

# 華夏動漫形象有限公司

China Animation Characters Company Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1566

## GLOBAL OFFERING



Sole Sponsor and Sole Global Coordinator



**BNP PARIBAS**

Joint Bookrunners and Joint Lead Managers



**BNP PARIBAS**

**平安證券有限公司**  
Ping An Securities Limited

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## IMPORTANT

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*If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.*

# CHINA ANIMATION CHARACTERS COMPANY LIMITED 華夏動漫形象有限公司

*(Incorporated in the Cayman Islands with limited liability)*

## GLOBAL OFFERING

<b>Number of Offer Shares</b>	<b>:</b>	<b>107,280,000 Shares (subject to the Over-allotment Option)</b>
<b>Number of Hong Kong Offer Shares</b>	<b>:</b>	<b>10,728,000 Shares (subject to adjustment)</b>
<b>Number of International Offer Shares</b>	<b>:</b>	<b>96,552,000 Shares (subject to adjustment and the Over-allotment Option)</b>
<b>Offer Price</b>	<b>:</b>	<b>Not more than HK\$4.56 per Share plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application, subject to refund)</b>
<b>Nominal value</b>	<b>:</b>	<b>HK\$0.10 per Share</b>
<b>Stock code</b>	<b>:</b>	<b>1566</b>

*Sole Sponsor and Sole Global Coordinator*



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Ping An Securities Limited

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Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraphs under “Documents delivered to the Registrar of Companies” in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance. The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Shares have not been and will not be registered under the US Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of US persons (as defined in Regulation S) except that Offer Shares may be offered, sold or delivered outside the United States in offshore transactions in accordance with Regulation S.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around Thursday, 5 March 2015 and, in any event, not later than Wednesday, 11 March 2015. The Offer Price will not be more than HK\$4.56 and is currently expected to be not less than HK\$3.65. Investors applying for Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK\$4.56 for each Share together with a brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%.

**If, for any reason, the Sole Global Coordinator (on behalf of the Underwriters) and us are unable to reach an agreement on the Offer Price by Wednesday, 11 March 2015, the Global Offering will not become unconditional and will lapse immediately.**

The Sole Global Coordinator (on behalf of the Underwriters) may with the consent of the Company reduce the number of Offer Shares and/or the indicative range of the Offer Price below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such case, a notice of the reduction in the number of Offer Shares and/or the indicative range of the Offer Price will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Such notice will also be available at the website of the Stock Exchange at [www.hkex.com.hk](http://www.hkex.com.hk) and our website at [www.animatechina.com](http://www.animatechina.com). Further details are set forth in the sections headed “Structure of the Global Offering” and “How to apply for Hong Kong Offer Shares” in this prospectus.

Prior to making an investment decision, prospective investors should consider carefully all of the information set forth in this prospectus, including the risk factors set forth in the section headed “Risk factors” in this prospectus. The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure subscribers for, the Hong Kong Offer Shares, are subject to termination by the Sole Global Coordinator (on behalf of the Underwriters) if certain events shall occur prior to 8:00 a.m. on Thursday, 12 March 2015. Such grounds are set forth in the section headed “Underwriting” in this prospectus. It is important that you refer to that section for further details.

28 February 2015

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## EXPECTED TIMETABLE

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Latest time to complete electronic applications under <b>White Form eIPO</b> service through the designated website at <a href="http://www.eipo.com.hk">www.eipo.com.hk</a> <sup>(2)</sup> .....	11:30 a.m. on Thursday, 5 March 2015
Application lists open <sup>(3)</sup> .....	11:45 a.m. on Thursday, 5 March 2015
Latest time to lodge <b>WHITE</b> and <b>YELLOW</b> Application Forms .....	12:00 noon on Thursday, 5 March 2015
Latest time to give <b>electronic application instructions</b> to HKSCC <sup>(4)</sup> .....	12:00 noon on Thursday, 5 March 2015
Latest time to complete payment for <b>White Form eIPO</b> applications by effecting internet banking transfer(s) or PPS payment transfer(s) .....	12:00 noon on Thursday, 5 March 2015
Application lists close .....	12:00 noon on Thursday, 5 March 2015
Price Determination Date <sup>(5)</sup> .....	Thursday, 5 March 2015
Announcement of:	
• the Offer Price;	
• an indication of level of interest in the International Offering;	
• the level of applications in the Hong Kong Public Offering; and	
• the basis of allocation under the Hong Kong Public Offering,	
to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before .....	Wednesday, 11 March 2015
A full announcement of the Hong Kong Public Offering containing the information above will be published on the website of the Stock Exchange at <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> <sup>(6)</sup> and our Company's website at <a href="http://www.animatechina.com">www.animatechina.com</a> <sup>(6)</sup> from .....	Wednesday, 11 March 2015
Results of allocations in the Hong Kong Public Offering will be available at <a href="http://www.iporesults.com.hk">www.iporesults.com.hk</a> with a "search by ID" function .....	Wednesday, 11 March 2015
Despatch of Share certificates in respect of wholly or partially successful applications (if applicable) pursuant to the Hong Kong Public Offering on or before <sup>(7)(8)(9)</sup> .....	Wednesday, 11 March 2015

