independent Third-Parties and none of our Directors or their associates or our existing Shareholders who, to the knowledge of our Directors, owned more than 5% of our issued share capital, had any interest in any of our top five suppliers.

### **SAFETY MEASURES AND INSURANCE**

#### **Safety Management**

The safety of our operations is of paramount importance to our visitors, employees and our business. We have not experienced a single severe safety incident during the Track Record Period. During the Track Record Period, we were not subject to any material claim, investigation or administrative penalty in respect of accidents or violation of PRC safety laws and regulations.

We have adopted a set of stringent safety measures and emergency plans to reduce the risk of accidents and ensure a prompt and effective response when, in the unlikely event, a safety risk materializes. These measures comprise (i) general rules setting up our internal structure of safety management with detailed responsibilities of each responsible department at both the group company and the project company levels and (ii) specific guidelines on the safety management of different operational activities such as maintaining amusement and animal life support equipment, handling emergencies in the operation of amusement equipment and marine animal performances, dealing with violent animals such as polar bears and Arctic wolf, monitoring and responding to inclement weather as well as safety issues in animal research laboratories.

We have established safety departments at both the group company and the project companies staffed with dedicated safety personnel to monitor the implementation of our safety management measures and report on any identified issues. We organize regular safety training sessions for our employees and evaluate our safety management performance periodically.

#### **Insurance**

We maintain insurance of the type and in the amounts that we believe to be commercially reasonable for businesses in our industry and in line with the industry norm. The major types of insurance we maintain include transportation loss insurance mainly for importing animals from foreign suppliers, husbandry insurance for animals under our care, employer liability insurance for our employees and temporary workers, public liability insurance in respect of accidents to visitors, insurance for commercial property risks and insurance for machinery breakdowns. We determine the amounts we insure for our animals after considering factors including the initial costs we incurred for purchasing the animal and our ability to replace the animal in case of loss as well as our ability to breed the animals by ourselves.

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### EMPLOYEES

When taking into account the Additional Theme Parks, as of December 31, 2013, we employed approximately 2,300 full-time employees, among whom were approximately 70 senior management members and more than 600 zoological staff engaging in animal husbandry and research activities. Many of our employees have more than 15-years of industry experience and have extensive expertise in animal husbandry and breeding, marketing, business expansion and product development. In addition, during the peak season, we also employ students as temporary workers to serve as frontline workers including attendants in restaurants, retail stores and amusement facilities and as visitors guides. Taking into account the Additional Theme Parks, we employed approximately 400 temporary workers as of December 31, 2013.

### Zoological Staff

As of December 31, 2013, we had more than 600 zoological staff specializing in the collection, husbandry and care of marine and polar animals. According to our detailed internal expertise assessment program that classifies our zoological staff into more than ten categories (based on factors including different aspects of animal husbandry such as feeding, cleaning and equipment maintenance, animal performance and animal capturing and transfer as well as internal staff training and management), more than 50% of our zoological staff have qualifications equivalent to those of a state-accredited middle-level technical professional and more than 25% have those equivalent to a state-accredited senior technical professional. We recruit most of our zoological staff from technical colleges and universities, focusing on graduates majoring in marine animal-or animal-related fields. More than 20% of our zoological staff have bachelor's or post-graduate degrees while more than 50% have degrees from technical colleges or higher level educational institutions.

With a large and diverse animal collection, our zoological staff have accumulated extensive experience and expertise in marine and polar animal breeding and husbandry. The table below sets forth the industry experience of our zoological staff.

<u>Proportion of Zoological Staff (approximately)</u>	<u>Industry Experience</u>
10% .....	>10 years
50% .....	5-10 years
25% .....	3-5 years
15% .....	< 3 years

We also put effort into enhancing the training of our zoological staff through both organizing regular internal training sessions and sending selected employees as delegates to national and international conferences on marine and polar animal husbandry and veterinary medicine. Moreover, we arrange annual performance reviews of all our zoological staff through appraisals and panel meetings, where the staff can learn from and improve upon their past performances.

### PHILANTHROPY AND COMMUNITY ENGAGEMENT

Our philanthropic efforts are focused in four areas: scientific research and education, support for the disadvantaged, improving the cultural lives of the residents of the cities in which we operate and participating in environmental and animal-related initiatives. We are committed to marine and polar science education through open forums and lectures and have supported exploratory scientific work carried out by China's Arctic and Antarctic research institutions. We also regularly

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organize admission-free group visits to our theme parks for disadvantaged or disabled children and students and send our expert staff to accompany and elaborate on marine science for them. We also hold regular popular marine-related events to enrich the cultural lives of the local residents. We have also invested in a number of “Polar Hope Schools.” Thanks to our continuous philanthropic efforts, we have received several awards such as “2010 Global Philanthropy Enterprise Award (環球慈善企業獎)” issued by the Ministry of Civil Affairs (民政部) and China Red Cross (中國紅十字會).

In 2012, we partnered with Xinhua News Agency (新華社) to launch a nation-wide public interest campaign named “The Touched Penguin: 2012 Zero Distance Antarctic Environmental Initiative.” The campaign attracted a wide media following and was named the “Annual Best Public Interest Communication Award (年度最佳公益傳播獎)” and “Annual Public Interest Program Award (年度公益項目獎)” in the 2012 Public Interest Ceremony of China (2012年中國公益節). We also sponsored National Aquatic Wildlife Conservation Association’s (中國水生野生動物保護分會) nationwide “Aquatic Wildlife Conservation Haichang Award,” which we expect to create a good environment for the protection of aquatic wildlife and aquatic ecological system through publicizing and rewarding exemplar individuals and events in aquatic wildlife conservation efforts. Our animals have frequently been chosen as ambassadors for “Earth Hour,” a global public interest organization and as mascots for “National Marine Awareness Day” thanks to our achievements and industry influence in marine animal husbandry.

We have partnered with animal rescue groups in rescuing injured or sick wild animals such as seals, sea turtles and black finless porpoises through establishing animal rescue centers, setting up rescue platforms and providing staffing, facilities and expert guidance. We conducted research in cooperation with the Korean Cetacean Conservation Research Institute and Liaoning Marine and Aquatic Life Research Institute (遼寧海洋水產研究院) by releasing more than ten rescued spotted seals into the wild and tracking their migration route and habitats through planted chips and a global positioning system. The results of the research provided important reference data for conducting further husbandry activities in the wild for spotted seals and are expected to strongly support the efforts to conserve the number of spotted seals. We also shared our experience in marine animal rescue, feeding and breeding with domestic and international animal husbandry institutions and provided free technical support to them, which helps establish our branding among domestic and international animal protection circles.

## PROPERTIES

As of the Latest Practicable Date, we held effective land use right certificates as to all the properties through which we conduct our businesses. Save as disclosed in this section “– Properties” and the section headed “– Legal Proceedings and Regulatory Compliances,” we had no material non-compliance issues in respect of our properties during the Track Record Period and up to the Latest Practicable Date.

The property valuation reports in Appendix IVA and IVB have set out, as of December 31, 2013, details about properties owned by us and the Additional Theme Parks, other than properties owned by us and the Additional Theme Parks for theme park operations and certain self-operated businesses (“Excluded Properties”). As required by Rule 5.01B(2)(b) of the Listing Rules, we confirm that we do not hold the Excluded Properties for sale or investment purposes and no single property of the Excluded Properties has a carrying amount of 15% or more of our total assets as of September 30, 2013.

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We set forth below details of the Excluded Properties as of September 30, 2013.