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## EXPECTED TIMETABLE

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Despatch of refund cheques and White Form e-Refund  
payment instructions in respect of wholly or  
partially successful applications (if applicable) or  
wholly or partially unsuccessful applications  
pursuant to the Hong Kong Public Offering  
if the Offer Price is less than the price payable  
on application on or before . . . . . Wednesday, 11 March 2015

Dealings in our Shares on the Stock Exchange expected to  
commence at 9:00 a.m. on . . . . . Thursday, 12 March 2015

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*Notes:*

- (1) All references to time and dates refer to Hong Kong local time and dates. Details of the structure of the Global Offering, including its conditions, are set forth in the section headed “Structure of the Global Offering” in this prospectus.
- (2) You will not be permitted to submit your application through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing the payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 5 March 2015, the application lists of the Hong Kong Public Offering will not open and close on that day. Particulars of the arrangements are set forth in the section headed “How to apply for Hong Kong Offer Shares — 10. Effect of bad weather on the opening of the application lists” in this prospectus.
- (4) Applicants who apply by giving electronic application instructions to HKSCC should refer to the section headed “How to apply for Hong Kong Offer Shares — 6. Applying by giving electronic application instructions to HKSCC via CCASS” in this prospectus.
- (5) We expect to determine the Offer Price by agreement with the Sole Global Coordinator (on behalf of the Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or around Thursday, 5 March 2015 and in any event, not later than Wednesday, 11 March 2015. If, for any reason, the Sole Global Coordinator (on behalf of the Underwriters) and we are unable to reach an agreement on the Offer Price, the Global Offering will not become unconditional and will lapse immediately. Notwithstanding that the Offer Price may be fixed at below the maximum Offer Price of HK\$4.56, applicants for the Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK\$4.56 for each Share, together with the brokerage fee of 1%, a Stock Exchange trading fee of 0.005% and a SFC transaction levy of 0.0027% but will be refunded the excess application monies as provided in the section headed “How to apply for Hong Kong Offer Shares” in this prospectus.
- (6) Neither the website nor any of the information contained on the website forms part of this prospectus.
- (7) **Share certificates will only become valid certificates of title provided that the Hong Kong Public Offering has become unconditional and the Hong Kong Underwriting Agreement has not been terminated in accordance with its terms. Investors who trade our Shares on the basis of publicly available allocation details before the receipt of Share certificates or before the Share certificates becoming valid certificates of title do so entirely at their own risk.**
- (8) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the maximum Offer Price of HK\$4.56. Part of the applicant’s Hong Kong Identity Card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong Identity Card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong Identity Card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant’s Hong Kong Identity Card number or passport number may lead to delays in encashment of, or may invalidate, the refund cheque. Further information is set out in “How to apply for Hong Kong Offer Shares” in this prospectus.

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## EXPECTED TIMETABLE

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- (9) Applicants who have applied on **WHITE** Application Forms or **White Form eIPO** for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offering and have provided all required information may collect refund cheques (where applicable) and/or Share certificates (where applicable) in person from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong between 9:00 a.m. to 1:00 p.m. on Wednesday, 11 March 2015. Applicants being individuals who opt for collection in person may not authorise any other person to make collection on their behalf. Applicants being corporations who opt for collection in person must attend through their authorised representatives bearing letters of authorisation from their corporation stamped with the corporation's chop. Both individuals and authorised representatives of corporations must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offering may collect their refund cheques, if any, in person but may not elect to collect their Share certificates as such Share certificates will be deposited into CCASS for the credit of their designated CCASS participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed "How to apply for Hong Kong Offer Shares — 14. Despatch/Collection of Share certificates and refund monies — If you apply via electronic application instructions to HKSCC" in this prospectus for details. Uncollected Share certificates and refund cheques will be despatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant applications.

Further details are set forth in the sections headed "How to apply for Hong Kong Offer Shares — 13. Refund of application monies" and "How to apply for Hong Kong Offer Shares — 14. Despatch/Collection of share certificates and refund monies" in this prospectus.

The above expected timetable is a summary only. You should carefully read the sections headed "Underwriting," "Structure of the Global Offering" and "How to apply for Hong Kong Offer Shares" for detailed information on the structure of the Global Offering and how to apply for Hong Kong Offer Shares.

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*This prospectus is issued by our Company solely for the Hong Kong Public Offering and does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the Hong Kong Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to buy in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction outside Hong Kong. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom. You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from the information contained in this prospectus. Any information or representation not included in this prospectus must not be relied on by you as having been authorised by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors or advisers, or any other person or party involved in the Global Offering.*

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## SUMMARY

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*This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this prospectus. You should read the entire document including the appendices hereto, which constitutes an integral part of this prospectus, before you decide to invest in the Offer Shares.*

*There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set forth in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.*

### OVERVIEW

#### **Our core businesses during the Track Record Period**

We engage in multi-line businesses in the animation-related industry, with the primary focus on the trading of animation derivative products (mainly toys) featuring renowned third-party owned animation characters for the Japanese market with the provision of value-added services. This business represented our major revenue and profit driver during the Track Record Period. Most of our customers are Japanese companies which source these products for toy companies in Japan (such as Tomy and SEGA) and leading outdoor theme parks in Japan. We acquired the intellectual property rights of three proprietary animations at an aggregate consideration of RMB3.7 million and have developed our proprietary virtual artist, “Violet” (紫嫣). During the Track Record Period, we generated revenue from our proprietary animation characters primarily through licensing of the intellectual property rights of the animation characters to Zing.

#### **Extension of our core businesses in the animation-related industry**

Under the leadership and vision of Mr. ZHUANG, our founder, chief executive officer and executive Director, and with a view to enhancing and diversifying our core businesses, we are developing into the indoor animation amusement park business in China. Our first project in this business is the establishment and operation of Joypolis indoor animation amusement park exclusively in Shanghai. According to SEGA, we are the first licensed operator of Joypolis in China by SEGA. We are also equipped with in-house research and development capability in creation and commercialisation of our proprietary animation characters. We have developed six proprietary animation characters, including “Violet” (紫嫣). According to the Frost & Sullivan Report, “Violet” (紫嫣) is the first virtual artist which performed bidialectal music animation concert in China by applying three dimensional mixed reality (MR) technologies. The first large-scale animation concert of “Violet” (紫嫣) was performed on 1 February 2015 at China Resources Shenzhen Bay Sports Centre Spring Cocoon Stadium (華潤深圳灣體育中心春繭體育館), a stadium in Shenzhen.

We have entered into agreements (as amended and supplemented) with three licensees (which are also our consignors under our consignment sales business and as confirmed by our Directors, Independent Third Parties), pursuant to which we grant licence to the consignors to sell certain categories of derivative products featuring our proprietary animation characters in China for a non-refundable consultancy fee and an annual royalty fee. Upon the grand opening of Shanghai Joypolis within which we plan to serve as physical platforms for the consignment sale of our licensees’ products bearing our proprietary animation characters, we believe that we will be able to further expand our revenue stream generated from the licensing business.



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## SUMMARY

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We also develop the multimedia animation entertainment business in the areas of (i) movie investment and production; (ii) music animation concerts; and (iii) online entertainment and mobile applications. Our movie investment and production business has yet to provide any revenue contribution. Our music animation concerts and online entertainment and mobile applications businesses have provided insignificant amount of revenue contribution to our operating results during the Track Record Period. Nevertheless, our Directors believe that these new business initiatives form an extension of our core businesses and an integral part of our strategic progression in the animation-related industry with an aim to promoting and cross-selling our different lines of business and creating synergies among them.

### OUR BUSINESS MODEL

Our core businesses and our major revenue and profit drivers during the Track Record Period are illustrated as follows:



#### Trading with the provision of value-added services

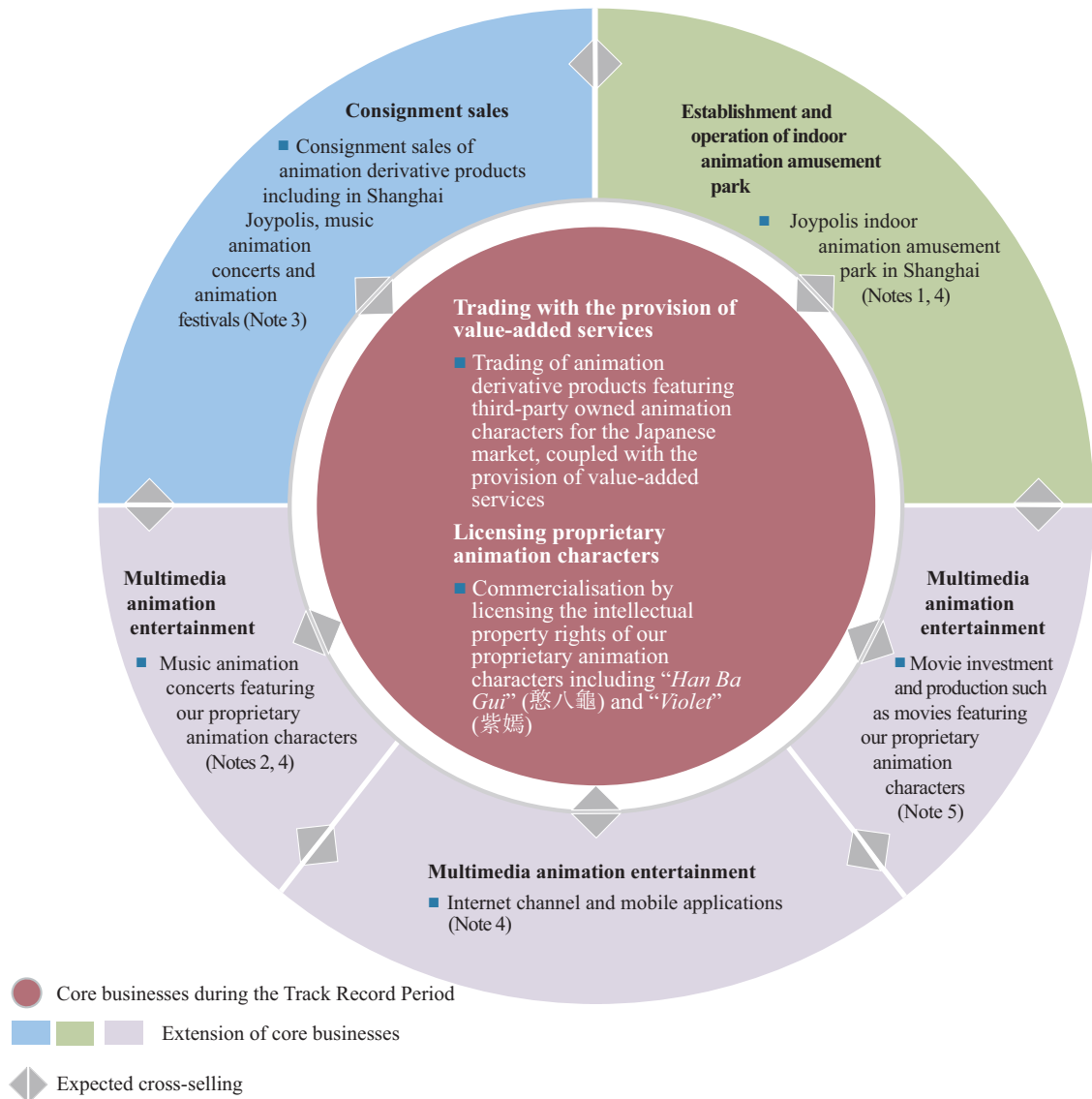
- Trading of animation derivative products featuring third-party owned animation characters for the Japanese market, coupled with the provision of value-added services