No.	Project	Use	Site Area (sq.m.) <sup>1</sup>	Total GFA (sq.m.) <sup>2</sup>	Owned/ Leased	Location	Encumbrance
1	Dalian Laohutan Ocean Park	Theme park operations	20,353	38,151	Owned	Dalian, Liaoning province	Mortgaged to secure a RMB500 million loan
2	Qingdao Polar Ocean World	Theme park operations	117,675	45,357	Owned	Qingdao, Shandong province	Mortgaged to secure loans in an aggregate amount of up to RMB900 million
3	Chengdu Polar Ocean World	Theme park operations	240,048	48,600	Owned	Chengdu, Sichuan province	Mortgaged to secure loans in an aggregate amount of up to RMB850 million
4	Tianjin Polar Ocean World	Theme park operations	30,495	49,289	Owned	Tianjin	Mortgaged to secure a loan of up to RMB465 million
5	Yantai Whale Shark Aquarium and Yantai Yudaishan Hot Spring Resort <sup>1)</sup>	Theme park operations and hot spring resort	156,604	31,886	Owned	Yantai, Shandong province	Mortgaged to secure a loan of up to RMB200 million
6	Wuhan Polar Ocean World	Theme park operations	279,476	42,788	Owned	Wuhan, Hubei province	Mortgaged to secure a loan of up to RMB550 million
7	Dalian Discoveryland	Theme park and hotel operations	466,896	70,756	Owned	Dalian, Liaoning province	Mortgaged to secure a RMB450 million loan
8	Chongqing Caribbean Water Park	Theme park operations	65,130	nil <sup>3</sup>	Owned	Chongqing	None

Notes:

1. As the land use rights in respect of certain theme parks and their ancillary commercial properties are recorded in one or more land use right certificates without allocation of the land between theme parks and their ancillary commercial properties, the site area shown in this column may also cover land used for ancillary commercial properties.
2. The GFA shown in this column is based on our internal records regarding the buildings that form the theme parks.
3. Because Chongqing Caribbean Water Park is a water park without above-the-around buildings, the total GFA of the park is nil.

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### Basis and Assumptions in the Property Valuation Report

The property valuation report in Appendix IVA and Appendix IVB is prepared by our property valuer who has used the following methods to value the properties set out therein:

Type of Property	Valuation Method	Details of Valuation Method
Completed properties held for investment . . . . .	Investment approach	Capitalization of the current passing rent derived from existing tenancies with due provision for reversionary income potential.
Completed properties for sale and properties held for future development . . .	Direct comparison approach	Valuation by making reference to comparable sales evidence as available in the relevant market.
Properties under development . . . . .	Either the investment approach or the direct comparison approach while also taking into account the expended and future development costs	Valuation based on either (i) capitalization of the passing rent derived from committed tenancies with due provision for reversionary income potential; or (ii) comparison by making reference to comparable sales evidence as available in the relevant market; and (iii) taking into account the expended and future development costs

Valuations by the investment approach are on the basis of capitalizing rental incomes derived from the existing tenancies with due provision for any reversionary income potential of the property interests at appropriate capitalization rates. The principal underlying assumptions are those related to the receipt of contractual rentals, expected market rents and appropriate capitalization rates. These valuations are regularly compared to actual market yield data, as well as actual transactions reported by the market. The expected market rents are determined on the basis of current market rents for similar properties in the same location and condition.

As regards to the direct comparison approach, reference is made to comparable sales evidence as available in the relevant market subject to suitable adjustments between the subject properties and the comparable properties including but not limited to location, view, accessibility, time, size, age and maintenance standard etc.

### Idle Land

Under current PRC law, unless the delay is caused by force majeure, acts of government or their departments concerned, or early preparations necessary for the commencement of development as provided in the Measures on Disposal of Idle Land (《閒置土地處置辦法》), if we fail to commence construction for more than one year from the commencement date set out in the land use right grant contract, the relevant PRC land administrative authority may serve a warning notice on us and impose a fee of up to 20% of the land grant premium, and if we fail to commence construction for more than two years from the relevant commencement date, the PRC government may reclaim the land without compensation.



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As of the Latest Practicable Date, we had experienced construction delays in respect of the following projects: (1) Yantai Whale Shark Aquarium; and (2) Wuhan Polar Ocean World. Chongqing Caribbean Water Park also experienced construction delays. The details of the construction delays are set forth in the table below. The maximum penalties that the relevant land administrative authorities may impose on us in respect of the involved projects are as follows: (1) approximately RMB4.0 million in respect of the Yantai Whale Shark Aquarium, which is 20% of the land grant premium of the land involved; (2) approximately RMB181.3 million in respect of the Wuhan Polar Ocean World, which is calculated based on the assumption that, in the unlikely event that the maximum penalty is imposed, the land would be confiscated by the relevant land administrative authority without compensation and therefore the operation of Wuhan Polar Ocean World would be ceased and the book value as of September 30, 2013 of the major fixed assets (including land use right, buildings and constructs) attributable to the theme park portion of Wuhan Polar Ocean World would be written off; and (3) approximately RMB28.4 million in respect of the Chongqing Caribbean Water Park, which is 20% of the land grant premium of the land involved.

Item No.	Project	Location	Approximate Site Area Involved (sq.m.)	Proposed Construction Commencement Date under Land Grant Contract	Delay Period	Current Status	Reasons for Non-compliance
1	Yantai Whale Shark Aquarium	Yantai, Shandong Province	156,604.7	Construction should be completed before March 31, 2008, which is the date that is 18 months after the issuance of the relevant land use right certificate.	Actual construction started in April 2008, which was less than two years from the commencement date required under the land use right grant contract and the construction completion inspection was passed on June 21, 2012.	Completed	
2	Wuhan Polar Ocean World	Wuhan, Hubei Province	279,476.9	Construction should be completed before August 1, 2008, which is the date that is 9 months after the issuance of the relevant land use right certificate.	Actual construction started on August 30, 2010, which was more than two years from the commencement date required under the land use right grant contract and the construction completion inspection was passed on September 29, 2011.	Completed	The common main reason for the delay in commencing the construction of the three projects is that the approvals required for commencing the construction of these projects were not obtained in time, which was due to the fact that the relevant project companies had to continuously negotiate and consult with the relevant local governments about the design and planning of the projects as the design of theme parks is usually more closely scrutinized by the local government compared to residential properties. In addition, the delay in commencing the construction of the Yantai project was due to the delay on the part of the local government in completing the requisitioning of the relevant land.
3	Chongqing Caribbean Water Park	Chongqing	173,084	December 31, 2006	Actual construction started in April 2008, which was less than two years from the commencement date required under the land use right grant contract and the construction completion inspection was passed on November 5, 2013.	Completed	

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Our PRC legal advisor confirmed that the risk that we would be subject to the penalty of land idle fee or the risk of the relevant project land being reclaimed without compensation in respect of the above projects is remote due to one or more of the following considerations:

- we did not receive any warning notice of idle land from, nor were we subject to any penalty imposed by, the relevant land administrative authorities;
- in respect of the projects in Wuhan and Chongqing, a letter was issued by each relevant land administrative authority (on July 8, 2013 and July 11, 2013, respectively) stating that it did not consider us to have any violation;
- our PRC legal advisor interviewed three officers in Chongqing on September 22, 2013 (namely, the head, vice head and clerk of the Land Utilization Department of Nan'an District Sub-bureau of Chongqing Land Resources Administration Bureau), two officers in Yantai on September 23, 2013 (namely, the deputy governor in charge of land administration of Yantai Laishan District Government and the deputy director of Laishan District Sub-bureau of Yantai Land Resources Bureau) and an officer in Wuhan on December 30, 2013 (the vice head of the Arable Land Protection and Land Utilization Department of the Land Resources and Planning Bureau of Dongxihu District of Wuhan) and was advised that no idle land fees would be imposed and no right to reclaim land would be exercised for construction delays in respect of the three projects; and
- We have further interviewed the head of law enforcement and supervision division of the State-owned Land Resources Department of Hubei Province ("Hubei Department") in respect of the idle land issue for our Wuhan project and were advised of the following by such officer:
  1. Any administrative penalty in respect of idle land violation will be imposed only after the government authority has made written determination. The Hubei Department understood that the local authority in Wuhan had never issued any written document imposing administrative penalty and had instead issued a written regulatory compliance letter in respect of the Wuhan project. Therefore, the Hubei Department was of the opinion that there was no idle issue with respect to the Wuhan project.
  2. Under PRC law, a piece of land will be determined as idle land only if there has been no operational investment in the land after the land use right is granted. It was the understanding of the Hubei Department that Wuhan Polar made operational investments (which were reflected in the company's accounting records) after obtaining the project land and therefore the Hubei Department was of the opinion that there was no idle issue with respect to the Wuhan project.
  3. Under PRC law, land is administered locally and the Hubei Department was of the opinion that the Land Resources and Planning Bureau of Dongxihu District of Wuhan (i) was the competent authority to determine whether the Wuhan Polar Ocean World was compliant with land administration rules and (ii) was the most appropriate authority to issue the most authentic and accurate regulatory compliance letter in respect of the Wuhan Polar Ocean World. Thus the Hubei Department is not in a position, and would not be able to, issue a regulatory compliance letter in respect of Wuhan Polar or Wuhan Polar Ocean World.
- based on reasonable search of publicly available information, our PRC legal advisor concluded that there was no precedent where a completed project was subject to the penalty of idle land fees or reclaimed by the land administrative authority due to construction delays in the project development process.