#### Licensing proprietary animation characters

- Commercialisation by licensing the intellectual property rights of our proprietary animation characters including “*Han Ba Gui*” (憨八龜), “*The Amazing UU*” (神奇的優悠) and “*Animal Conference on the Environment*” (動物環境會議)

## SUMMARY

Currently, we are developing new business initiatives which are extensions of our core businesses, and our business model in the future is illustrated as follows:



*Notes:*

1. Phase 1 of Shanghai Joypolis was opened on 30 December 2014 and the grand opening is expected to take place in the first quarter of 2016.
2. We organised our first music animation concert featuring “*Violet*” (紫媽) on 1 February 2015 in Shenzhen where no consignment sales were conducted. We expect that there will be consignment sales in Shanghai Joypolis as well as our music animation concerts and animation festivals in the future.
3. China Animation IP entered into agreements with three consignors and Huajiatai PRC entered into a consignment agreement with a capsule toys vending machine operator. For details, please refer to the section headed “Business — Extension of our core businesses in the animation-related industry — Consignment Sales”.
4. These are our new businesses which have only provided insignificant amount of revenue contribution to our operating results up to the Latest Practicable Date.
5. These are our proposed business and/or business strategies, which have yet to provide any revenue contribution to our operating results up to the Latest Practicable Date.
6. This diagram is for reference only. The size and proportion of the business segments indicated in this diagram do not represent that actual or anticipated revenue and profit were or will be generated by the respective business segments according to such proportion or at all.

## SUMMARY

The table below sets forth the revenue generated by different business segments of our Group for the three years ended 31 March 2014 and the five months ended 31 August 2014:

	Year ended 31 March						Five months ended 31 August	
	2012	% of Revenue	2013	% of Revenue	2014	% of Revenue	2014	% of Revenue
	<i>(HK\$'000 except percentages)</i>							
Trading of animation derivative products	279,007	95.5%	251,593	88.7%	245,136	72.4%	185,541	99.3%
Licensing of proprietary animation characters	13,292	4.5%	31,900	11.3%	73,608	21.7%	-	-
<b>Sub-total</b>	<b>292,299</b>	<b>100%</b>	<b>283,493</b>	<b>100%</b>	<b>318,744</b>	<b>94.1%</b>	<b>185,541</b>	<b>99.3%</b>
Establishment and operation of indoor animation amusement park	-	-	-	-	20,000	5.9%	872	0.5%
Multimedia animation entertainment	-	-	-	-	-	-	411	0.2%
<b>Total</b>	<b>292,299</b>	<b>100%</b>	<b>283,493</b>	<b>100%</b>	<b>338,744</b>	<b>100%</b>	<b>186,824</b>	<b>100%</b>

We rely on a limited number of major customers for our trading of animation derivative products with which we have established relationship since 2008. Revenue from our five largest customers for the three years ended 31 March 2014 and the five months ended 31 August 2014 accounted for 76.2%, 88.2%, 87.2% and 92.7% of our total revenue, respectively. Further, we only had three suppliers during the Track Record Period. We commenced the business relationship with Sino Action, our largest supplier during the Track Record Period, since the inception of our business in 2008. We commenced the business relationship with Best Toys and Shenzhen Jiezhimei since around May 2013 and June 2014, respectively.

While during the Track Record Period, we generated a substantial amount of our revenue and profit from the trading business of animation derivative products, our Directors believe that our other businesses, notably the establishment and operation of indoor animation amusement park, will contribute significantly to the growth and development of our Group. Our Directors believe that Shanghai Joypolis will generate additional income for us with a positive business outlook. Our Directors do not expect that Shanghai Joypolis will have any significant impact on our total assets as Huajiatai PRC, the operator and owner of the major assets for Shanghai Joypolis, is a non-wholly owned subsidiary of our Company. However, as our core businesses during the Track Record Period were trading business and licensing of animation characters business, we did not have a significant amount of tangible assets except for the leasehold improvement in respect of the relevant premises of our offices in Shenzhen. Going forward, our Directors believe that Shanghai Joypolis (especially upon its grand opening) and other potential indoor animation amusement park(s) which we may establish in the future could have the following financial impact on our Group: (i) a substantial amount of expenditure will be incurred for the establishment of indoor amusement park(s), and our tangible assets will be significantly increased. These tangible assets are mainly game machines and equipment which will be depreciated over a period of 5 to 10 years, and thus more depreciation

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## SUMMARY

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expenses will be incurred which will affect our profit margin; (ii) our operating costs, including the rental expenses in relation to the venue of the indoor amusement park(s) and insurance costs, will increase; and (iii) our PRC tax expenses will also increase. We plan to fund our investment in Shanghai Joypolis by internal financial resources and the net proceeds from the Global Offering. The total capital expenditure and the pre-opening costs for Shanghai Joypolis up to its grand opening are expected to be approximately RMB173.8 million and RMB25.4 million, respectively. As of 31 August 2014, the capital expenditure in the amount of RMB47.3 million for Shanghai Joypolis has been settled. As Huajiatai PRC, is owned as to 49.0%, 2.0% and 49.0% by China Theme Park HK, Shenzhen Wald and Pingan Taisheng, respectively, we (through China Theme Park HK and Shenzhen Wald) shall only be responsible for 51.0% of the total investment in Shanghai Joypolis. We expect to fund our contribution to the capital expenditure and the pre-opening costs of Shanghai Joypolis by internal resources in the amount of HK\$142.2 million. We also expect to use HK\$54.5 million and HK\$91.4 million from the net proceeds from the Global Offering (assuming the Offer Price is HK\$4.10, being the mid-point of the indicative range of the Offer Price of HK\$3.65 to HK\$4.56, and the Over-allotment Option is not exercised) in (a) funding our contribution to the remaining capital expenditure of Shanghai Joypolis; (b) supporting the working capital for Shanghai Joypolis and the preliminary expenses for the next Joypolis project(s) (subject to the approval by SEGA), respectively. We do not expect that we would need to incur substantial amount of external borrowings (if any) for such purpose.

For reference and illustration purpose only, we have performed two highly hypothetical stress tests by assuming all other factors remain constant. The possible impact on our working capital up to and including 31 March 2016: (i) in the worst case scenario where there is no visitor to Shanghai Joypolis from its phase 1 opening up to and including 31 March 2016; and (ii) the total capital expenditure and pre-opening costs for Shanghai Joypolis increase by 20%. Under these hypothetical situations, taking into account the financial resources available to us, including the expected net proceeds from the Global Offering based on the lower end of the indicative Offer Price range and assuming that the Over-allotment Option is not exercised, the expected future cash flows to be generated from our core businesses, in the absence of unforeseeable circumstances, will still be sufficient to meet our working capital requirements up to 31 March 2016. For further details of the stress tests, please refer to the sections headed “Business — Extension of our core businesses in the animation-related industry — Indoor animation amusement park — Expected impact on our Group — Stress test on working capital” and “Financial information — Liquidity and capital resources — Working Capital” in this prospectus. **The stress tests only reflect our current intention and our estimation of the budget for Shanghai Joypolis that are subject to significant uncertainties and risks. Our Directors cannot assure you that our actual spendings will not deviate from our current budget plans. In addition, the stress tests are based on a series of assumptions that may not reflect the actual circumstances, and the analysis may not accurately represent our ability to meet our working capital requirements. Please refer to the section headed “Risk factors — Risks relating to our indoor animation amusement park business — We have no proven record in operating indoor animation amusement park in China” for further details of the relevant risks.**

Given that Shanghai Joypolis is a new business to us, we will allocate existing and engage new employees to support its establishment and operation. For details of the number of employees allocated for Shanghai Joypolis at phase 1 and to be allocated for the grand opening, please refer to the section headed “Business — Extension of our core businesses in the animation-related industry — Indoor animation amusement park — Staff allocation and staff training for Shanghai Joypolis” in this prospectus.