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Our PRC legal advisor confirmed that the interviewed officers and the authorities issuing the letters referred to above were competent to provide the relevant confirmations.

Our Directors believe that, given the letters issued by and the interviews with the relevant government authorities and the PRC legal advisor's opinion, it is a remote risk that we will be subject to the penalty of idle land fees or the relevant project land will be reclaimed without compensation in respect of the above projects.

Head of our engineering department, currently Mr. Liu Jiabin, has been primarily responsible for the rectification measures and internal control improvements taken by us in respect of the idle land non-compliances. See "Directors, Senior Management and Employees – Senior Management" for his background and qualifications in this area.

In terms of the rectification measures taken by us after identifying the idle land non-compliances, as disclosed above, we kept close communication with the relevant government authorities in respect of the obtaining of the relevant approvals and permits for the commencement of the construction work and preparation work for the commencement of the construction work had been underway before we obtained the formal approvals and permits.

We have put in place the following measures to our internal control policy to prevent recurrence of similar non-compliances:

1. We will have full communication with the relevant government authorities so as to ensure that the construction work commencement date set out in the relevant land use right grant contract is realistic and achievable for our future projects to be developed.
2. We will strictly follow the timelines set out in the relevant land use right grant contract in developing our projects.
3. Our project planning and engineering departments will update and improve our detailed PPP in respect of the project planning and construction pursuant to the recommendations made by the internal control advisor.
4. The audit committee will conduct a quarterly review to ensure that ongoing projects have been developed in accordance with the relevant regulatory requirements.
5. Our external legal counsel and internal legal and audit department have provided compliance training to the employees/staff of the planning and design department and the engineering department in respect of the legal requirements for project planning and project construction.
6. We will maintain frequent communication with our external legal counsel and internal legal and audit department in the business operation process to ensure the compliance of our project planning and construction operations with the relevant PRC regulatory requirements.
7. We have added a module to our existing information system to strengthen the management and control of project construction and planning. The new module will consolidate all the key timing requirements in respect of the construction process, including budgeting, construction milestones and regulatory requirements such as the

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deadline for starting the construction on a particular piece of land. For example, under the new module, reminders will be set up and reported to the responsible officer when the deadline for construction commencement has been approaching for a particular piece of land so that we can expedite the relevant construction process or where appropriate, seek an extension of the construction commencement date as required by PRC law to make sure the land will not be determined as idle land.

### **ENVIRONMENTAL MATTERS**

We are subject to a set of comprehensive PRC environmental laws and regulations governing solid and liquid waste disposal, air pollution and noise control. In particular, we are required to submit an environmental impact report, analysis or registration form to the relevant authorities for approval to commence the construction of a theme park project. Upon the completion of construction, the relevant environmental authorities inspect our properties to ensure our compliance with the applicable environmental protection standards. We strive to comply with all applicable environmental protection requirements and usually require our construction contractors to comply with the applicable environmental standards in carrying out their construction works and indemnify us for losses resulting from their non-compliance. During the Track Record Period, we did not experience any material incident of environmental pollution and no penalty was imposed on us for violation of environmental laws and regulations, which our PRC legal advisor has confirmed based on their due diligence and the certifications issued by the relevant environmental protection authorities.

### **PROJECT APPROVALS FOR OUR THEME PARKS AND THE ADDITIONAL THEME PARK**

Our existing theme parks and the Additional Theme Parks have obtained the project approvals from the relevant competent local counterparts of NDRC and local counterparts of MOFCOM (in respect of foreign-invested projects at the time of obtaining the approvals). The relevant officials of the local counterparts of NDRC have confirmed that these projects have obtained the requisite project approvals by local counterparts of NDRC during our interviews and communications with them. Our PRC legal advisor also attended our interviews with the relevant officials (other than in respect of Dalian Laohutan Ocean Park, Dalian Discoveryland and Chongqing Caribbean Water Park for which we have separately communicated with the relevant local government authorities). We are advised by our PRC legal advisor that the Theme Park Opinions issued in March 2013 shall not be retrospectively applied to our existing theme parks and the Additional Theme Parks which have obtained their respective project approvals under the then applicable PRC laws before promulgation of the Theme Park Opinions. As of the Latest Practicable Date, our existing theme parks and the Additional Theme Parks had not been a target for inspection by any provincial NDRC or its lower level counterparts referred to in the Theme Park Opinions.

As advised by our PRC legal advisor, under the PRC laws, both domestically-invested and foreign-invested theme park projects are subject to the approval of the NDRC or its local counterparts, while only foreign-invested projects need to obtain the approval of the MOFCOM or its local counterparts. At the time of obtaining the relevant project approval, (i) our theme parks in Dalian, Qingdao and Tianjin were foreign-invested projects while our theme parks in Chengdu, Yantai and Wuhan were domestically-invested projects, and (ii) among the Additional Theme Parks, Dalian Discoveryland was a foreign-invested project while Chongqing Caribbean Water Park was a domestically-invested project. Therefore, our theme parks in Chengdu, Yantai and Wuhan and Chongqing Caribbean Water Park were not subject to the approval requirement by MOFCOM or its local counterparts at the time of their respective approvals.

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The following table sets forth details of approvals that each of our six theme parks and the Additional Theme Parks has obtained from the relevant counterparts of the NDRC and, if applicable, the relevant counterparts of the MOFCOM under the then applicable PRC regulations. The table also sets forth the approval requirements for our Shanghai and Sanya projects based on the planned size as indicated therein. The table is prepared based on historical information of each project approval, the then applicable PRC laws, our consultations with the PRC legal advisors and our communications with the relevant local counterparts of the NDRC. See “Regulatory Overview – Regulations – Project Approval Regime” for details on the theme park project approval requirements. See “Risk Factors – Risks Primarily Relating to Our Theme Park Business – Development of Sanya Haitang Bay Dream World and Shanghai Haichang Polar Ocean World is subject to uncertainties” and “Risk Factors – Risks Relating to Our Businesses in General – Our business, operational performance and financial condition may be adversely affected if we fail to obtain, or if there is any material delay in obtaining, any of the relevant PRC governmental approvals for the construction of our theme parks or commercial property development projects” for risks associated with failure or delay in obtaining governmental approvals for our projects. See also “Risk Factors – Risks Relating to Doing Business in China – There are uncertainties regarding the interpretation and enforcement of PRC laws, rules and regulations” for the risks and uncertainties associated with the interpretation of PRC laws and regulations.

Period <sup>1</sup>	Project	Type of investment as of the time of the project approval	Actual or expected site area (sq.m.) <sup>2</sup>	Actual or expected total investment amount <sup>3</sup>	Year of approval	Applicable approval authority	Actual approval authority
Period I	1. Dalian Laohutan Ocean Park	Foreign-invested	20,353	USD29 million	2001	Dalian NDRC and Dalian MOFCOM <sup>4</sup>	Dalian NDRC and Dalian MOFCOM
	2. Dalian Discoveryland	Foreign-invested	466,896	USD300 million	2002	Dalian Jinshitan National Tourism Resort Management Committee (“Jinshitan Committee”) and Dalian Economy and Technology Development Area MOFCOM (“DDA MOFCOM”) <sup>4</sup>	Jinshitan Committee and DDA MOFCOM
	3. Qingdao Polar Ocean World	Foreign-invested	117,675	RMB800 million	2004 (April)	Laoshan District, Qingdao NDRC (“Laoshan NDRC”) and Qingdao High-tech Technology Development Area MOFCOM (“Qingdao HTDA MOFCOM”) <sup>4</sup>	Laoshan NDRC and Qingdao HTDA MOFCOM