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## SUMMARY

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### OUR COMPETITIVE STRENGTHS

We believe we have the following competitive strengths:

- Established trading business of animation derivative products with stable Japanese customers
- Proprietary animation characters with in-house animation creative and development capabilities
- Stable operating cash inflow from our trading business offers a solid foundation to capture opportunities in the animation-related industry
- Experienced, dedicated and entrepreneurial management team with the vision to expand our business strategically and create synergies among our businesses in the animation-related industry

### OUR STRATEGIES

Our key business strategies are to:

- Strengthen our core business by fostering established business relationships and to diversify and complement our established business model
- Focus on the operation of Shanghai Joypolis in the short run and replicate this business model in the mid-to-long run
- Further develop our capabilities in the creation and development of our proprietary animation characters and identifying different means of commercialising such characters to broaden our revenue source and create synergies with our other businesses
- Capture additional growth opportunities by mergers and acquisitions and forming strategic partnerships

### SUMMARY OF HISTORICAL FINANCIAL INFORMATION

You should read the summary consolidated financial information set forth below in conjunction with our consolidated financial statements included in the Accountants' Report set forth in Appendix I to this prospectus, which have been prepared in accordance with HKFRS. The summary of consolidated statements of profit or loss and other comprehensive income data for each of the three financial years ended 31 March 2012, 2013 and 2014 and the five months ended 31 August 2014 is derived from the Accountants' Report set forth in Appendix I to this prospectus. The basis of presentation is set forth in note 1 to the Accountants' Report.

#### Summary of consolidated statements of profit or loss and other comprehensive income data

	Year ended 31 March			Five months ended 31 August	
	2012	2013	2014	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Revenue	292,299	283,493	338,744	144,013	186,824
Gross profit	115,712	126,386	165,451	51,907	65,205
Profit for the year/period	82,031	85,207	130,602	34,538	39,704

## SUMMARY

### Summary of gross profit and gross profit margin by segment

	Year ended 31 March			Five months ended 31 August	
	2012	2013	2014	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i>
<b>Trading of animation derivative products</b>					
Gross profit	104,910	98,163	76,816	40,673	66,008
Gross profit margin	37.6%	39.0%	31.3%	28.2%	35.6%
<b>Licensing of animation characters</b>					
Gross profit (loss)	10,802	28,223	69,406	11,239	(1,121)
Gross profit (loss) margin	81.3%	88.5%	94.3%	84.6%	–
<b>Establishment and operation of indoor animation amusement park</b>					
Gross profit (loss)	–	–	19,229	(5)	209
Gross profit (loss) margin	–	–	96.1%	–	24.0%
<b>Multimedia animation entertainment</b>					
Gross profit	–	–	–	–	109
Gross profit margin	–	–	–	–	26.5%
<b>Gross profit for the year/period</b>	115,712	126,386	165,451	51,907	65,205
<b>Gross profit margin for the year/period</b>	39.6%	44.6%	48.8%	36.0%	34.9%

### Summary of profit and normalised profit

The table below illustrates our normalised profit during the Track Record Period without taking into account non-recurring income and expenses:

	Year ended 31 March			Five months ended 31 August	
	2012	2013	2014	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i>
Profit for the year/period	82,031	85,207	130,602	34,538	39,704
Less: Deferred licensing income <sup>(Note)</sup>	–	–	(41,708)	–	
Add: Listing expenses	2,446	1,187	5,554	3,817	3,840
<b>Normalised profit for the year/period</b>	<b>84,477</b>	<b>86,394</b>	<b>94,448</b>	<b>38,355</b>	<b>43,544</b>

*Note:* A one-off deferred licensing fee income received from Zing in the amount of HK\$41.7 million was recognised as revenue for the year ended 31 March 2014 out of the total payment of HK\$55.0 million paid by Zing as non-refundable licensing fee for the use of intellectual property rights of our proprietary animation characters for 10 years from November 2011 to October 2022 under the Trademark Licence Agreement. The licensing fee was originally recognised as deferred revenue and amortised over the licensing period. Upon termination of the Trademark Licence Agreement in March 2014, the unrecognised portion of the deferred revenue in the amount of HK\$41.7 million was recognised as our revenue for the year ended 31 March 2014.

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## SUMMARY

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Additional financial information for the Track Record Period is set forth in the section headed “Financial information” in this prospectus and the Accountants’ Report, the text of which is set forth in Appendix I to this prospectus.

Historically, as the trading business of animation derivative products was carried out by Mr. ZHUANG outside Hong Kong and Mr. ZHUANG was a non-Hong Kong resident, Mr. ZHUANG was previously under the impression that China Animation BVI, which was the key operating entity of our Group during the Track Record Period, was not subject to company registration and tax filing in Hong Kong. On 30 August 2013, after considering the advice from the professionals regarding tax matters in Hong Kong, China Animation BVI applied for registration with the Companies Registry of Hong Kong under Part XI of the then in force Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as a non-Hong Kong company. In October 2013, China Animation BVI informed the IRD that it had established a place of business in Hong Kong since the year of assessment of 2008/09 and had derived Hong Kong sourced profit subject to the Hong Kong profits tax. Profits tax returns in respect of the six years of assessment ended 31 March 2014 were submitted to the IRD. China Animation BVI has lodged offshore profits claims in respect of its trading income (other than trading income derived from the Hong Kong affiliates of Japanese customers) and licensing income on the basis that the profits were derived from outside Hong Kong. As of the Latest Practicable Date, the offshore profits claims were still under review by the IRD. We have made accumulated provision as tax payable in the amount HK\$71.1 million in our consolidated financial statements prepared up to 31 August 2014. Detailed information on the tax matter is set forth in the sections headed “Risk factors — Risks relating to our business operation generally — If the IRD charges a Hong Kong profits tax and/or penalty that substantially exceeds the tax provision we made, it will have a negative impact on our financial condition and results of operations”, “Business — Taxation” and “Business — Legal and compliance — Compliance matters” in this prospectus.

### PRINCIPAL RISK FACTORS

Our Directors believe that there are various risks involved in our operations. These risks may be broadly categorised into: (i) risks relating to our trading of animation derivative products; (ii) risks related to the commercialisation of our proprietary animation characters; (iii) risks related to our indoor animation amusement park business; (iv) risks related to our multimedia animation entertainment business and consignment sales business; (v) risks related to our business operation generally; (vi) risks related to the PRC; and (vii) risks related to the Global Offering. You should read the entire section of “Risk factors” in this prospectus carefully before you decide to invest in the Offer Shares. Set forth below is a summary of the risks referred to above.

- We rely on the trading business of animation derivative products with a few customers.
- Our trading business of animation derivative products relies on the Japanese market.
- We do not have our own manufacturing capability and we rely on a few suppliers to manufacture the animation derivative products for our customers.
- We have no proven track record in operating indoor animation amusement park in China.
- We have no proven track record in the multimedia animation entertainment business.
- We have no proven track record in the consignment sales business.
- Our historical performance may not reflect our future profitability and our net profit for the year ending 31 March 2015 could be significantly lower than our net profit for the year ended 31 March 2014.

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## SUMMARY

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- If the IRD charges a Hong Kong profits tax and/or penalty that substantially exceeds the tax provision we made, it will have a negative impact on our financial condition and results of operations.

### RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Since 31 August 2014, being the date to which the latest audited consolidated financial statements of our Group are prepared, and up to the Latest Practicable Date, our business has undergone developments including the following aspects:

- (1) On 18 November 2014, we entered into an agreement with Shenzhen Cultural Industry in relation to the music animation concert of “*Violet*” (紫嫣). On 31 December 2014, our virtual artist “*Violet*” (紫嫣) appeared as a guest and performed in a new year countdown show held in an outdoor theme park in Shenzhen, which was also broadcasted on a television channel in Guangdong Province, the PRC. The first large scale animation concert of “*Violet*” (紫嫣) was performed on 1 February 2015.
- (2) On 23 December 2014, we entered into a legally binding agreement with Someno Films, Studio Comet and Zing for the production of an animated movie featuring our animation characters “*Violet*” (紫嫣) and “*Han Ba Gui*” (憨八龜) and other animation characters from time to time agreed by the relevant parties. The total production cost for the movie is expected to be JPY200.0 million, of which we would contribute JPY50.0 million by way of cash and JPY100.0 million in kind.
- (3) On 27 November 2014, China Theme Park HK entered into a letter agreement with Harvest Progress, a company wholly-owned by Mr. LI, the father of Mr. LI Jian, pursuant to which Harvest Progress agrees to pay us a non-refundable joining fee of HK\$25.0 million for and on behalf of Pingan Taisheng, an entity controlled by Mr. LI Jian. The amount of the non-refundable joining fee was paid in consideration of our efforts in securing the business opportunity from SEGA to establish and operate the next Joypolis. The receipt of the non-refundable joining fee in the amount of HK\$25.0 million from Harvest Progress would not require any approval from SEGA. As of the Latest Practicable Date, we have not entered into any licensing agreement with SEGA for the operation of another Joypolis in the PRC.
- (4) Phase 1 of Shanghai Joypolis was opened on 30 December 2014. During the period from 1 January 2015 to 31 January 2015, based on our internal record and unaudited management accounts, (a) the number of visitors of Wonder Forest (being one of the two major attractions in phase 1 of Shanghai Joypolis) was recorded to be approximately 7,000 and Wonder Forest recorded income in the amount of RMB0.6 million; and (b) the number of turns of the photo-taking machines in P+Closet (being another major attraction in phase 1 of Shanghai Joypolis) paid by visitors was recorded to be approximately 900 turns and the income from selling of token and income from rental of apparel or accessory items were approximately RMB0.1 million and RMB14,000.0, respectively.
- (5) Our profit for the year ending 31 March 2015 is expected to be adversely affected by: (a) the absence of the one-off deferred licensing income of HK\$41.7 million from Zing which was recognised as revenue for the year ended 31 March 2014; and (b) the recognition of the estimated listing expenses of HK\$38.6 million (assuming that the Offer Price is HK\$3.65, being the low end of the indicative range of the Offer Price, and the Over-allotment Option is not exercised) for the year ending 31 March 2015. **Although our Directors believe that, on a normalised basis without taking into account the one-off deferred licensing income and non-recurring expenses, there will not be material adverse change to our financial**



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## SUMMARY

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**performance for the year ending 31 March 2015 as compared to the year ended 31 March 2014, our net profit for the year ending 31 March 2015 could be significantly lower than the net profit for the year ended 31 March 2014. Please refer to “Risk factor — Our historical performance may not reflect our future profitability and our net profit for the year ending 31 March 2015 could be significantly lower than our net profit for the year ended 31 March 2014”.**

Our Directors confirm that since 31 August 2014 (being the date to which the latest audited consolidated financial statements of our Group are prepared) and up to the Latest Practicable Date, there had been no material adverse change in our business, financial condition and market condition in the industry in which we operate which could materially affect the information shown in our consolidated financial statements included in the accountants’ report set forth in Appendix I to this prospectus.