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Period <sup>1</sup>	Project	Type of investment as of the time of the project approval	Actual or expected site area (sq.m.) <sup>2</sup>	Actual or expected total investment amount <sup>3</sup>	Year of approval	Applicable approval authority	Actual approval authority
Period II	4. Chengdu Polar Ocean World	Domestically-invested	240,048	RMB190 million	2006	Chengdu NDRC <sup>5</sup>	Shuangliu County, Chengdu NDRC ("Shuangliu NDRC") <sup>6</sup>
	5. Yantai Whale Shark Aquarium and Yantai Yudaishan Hot Spring Resort	Domestically-invested	156,604	RMB280 million	2006	Laishan District, Yantai NDRC ("Laishan NDRC") <sup>5</sup>	Laishan NDRC
	6. Wuhan Polar Ocean World	Domestically-invested	279,476	RMB667.09 million	2007	Wuhan NDRC <sup>5</sup>	Wuhan NDRC
	7. Chongqing Caribbean Water Park	Domestically-invested	65,130	RMB524.19 million	2007	Nan'an District, Chongqing NDRC ("Nan'an NDRC") <sup>5</sup>	Nan'an NDRC
	8. Tianjin Polar Ocean World	Foreign-invested	30,495	USD45.71 million	2009	Tanggu District, Tianjin NDRC ("Tanggu NDRC") and Tanggu District, Tianjin MOFCOM ("Tanggu MOFCOM") <sup>7</sup>	Tanggu NDRC and Tanggu MOFCOM
Period III	9. Shanghai Haichang Polar Ocean World	Domestically-invested	320,000	-	-	Shanghai NDRC <sup>8</sup>	-
	10. Sanya Haitang Bay Dream World	Domestically-invested	650,000	-	-	Hainan NDRC or its lower level counterpart with appropriate delegated authority <sup>9</sup>	-

Notes:

- As the PRC regulatory approval regime for theme park projects is evolving, our theme park projects are set out in the above table under the following three periods based on the dates when the relevant PRC regulation was promulgated:
  - Period I (before July 16, 2004) – no specific or heightened approval requirements for theme parks.** The Decision of the State Council Concerning Investment Regime Reform (《國務院關於投資體制改革的決定》) (the "Decision") was issued on July 16, 2004, which singled out "large theme parks" for heightened approval requirements for the first time. Following the Decision, the Guidance Catalog on Foreign Investment Industries (《外商投資產業指導目錄》) was amended on November 30, 2004 (the "Catalog"), under which "large theme parks" are classified under restricted category industry subject to heightened approval requirements. Before the issuance of the Decision and the Catalog, theme parks were subject to general project approval requirements with other regulated investment projects and no specific or heightened approval requirements were imposed on theme parks under the then applicable PRC laws.

- **Period II (from July 16, 2004 to March 3, 2013) – a “large theme park” was subject to heightened approval requirements but such term was not defined.** Under the Decision, domestically-invested “large theme parks” require the approval of the State Council, while under the PRC foreign investment law (including the Catalog) and other applicable PRC law, foreign-invested “large theme parks” are subject to the approval of either provincial or central government authority depending on the projects’ total investment amounts. However, the term “large theme park” is not defined in the Catalog or the Decision. A non-large theme parks continues to be approved according to the general approval requirements applicable to domestically-invested and foreign-invested projects.
  - **Period III (from March 4, 2013 to present) – “Theme Park Under Opinions” are defined which were subject to the approvals of provincial or higher level governments.** The Theme Park Opinions were issued on March 4, 2013, which define the “Theme Parks Under 2013 Opinion” and, classify theme parks into three categories according to their site areas and total investment amounts subject to approvals of provincial or higher level governments.
2. As the land use rights in respect of certain theme parks and their ancillary commercial properties are recorded in one or more land use right certificates without allocation of the land between theme parks and their ancillary commercial properties, the site area shown in this column may also cover land used for ancillary commercial properties.
  3. Total investment amount is the total investment amount shown in the relevant project approval document issued for the project.
  4. The three foreign-invested theme parks were approved as permitted category projects under the then-current Guidance Catalog on Foreign Investment Industries (as revised in 1997 and 2002) and related national and local regulations, pursuant to which the relevant local counterparts of NDRC and MOFCOMs were authorized to approve the relevant projects. In particular, in respect of
    - **Dalian Laohutan Ocean Park:** Dalian is a municipality with provincial level project approval authority granted by the State Council.
    - **Dalian Discoveryland:** The local regulation issued by the provincial government of Liaoning provides that Jinshitan Committee and DDA MOFCOM have the authority for issuing project approvals for projects located within the Dalian Jinshitan National Tourism Resort. Dalian Discoveryland project is located within the boundary of Dalian Jinshitan National Tourism Resort.
    - **Qingdao Polar Ocean World:** Qingdao is a municipality with provincial level project approval authority granted by the State Council. According to the local regulation of Qingdao municipal government, Laoshan district government has the authority to approve projects purely situated within the boundary of Laoshan district. Qingdao Polar Ocean World project is situated in Laoshan district.
  5. According to our communications with relevant local counterparts of NDRC, we understood that none of the four projects was deemed as a large theme park under the Decision by the approval authorities. As the four projects were not deemed as large theme parks, they were required to be approved by local counterparts of NDRC according to the jurisdiction of the relevant project, which in the case of the four projects are either municipal or district level local government authorities as indicated in the table. In particular, in respect of
    - **Chengdu Polar Ocean World:** The local regulation issued by the provincial government of Sichuan provides that municipal level NDRC (such as Chengdu NDRC) has the authority to approve domestically-invested social projects, which includes the Chengdu project. See footnote for details on the delegation of the approval authority from Chengdu NDRC to Shuangliu NDRC.
    - **Yantai Whale Shark Aquarium and Yantai Yudaishan Hot Spring Resort:** The local regulation issued by Shandong NDRC provides that Laishan NDRC has the authority to approve any projects located within Laishan district unless the project has a total investment of more than RMB5 billion. Yantai project is located within Laishan district with a total investment of RMB280 million.

- **Wuhan Polar Ocean World:** The local regulation issued by the provincial government of Hubei provides that Wuhan NDRC has the authority to approve general tourism projects such as the Wuhan project.
  - **Chongqing Caribbean Water Park:** The local regulation issued by Chongqing municipal government provides that Nan'an NDRC has the authority to approve projects located in Nanshan district except for certain specific projects invested by municipal-level entities. Chongqing Caribbean Water Park project is located in Nan'an district and does not belong to projects invested by municipal-level entities.
6. Based on our interview with the Shuangliu NDRC, before the project approval for Chengdu Polar Ocean World project was issued for the first time in 2006, Shuangliu NDRC had first obtained an internal approval from Chengdu NDRC, although there was no public written rule confirming the delegation of the approval authority by Chengdu NDRC to Shuangliu NDRC. In 2007, the local regulation issued by Chengdu NDRC expressly granted its county level counterparts approving authority equivalent to Chengdu NDRC's authority except for certain municipal-level or cross-district projects (which Chengdu project does not belong to). Pursuant to the 2007 local regulation, Shuangliu NDRC re-issued the project approval in 2007 for Chengdu Polar Ocean World project.
  7. According to our communication with Tanggu NDRC, the original local NDRC approving the Tianjin Polar Ocean World project, the Tianjin Polar Ocean World project was not deemed as a large theme park at the time of its approval. Therefore, the Tianjin Polar Ocean World project was approved as a permitted category project pursuant to the 2004 Catalog and the related regulations, which at the time of the approval authorized Tanggu NDRC to approve foreign-invested permitted category projects with a total investment amount of less than USD100 million, such as the Tianjin project, which had a total investment amount of USD45.71 million.
  8. Based on the planned site area of the project and our current estimate of the total investment amount for the park portion of the project, should the Shanghai project be deemed as a Theme Park Under 2013 Opinions, it would become a small-to-medium Theme Park Under 2013 Opinions and be subject to the approval by Shanghai NDRC which has provincial level approval authority.
  9. Based on our interviews with the local government authorities in Sanya and the advice of our PRC legal advisor, the Sanya project should not be deemed as a Theme Park Under 2013 Opinions and therefore should be subject to the general approval regime applicable to domestically-invested projects. Under the Catalog of Investment Projects Authorized by the Government (2013 version) (《政府核准的投资项目目录(2013年版)》), except for certain types of projects subject to approval requirements specifically related to their industries (such as the Theme Park Opinions), NDRC or its local counterparts have the authority to approve domestically-invested projects such as the Sanya project. Based on our current estimate of the total investment amount for the tourism-related portion of the Sanya project, the provincial Hainan NDRC or its lower-level counterparts with appropriate delegated authority are expected to be the project approval authority for the project.



## BUSINESS

### LEGAL PROCEEDINGS AND REGULATORY COMPLIANCES

We are involved in administrative, legal and arbitration proceedings and claims from time to time arising in the ordinary course of business involving purported breaches of contractual terms and alleged violations of laws and regulations, none of which are expected to have a material adverse effect on our business, results of operations and financial condition.

Set out below is an overview of certain legal and compliance matters affecting us or the Additional Theme Parks (which, for the purposes of this section only, may be separately or collectively referred to “we” or “us”) during the Track Record Period. The Directors consider that the maximum potential penalty as a result of the non-compliance incidents set out in this section, taken as a whole or individually, is not material to us and the risk that we will be subject to claims, damages or further penalty with respect thereto is remote. Save as disclosed herein, we have obtained all necessary licenses, approvals and permits that are material to our business operations and, during the Track Record Period and up to the Latest Practicable Date, we were in compliance in all material aspects with the applicable laws and regulations in the PRC. Save as disclosed herein, the development of our existing theme parks and the Additional Theme Parks did not violate the then applicable PRC regulatory requirements and rules in any material aspect. So far as we are aware, there are no pending or threatened actions against us by any regulatory authority in the PRC and we are not currently subject to any pending penalty imposed by the relevant PRC authorities.

In preparation for the Listing, we engaged an independent internal control advisor (the “Internal Control Advisor”) to perform an overall assessment on certain of our procedures, systems and internal controls, and in particular to review the internal controls to be established by us to prevent future breach and enhance on-going compliance with respect to the historical non-compliance incidents as disclosed in this section and elsewhere in this prospectus.

During the internal control review, the Internal Control Advisor has provided some recommendations for our management’s consideration to enhance and rectify those deficiencies identified in our internal control system, which include certain remedial measures in respect of the historical non-compliance as disclosed in this section. We have implemented such remedial measures in our policies and procedures, which has been confirmed by the Internal Control Advisor, who has reviewed the remediation status of the identified internal control deficiencies of the selected entities of our Group by reviewing the revised policies and procedures. The internal control review was conducted based on information we provided and no opinion on internal controls was expressed by the Internal Control Advisor.

Notwithstanding the non-compliance incidents disclosed herein, in view of the rectification and preventive measures that have been taken as detailed below in respect of each of the non-compliance incidents, the Directors are of the view that the Group’s internal control is adequate and effective under Rule 3A.15(5) of the Listing Rules to prevent any possible breach of the regulatory requirements in the PRC and Hong Kong in the future.

In view that (i) the non-compliance was not due to dishonesty of the Directors nor for illegitimate purpose; (ii) since the time the non-compliance was identified and drawn to the attention of the Directors, the Directors have taken the necessary actions to rectify and/or terminate the non-compliance to the extent possible; and (iii) the Directors have been keeping themselves abreast of the latest laws and regulations by attending the abovementioned training, the Directors and the Joint Sponsors are of the view that the non-compliance issue will not have a material adverse impact on the Company and its Directors, do not cast doubt on the Directors’ integrity and the Directors are suitable to act as directors under Rules 3.08 and 3.09 of the Listing Rules and the Group is suitable for listing under Rule 8.04 of the Listing Rules.

## BUSINESS

The table below sets forth certain of our non-compliance incidents.

No.	Name of our subsidiary	Non-compliance incidents	Cause of non-compliance	Legal consequences and maximum potential penalty	Remedial actions	Director/senior management in charge of the rectification	Measures in place to prevent recurrence of the non-compliant incidents
1	Haichang Holdings HK	Haichang Holdings HK failed to lay the annual audited accounts before its shareholders at its annual general meeting since incorporation on December 5, 2011 up to the financial year ended December 31, 2012.	During such time, (i) Haichang Holdings HK retained a company secretarial company in Hong Kong to assist with ongoing compliance obligations and the directors of Haichang Holdings HK at the material time trusted the services of the company secretarial company, and (ii) Qu Naiqiang, Qu Naijie, Wang Xuguang, Zhao Wenjing and Yuan Bing were not aware of the legal requirements under the Companies Ordinance that annual audited accounts must be laid before the annual general meeting of Haichang Holdings HK even if it has no trading or business of its own, or as an investment holding company.	Pursuant to section 122 of the Companies Ordinance, if a director of a company fails to take all reasonable steps to comply with the requirements under the section, such person is liable to a maximum fine of HK\$300,000. Further, if it is proven that the breach was willfully committed, such director could be sentenced to imprisonment for up to 12 months.	On September 25, 2013, Haichang Asia BVI, as the sole shareholder of Haichang Holdings HK, applied to the High Court of Hong Kong for an order to adopt the audited accounts out of time for the period from its date of incorporation to December 31, 2012.  Haichang Asia BVI obtained a court order on November 14, 2013 that the requirement under section 122 of the Companies Ordinance to lay the annual audited accounts of Haichang Holdings HK for the period from December 5, 2011 to December 31, 2012 before Haichang Holdings HK at its annual general meeting for the years of 2012 and 2013 be substituted with a requirement to lay the same before Haichang Holdings HK by the written resolution of the sole member of Haichang Holdings HK dated September 16, 2013 in lieu of an extraordinary general meeting. Thus, the non-compliance incidents have been ratified.	Wang Xuguang	<ol style="list-style-type: none"> <li>A company secretarial company and an accounting firm will assist Haichang Holdings HK to ensure compliance with section 122 of the Companies Ordinance.</li> <li>Our audit committee will oversee our financial reporting and internal control procedures.</li> <li>Our Directors have attended trainings as to the relevant requirements of the Companies Ordinance on September 26, 2013 provided by the Hong Kong legal advisors to our Company.</li> <li>We intend to engage Hong Kong legal advisors to continue to provide legal advice and training on various compliance matters from time to time, as and when needed.</li> </ol>

Note: Our executive Directors consider that the competence and suitability of Qu Naiqiang, Qu Naijie, Wang Xuguang, Zhao Wenjing and Yuan Bing in properly discharging the duties as a director of a listed issuer will not be adversely affected notwithstanding the above-mentioned non-compliance with section 122 of the Companies Ordinance, in view that at the relevant time of committing such breach, (i) Haichang Holdings HK was only an investment holding company with no business activities in Hong Kong, and it is not uncommon for less attention to be paid to the affairs and the local legal requirements for such entity; (ii) the non-compliance did not prejudice the interests of any creditors, customers or suppliers of our Group; (iii) Qu Naiqiang, Qu Naijie, Wang Xuguang, Zhao Wenjing and Yuan Bing have delegated the management of secretarial matters of Haichang Holdings HK to a company secretarial company in Hong Kong.

## BUSINESS

No.	Name of our subsidiary	Non-compliance incidents	Cause of non-compliance	Legal consequences, maximum potential penalty and provision for the potential liability if any	Remedial actions	Senior management in charge of the rectification	Measures in place to prevent recurrence of the non-compliant incidents
2	Certain of our Subsidiaries	We leased certain properties to various tenants but did not complete the required registration with the relevant real estate administration authorities within 30 days of signing the leases as required by PRC law. As of the Latest Practicable Date, we had 16 such leases that had not been registered.	We failed to complete the registration of the leases because we need the cooperation of the tenants in the registration process and the relevant tenants were uncooperative or were unable to produce documents required by the relevant real estate administration authorities.	We may be required by the relevant real estate administration authorities to complete the registration within a required period of time, failing which we may be fined RMB1,000 to RMB10,000 for each unregistered lease. The maximum potential penalty is RMB160,000 in aggregate. We believe that it is not uncommon in China for property leases not to be registered. In addition, the failure to register the property leases does not invalidate the leases according to the advice of our PRC legal advisor. Given that the penalty will be imposed only after being given a rectification period, we did not make any provision for the potential liability. We have not been requested by the government authorities to register the leases as of the Latest Practicable Date.	We have coordinated with the relevant tenants to complete the required registrations and expect to complete the registrations of the existing unregistered leases by March 31, 2014.	Head of our commercial property operation department, currently Mr. Liu Jiabin. See "Directors, Senior Management and Employees – Senior Management" for his background and qualifications in this area.	See footnotes below.

**Notes:**

- We have required the commercial property operation department to:
  - oversee the lease registration as one of its key duties with specially designated staff to monitor the progress of lease registration so as to ensure lease registration within 30 days of signing the lease;
  - update and improve our policy, process and procedure ("PPP") in respect of the lease registration requirement pursuant to the recommendations made by the internal control advisor;
  - revise the template lease agreement requiring the contractual counterparty to undertake that it will cooperate with and assist us in completing the lease registration;
  - to provide semi-annual reports to the audit committee regarding the status of the Group's leases and their registration progress.
- The audit committee will review on a semi-annual basis the compliance status in respect of the lease registration requirement.
- Our external legal counsel and the legal and audit department have provided compliance training to the commercial property operation department in respect of the lease registration requirement.
- We will maintain frequent communication with our external legal counsel and legal and audit department in the business operation process to ensure the compliance of our operations with the relevant PRC regulatory requirements.
- We have added a module to our existing information system to strengthen the management and control of commercial property leasing business. We will input the relevant quantifiable data in respect of our leases, including the timing requirements for registering newly signed leases, through the new module so that reminders will be sent to the relevant responsible officer when the deadline for registration is approaching for each of the newly signed leases.

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No.	Name of our subsidiary	Non-compliance incidents	Cause of non-compliance	Legal consequences, maximum potential penalty and provision for the potential liability if any	Remedial actions	Senior management in charge of the rectification	Measures in place to prevent recurrence of the non-compliant incidents
3	<p>(1) Qingdao Polar</p> <p>(2) Yantai Fishermen</p> <p>(3) Tianjin Polar</p> <p>(4) Dalian Haichang Discoveryland</p>	<p>We commenced business operations on the properties in Qingdao, Yantai, Tianjin and Dalian before obtaining the required project completion and acceptance forms from the relevant construction administration authorities. The periods during which the projects operated without obtaining the forms are as follows:</p> <ul style="list-style-type: none"> <li>• Qingdao: 07/2006 – 01/2008</li> <li>• Yantai: 09/2011 – 06/2012</li> <li>• Tianjin: 09/2010 – present</li> <li>• Dalian Discoveryland: 07/2006 – 04/2007</li> </ul>	<p>We commenced our operations on these properties before obtaining the required project completion and acceptance forms because it usually takes a long time to complete the inspection after we finish the construction works of a project. Such delay is usually due to factors beyond our control such as the time required by the government authorities to review the conditions of finished theme park projects. In addition, we believe it is not an uncommon practice for similarly situated theme park developers in China to commence their operations on the completed properties in anticipation of the delay in finally passing the completion and acceptance inspection.</p>	<p>We may be fined by the relevant construction administration authority in an amount equal to 2% to 4% of the contract price of the engineering contract for the relevant project. We must also compensate for any losses that result from commencing operations before passing the completion and acceptance inspections. Based on the Group's internal record in respect of the contract price for the projects in Qingdao, Yantai and Tianjin and the actual settlement payments made in respect of Dalian Discoveryland, the maximum potential penalty is approximately RMB3.9 million, RMB10.0 million, RMB5.2 million and RMB1.3 million for the projects in Qingdao, Yantai and Tianjin and Dalian Discoveryland, respectively. Except for a small part of the commercial properties in Yantai and the properties in Tianjin (the "Uncompleted Parts"), for which we are still applying for the project completion and acceptance forms, all these projects have eventually obtained the required forms. In addition, each of the relevant construction administration authorities in Qingdao and Tianjin and the local government authority in Dalian issued a letter stating that, and an official from the local government authority in Yantai in charge of land and construction confirmed during an interview with our PRC legal advisor that, we did not have any violation in relation to project completion and acceptance. Based on the above, our PRC legal advisor advised us that there is only a remote possibility that we would be penalized for these non-compliance incidents. Therefore, we do not make any provision for the potential liabilities in connection with these incidents.</p>	<p>We have actively liaised with the relevant construction administration authorities after completing the construction of our projects in order to pass the completion and acceptance inspections in the most expedient manner. We now expect to pass the completion and acceptance inspections for the Uncompleted Parts by March 31, 2014.</p>	<p>Head of our engineering department, currently Mr. Liu Jiabin. See "Directors, Senior Management and Employees – Senior Management" for his background and qualifications in this area.</p>	<p>See footnotes below.</p>

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Notes:

1. We will require the project management team to liaise with the relevant governmental authority in advance in respect of the construction completion inspection.
2. The approval of the audit committee will be required before any future project is put into operation.
3. The audit committee will conduct a review to ensure that all the certificates, permits and approvals required for a project's commencement of operation have been obtained and all legally required procedures have been gone through before a project is put into operation.
4. We will update and improve our detailed PPP in respect of the commencement of operations for projects pursuant to the recommendations made by the internal control advisor.
5. Our external legal counsel and the legal and audit department have provided compliance training to the commercial property operation department and engineering department in respect of the legal requirements for the completion and acceptance inspections of construction projects.
6. We will maintain frequent communication with our external legal counsel and legal and audit department in the business operation process to ensure the compliance of our operations with the relevant PRC regulatory requirements.
7. We have added a module to our existing information system to strengthen the management and control of project construction and completion. The new module will consolidate all the key timing requirements in respect of the construction process, including budgeting, construction milestones and regulatory requirements such as the licenses and permits required for the commencement of the next step of the development process. For example, under the new module, without obtaining the required completion and acceptance forms, we will not permit the relevant project to commence its operation.

## BUSINESS

No.	Name of our subsidiary	Non-compliance incidents	Cause of non-compliance	Legal consequences, maximum potential penalty and provision for the potential liability if any	Remedial actions	Senior management in charge of the rectification	Measures in place to prevent recurrence of the non-compliant incidents
4	Chongqing Haichang Caribbean	Chongqing Caribbean Water Park was fined RMB351,808.1, RMB313,639.2 and RMB7,274.6 (on March 2, 2012, July 27, 2011 and September 30, 2010, respectively) by the local planning administration authority for violations of the relevant construction planning permits in the construction of certain properties at Chongqing Caribbean Water Park.	Chongqing Haichang Caribbean's violations were due to our lack of communication with the local government authority in the project planning and design process, as a result of which our construction works failed to meet the space and line planning requirements set forth in the relevant construction planning permits.	Chongqing Haichang Caribbean may be required to suspend the construction of the relevant properties. In addition, if remedial measures are taken to rectify the impact on the planning, Chongqing Haichang Caribbean may be required to rectify the violation and fined 10% of the contract price of the construction works. If no remedial measures are taken, Chongqing Haichang Caribbean may be required to demolish the construction works and if the construction works cannot be demolished, Chongqing Haichang Caribbean's construction works or illegal income may be forfeited and it may be fined 10% of the contract price of the construction works. As it has paid the fines, it does not make any provision.	Chongqing Haichang Caribbean paid the fines and, according to the advice of our PRC legal advisor and their interviews with the official of the local planning administration, has rectified the violations and passed the relevant inspections by the local government.	Head of our planning and design department, currently Mr. Wang Zan. See "Directors, Senior Management and Employees – Senior Management" for his background and qualifications in this area.	See footnotes below.

**Notes:**

1. Chongqing Haichang Caribbean has designated special staff responsible for ensuring the compliance of the construction works with the regulatory requirements.
2. Any change to a project design that has been approved by the relevant governmental authority will be subject to the approval of the audit committee.
3. The audit committee will conduct a review to ensure that all the certificates, permits and approvals required for changing the project design have been obtained and all legally required procedures have been gone through before the change to project design is implemented.
4. We will update and improve our detailed PPP in respect of the compliance of construction planning with the relevant regulatory requirements pursuant to the recommendations made by the internal control advisor.
5. Our external legal counsel and the legal and audit department have provided compliance training to the planning and design department in respect of the legal requirements for project construction and project planning.
6. We will maintain frequent communication with our external legal counsel and legal and audit department in the business operation process to ensure the compliance of our operations with the relevant PRC regulatory requirements.
7. We have added a module to our existing information system to strengthen the management and control of project construction and planning. The new module will consolidate all the key timing requirements in respect of the construction process, including budgeting, construction milestones and regulatory requirements such as the licenses and permits required for the commencement of the next step of the development process. For example, under the new module, if there is any change in the construction plan that deviates from the construction plan approved by the relevant government authority, such change will be reported and subject to further internal approval by the responsible officer within the company.

## BUSINESS

No.	Name of our subsidiary	Non-compliance incidents	Cause of non-compliance	Legal consequences, maximum potential penalty and provision for the potential liability if any	Remedial actions	Senior management in charge of the rectification	Measures in place to prevent recurrence of the non-compliant incidents
5	Yantai Fishermen	We did not obtain the required mining license for the operation of our Yantai Yudashan Hot Spring Resort since its commencement of operations in 2011 until we sealed off the Hot Spring in January 2014.	We were not aware of, nor advised by any government authority, of the requirement to apply for a mining license for our hot spring operations.	We may be required to cease extracting hot spring water, compensate for the losses resulting from our unlicensed extraction and may have our illegal income forfeited (which could be interpreted to be all of our operating revenue during the period when we extracted hot spring water without license) and be further fined for an amount up to 50% of our illegal income. Based on the Group's internal record about the revenue of Yantai Yudashan Hot Spring Resort from its inception to September 30, 2013, the maximum potential penalty (which is calculated as 1.5 times the revenue of our hot spring resort operations since its opening in 2011) is approximately RMB6.4 million. Our PRC legal advisor interviewed the vice head of the local land bureau during which the official confirmed that (1) the land bureau had been informed of our violation and our preparatory work for the application of the mining license, (2) he was of the opinion that the preparatory work could be finished by the end of 2013; and (3) we may continue our extraction of hot spring water before we obtain the mining license. Our PRC legal advisor further confirmed that the land bureau is the competent local authority to regulate mining activities in Laishan District of Yantai. Our PRC legal advisor advised us that given the interviews conducted with the official from the land bureau and our remedial actions taken so far, it is not likely that we will be subject to the penalties mentioned above or required to cease the extraction of hot spring water. Therefore, we do not make any provision for our potential liability arising out of this non-compliance.	<p>1. We immediately liaised with the relevant government authority and started the preparatory work for applying for the mining license and expected to submit our application by the end of 2013. However, our preparatory work showed that the hot spring cannot meet the conditions for the issuance of mining licenses.</p> <p>2. Given the above circumstances, we plan to use normal water with added minerals rather than natural hot spring water for our hot spring operations by March 31, 2014. We have designated staff specifically responsible for follow-up rectification work and sealed off the existing hot spring water extraction facilities in January 2014. We are also adjusting our sales and marketing strategy and revising the marketing materials. In particular, we have started negotiation with suppliers of equipment that can produce simulated hot spring water with added minerals by using normal water. The suppliers are also expected to ensure a stable supply of the combination of minerals used in the production process. Our negotiation with the potential suppliers is ongoing and we expect to complete the procurement process and have the equipment put into operation by March 31, 2014.</p>	<p>Operation Director, currently Mr. Wang Wei. See "Directors, Senior Management and Employees – Senior Management" for his background and qualifications in this area.</p>	<p>1. Our external legal counsel and the legal and audit department have provided compliance training to the commercial property operation department in respect of the legal requirements for hot spring operation.</p> <p>2. We will maintain frequent communication with our external legal counsel and legal and audit department in the business operation process to ensure the compliance of our operations with the relevant PRC regulatory requirements.</p>

## BUSINESS

No.	Name of our subsidiary	Non-compliance incidents	Cause of non-compliance	Legal consequences, maximum potential penalty and provision for the potential liability if any	Remedial actions	Senior management in charge of the rectification	Measures in place to prevent recurrence of the non-compliant incidents
6	(1) Yantai Fishermen  (2) Dalian Haichang Discovery/land	We have not paid the relevant social security insurance contributions required under PRC law in respect of certain employees.	We did not make the contributions because the employees involved refused to make their own social security contributions as required by the PRC law, for which we would be required to make matching contribution.	We may be required by the relevant social security insurance administration authority to make the unpaid contributions within a certain period of time and pay a penalty on the unpaid contributions in an amount equal to 0.05% per day of the unpaid contributions. If we do not pay the required amounts within the prescribed period, a further fine equal 100% to 300% of the unpaid amounts may be imposed on us. The Group has made provisions in the amount of RMB6.3 million as of September 30, 2013 based on its estimates of the underpayments in this regard.	To the extent practicable, we have liaised with the employees with a view to rectifying the non-compliances and have made make-up payments in respect of past contributions required from us. Due to the current administrative practice of the social security insurance authorities, our make-up payments in respect of certain past contributions could not be processed by the authorities for reasons including that the relevant financial accounts of the authorities have been closed in respect of certain years or we no longer have employment relationship with the employees in question. However, relevant provisions based on our estimate of the underpayments in this regard have been made.	Head of our human resources department, currently Ms. Du Danyang. Ms. Du has extensive industry experience in human resource management. She is aware of the underpayments in respect of social security and housing provident fund contributions and has been working closely with our legal department, which has also provided necessary compliance training to her.	<ol style="list-style-type: none"> <li>We plan to implement new policies including requiring new employees to sign a consent letter in respect of their obligation to social security insurance contributions before we formally employ them.</li> <li>The human resources department will submit semi-annual reports to the audit committee in respect of the compliance status of the social security insurance contributions.</li> <li>Our external legal counsel and the legal and audit department have provided compliance training to the human resources department in respect of social security insurance laws and regulations.</li> <li>We will maintain frequent communication with our external legal counsel and legal and audit department in the business operation process to ensure the compliance of our operations with the relevant PRC regulatory requirements.</li> </ol>



## BUSINESS

No.	Name of our subsidiary	Non-compliance incidents	Cause of non-compliance	Legal consequences, maximum potential penalty and provision for the potential liability if any	Remedial actions	Senior management in charge of the rectification	Measures in place to prevent recurrence of the non-compliant incidents
7	(1) Yantai Fishermen (2) Tianjin Polar (3) Dalian Haichang Discovery/land	We have not paid the housing provident fund contributions required under PRC law in respect of certain employees.	We did not make the contributions because the employees involved refused to make their own housing provident fund contributions as required by the PRC law, for which we would be required to make matching contribution.	We may be required by the relevant housing provident fund administration authority to make the unpaid contributions. The Group has made provisions in the amount of RMB2.4 million as of September 30, 2013 based on its estimates of the underpayments in this regard.	To the extent practicable, we have liaised with the employees with a view to rectifying the non-compliances and have made make-up payments in respect of past contributions required from us. Due to the current administrative practice of the housing provident fund authorities, our make-up payments in respect of certain past contributions could not be processed by the authorities for reasons including that the relevant financial accounts of the authorities have been closed in respect of certain years or we no longer have employment relationship with the employees in question. However, relevant provisions based on our estimate of the underpayments in this regard have been made.	Head of our human resources department, currently Ms. Du Danyang. Ms. Du has extensive industry experience in human resource management. She is aware of the underpayments in respect of social security and housing provident fund contributions and has been working closely with our legal department, which has also provided necessary compliance training to her.	<p>1. We plan to implement new policies including requiring new employees to sign a consent letter in respect of their obligation to make housing provident fund contributions before we formally employ them.</p> <p>2. The human resources department will submit semi-annual reports to the audit committee in respect of the compliance status of the housing provident fund contributions.</p> <p>3. Our external legal counsel and the legal and audit department have provided compliance training to the human resources department in respect of housing provident fund laws and regulations.</p> <p>4. We will maintain frequent communication with our external legal counsel and legal and audit department in the business operation process to ensure the compliance of our operations with the relevant PRC regulatory requirements.</p>

## BUSINESS

No.	Name of our subsidiary	Non-compliance incidents	Cause of non-compliance	Legal consequences and maximum potential penalty	Remedial actions	Director/senior management in charge of the rectification	Measures in place to prevent recurrence of the non-compliant incidents
8	Qingdao Polar	<p>According to a written decision of administrative penalty issued by Laoshan District Sub-branch of SAIC Qingdao branch ("Laoshan SAIC") on June 8, 2012, (i) Qingdao Polar entered into certain cooperation agreements with three local travel agencies in March 2010 for a term from March 1, 2010 to February 28, 2011; (ii) the parties agreed on a rebate arrangement in these agreements, according to which a rebate directly payable to the travel agencies was calculated on the basis of the annual visitors guided by the travel agencies to Qingdao Polar Ocean World; and (iii) Qingdao Polar paid the rebate in an amount of RMB27,877 and issued the official invoices to the travel agencies in March 2011, and recorded such payments in its accounting records against these official invoices.</p> <p>Laoshan SAIC determined that the rebate arrangement offered by Qingdao Polar actually damaged the opportunities of its competitors with respect to fair competition and therefore such rebate arrangement violated the PRC competition law.</p>	<p>Qingdao Polar believes that such rebate arrangement was widely used in the tourism industry when it received the administrative penalty decision and, as advised by our PRC legal advisor, it is unclear under PRC law whether such practice would be considered as a violation of the PRC competition law.</p>	<p>Under PRC law, Qingdao Polar may be imposed a fine from RMB10,000 to RMB200,000 and have its illegal income arising from the regulatory breach confiscated. In addition, where the breach is serious, criminal penalties may be imposed.</p> <p>Qingdao Polar was imposed a fine of RMB180,000, which was paid up within the specified period of time.</p> <p>Notwithstanding the above, Laoshan SAIC issued a written confirmation in July 2013 that Qingdao Polar had not committed any material violation of applicable economic laws or regulations since its inception.</p>	<p>See footnote 1 below for the remedial actions taken by Qingdao Polar.</p>	<p>Head of marketing department, currently Ms. Zheng Fang. See "Directors, Senior Management and Employees – Senior Management" for her background and qualifications in this area.</p>	<p>See footnote 2 below for the internal control improvement measures.</p>

Notes:

1. After the receipt of such administrative penalty decision, Qingdao Polar ceased the rebate arrangement in question with the three travel agencies, replacing it with a price discount arrangement where the price discount for the group tickets sold through each travel agency increases according to the cumulative number of visitors guided by each travel agency. Qingdao Polar also had discussion with the travel agencies with a view to adjust the terms of the contractual arrangement and entered into new agreements with them in October 2013 incorporating the price discount mechanism. The major reason for the delay in executing the new agreements is because of the regulatory uncertainties in respect of the price discount arrangement. In particular, since 2009, the PRC government has proposed several drafts of a new Tourism Law (《旅遊法》) under which the issues involving rebate arrangements or other price discount arrangements between tourist destinations and travel agencies were expected to be clarified. The new Tourism Law was passed in April 2013 and became effective in October 2013, but it did not clarify the abovementioned issues. Therefore, Qingdao Polar entered into new agreements with its cooperating travel agencies to formally implement the price discount arrangement with a mutual understanding that the parties would revise the agreements in order to comply with any new regulatory requirements that may come into effect in the future. Moreover, the relevant local government authority subsequently confirmed in writing in July 2013 that Qingdao Polar had not committed any material violation of applicable economic laws or regulations since its inception.
2. Various improvement measures on internal control have been adopted by Qingdao Polar to prevent similar recurrences:
  - Qingdao Polar has designated staff for ensuring that future cooperation agreements with travel agencies executed by Qingdao Polar will follow the template agreement of the Group and the terms of such agreements will be strictly implemented;
  - the execution of cooperation agreements with travel agencies is subject to the approval of the joint presidents responsible for the tourism business of the Group; and any amendment to such agreements is subject to the review of the Group's external legal counsel, legal and audit departments;
  - we will update and improve its existing detailed policy, process and procedure in respect of our cooperation with travel agencies pursuant to the recommendations made by the internal control consultants;
  - our external legal counsel and the legal and audit department have provided compliance training to the marketing department in respect of the relevant laws and regulations;
  - we will maintain frequent communication with our external legal counsel, legal and audit departments in the business operation process to ensure the compliance of its operations with the relevant PRC regulatory requirements; and
  - we have added a module to our existing information system to strengthen the management and control of marketing activities. The new module will collect all key financial and contractual information in our cooperation agreements with travel agencies, including the discounted price agreed in the relevant agreement, the actual number of tourists referred by the travel agencies and the amounts of actual final settlement between us and the travel agencies. Any discrepancy between the amounts of actual final settlement and the agreed discounted price will be reported under the new module to the responsible officer so that any potential non-compliance concerns can be immediately addressed.

## BUSINESS

No.	Name of our subsidiary	Non-compliance incidents	Cause of non-compliance	Legal consequences and maximum potential penalty	Remedial actions	Director/senior management in charge of the rectification	Measures in place to prevent recurrence of the non-compliant incidents
9	Dalian Laohutan	During 2011 and 2012, Dalian Laohutan received interest income in the aggregate amount of approximately RMB61.2 million from certain the Group's related company in respect of certain advances provided by Dalian Laohutan to such related company directly without using legally permitted entrustment loans through banks.	Prior to the completion of the Reorganization, members of the Group and the Remaining Group were within the same group and therefore the companies within the Group had historically received from and granted to its related companies in the Group and the Remaining Group certain inter-company advances as part of the intra-group transactions. The Group charged interests on certain such inter-company loans as it borrowed funds from banks to provide such inter-company loans and the interest income received from related company was able to substantially offset the Group's funding costs. The Group believes that such transactions were and still are commonly seen in PRC corporate groups.	Under the relevant PRC laws, Dalian Laohutan is not allowed to provide loans to its related company directly. The interest income received by Dalian Laohutan may be forfeited by the relevant government authorities and Dalian Laohutan may be subject to a fine of not more than five times the interest income (i.e., approximately RMB305.8 million).  As advised by our PRC legal advisor, the risk that the Group would be subject to any fines or other administrative penalty in connection with the interest income received from related company is remote as the Group has neither received any warning notice from nor been subject to any fines imposed by the relevant government authorities. In addition, as the Group did not engage in the inter-company advances as its major business, and based on reasonable searches of publicly available information as of the Latest Practicable Date conducted by the Company's PRC legal advisor, the PRC legal advisor further advised that there has been no precedent of such penalty being imposed by the relevant PRC regulator in similar circumstances.	The advances in question have been converted into legally permitted entrustment loans through banks granted by Dalian Laohutan, which has since ceased advancing funds directly to other companies.	Head of planning and finance department, currently Mr. Li Xin. See "Directors, Senior Management and Employees – Senior Management" for his background and qualifications in this area.	See footnotes below.

**Notes:**

1. The Group's finance department will ensure all inter-company advances are implemented in accordance with the legal requirements, including through entrustment loans which are permitted under PRC law.
2. We will update and improve our detailed PPP in respect of the operation of inter-company advances pursuant to the recommendations made by the internal control advisor.
3. The audit committee will review the compliance of the inter-company advances with PRC law on a quarterly basis.
4. Our external legal counsel and the legal and audit department have provided compliance training to the finance department in respect of the legal requirements for inter-company advances.
5. We will maintain frequent communication with our external legal counsel and legal and audit department in the business operation process to ensure the compliance of our inter-company advance operations with the relevant PRC regulatory requirements.

## BUSINESS

### RISK MANAGEMENT

#### Risk Management Policies and Procedures

We have established a set of comprehensive risk management policies and measures to identify, evaluate and manage risks arising from our operations according to the recommendations made by an internal control advisor engaged by us and who conducted a comprehensive review of our internal control system in 2013. The major components of our risk management policies include the following:

- We have formulated rules covering the entire risk management process from risk identification, formulation and implementation of risk management solutions, risk monitoring and warning as well as emergency response to materialized risk events.
- We have established a risk management and corporate governance committee under the board to be responsible for the overall internal control and risk management process and evaluation, the current chairman of which is our non-executive director. See “Directors, Senior Management and Employees – Board Committees – Risk Management and Corporate Governance Committee.”
- Our legal and audit department is designated to assist in the formulation, evaluation and implementation of our internal control and risk management policies and report to the risk management and corporate governance committee directly.
- Our legal counsel is responsible for our legal and regulatory compliance matters.
- We require our departments and project companies to establish their respective risk management implementing rules and engage our legal and audit department and legal counsel in formulating new operational policies and business plans.

#### On-going Measures to Implement the Risk Management Policies

In order to ensure the rigorous implementation of our risk management policies, we have also adopted various on-going measures as set out below:

- We provided training to our directors, senior management and key risk management functional staff in respect of the risk management policies in 2013 and expect to provide continuous training when deemed necessary.
- Our legal and audit department will assess and monitor the implementation of our risk management policies by the relevant departments and project companies through regular audits and inspections and report the results to the management.
- We have included risk management performance into our overall performance review system to incentivize proper implementation of the risk management policies.

## **BUSINESS**

- We provide continuous pre-commencement and on-job risk management training to our employees.
- We have retained an external PRC legal advisor to review and advise on our regulatory compliance in respect of all relevant PRC laws and regulations, including changes to such laws and regulations, which may affect our business operations in the PRC.
- We have retained Guotai Junan Capital Limited as our compliance advisor to advise our directors and management team on matters relating to the Listing Rules.