### LISTING EXPENSES

Assuming that the Offer Price is HK\$4.10, being the mid-point of the indicative range of the Offer Price, and that the Over-allotment Option is not exercised, the total estimated listing expenses in relation to the Global Offering is HK\$88.2 million, of which HK\$13.0 million were charged to profit or loss during the Track Record Period. For the remaining expenses, we expect to charge HK\$35.3 million to our profit or loss for the year ending 31 March 2015 and the balance of HK\$39.9 million is expected to be capitalised.

### OFFERING STATISTICS

The following table sets forth our market capitalisation based on the Offer Price:

	<b>Based on the Offer Price of HK\$3.65</b>	<b>Based on the Offer Price of HK\$4.56</b>
Market capitalisation of our Shares <sup>(1)</sup>	HK\$1,566.2 million	HK\$1,956.7 million
Unaudited pro forma adjusted consolidated net tangible asset per Share <sup>(2)</sup>	HK\$1.12	HK\$1.33

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*Notes:*

- (1) The calculation of the market capitalisation of our Shares is based on 429,108,000 Shares expected to be in issue following completion of the Global Offering and the Capitalisation Issue assuming that the Over-allotment Option is not exercised.
- (2) The unaudited pro forma adjusted consolidated net tangible asset per Share is calculated after making the adjustments referred to in “Unaudited pro forma financial information” included in Appendix II to this prospectus and on the basis of a total of 429,108,000 Shares expected to be in issue following completion of the Global Offering and the Capitalisation Issue. This calculation assumes that the Offer Price is HK\$4.56 and HK\$3.65, being the high-end and the low-end of the indicative range of the Offer Price, respectively, and that the Over-allotment Option is not exercised.

### DIVIDEND PAID DURING THE TRACK RECORD PERIOD AND DIVIDEND POLICY

During the Track Record Period, our Company did not declare and pay any dividends. During the three years ended 31 March 2014, China Animation BVI declared and paid dividends to Bright Rise, being the sole shareholder of China Animation BVI, of HK\$75.0 million, HK\$85.0 million and HK\$83.2 million, respectively, representing a dividend pay-out ratio of 91.4%, 99.8% and 63.7%. During the five months ended 31 August 2014, China Animation BVI declared and paid dividend to Bright Rise of HK\$25.0 million representing a dividend pay-out ratio of 63.0%. The principal

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## SUMMARY

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reasons for the high dividend levels of China Animation BVI during the Track Record Period were as follows: (1) we intended to acquire land and buildings strategically situated at Longgang, Shenzhen, the PRC, which required significant modifications and improvements. However, the relevant land and buildings do not have the required the property ownership certificates. Mr. ZHUANG therefore used part of the dividends received to settle the purchase price for such land and buildings and the cost for the modification and improvements; and (2) the dividend payments during the Track Record Period were also intended to compensate Mr. ZHUANG for his efforts and contribution to the business development of our Group and represented part of the return on his investment in China Animation BVI.

Following the Listing, our future dividend levels will be different from our dividend levels during the Track Record Period and the dividend levels declared and paid by China Animation BVI. After completion of the Global Offering and the Capitalisation Issue, our Shareholders will be entitled to receive dividends declared by our Company. Any amount of dividends declared and paid by our Company will be at the discretion of our Directors taking into consideration our future operations and earnings, our business development, capital requirements and surplus, general financial conditions, contractual restrictions and such other factors as our Directors consider appropriate. Any declaration and payment as well as the amount of dividends will be subject to the Articles of Association and the Companies Law. Any declaration of final dividends will also require the approval of our Shareholders in general meeting. No dividend shall be declared or paid except out of our distributable profit and lawfully available for distribution under the Companies Law.

### **FUTURE PLANS AND USE OF NET PROCEEDS FROM THE GLOBAL OFFERING**

Assuming that the Offer Price is HK\$4.10, being the mid-point of the indicative range of the Offer Price, and that the Over-allotment Option is not exercised, we estimate that the net proceeds from the Global Offering (after deducting underwriting commission and estimated expenses incurred for the Listing) will be HK\$364.7 million. If the Over-allotment Option is exercised in full, the net proceeds from the Global Offering are expected to be HK\$426.0 million based on the Offer Price of HK\$4.10, being the mid-point of the indicative range of the Offer Price. We intend to use the net proceeds from the Global Offering for the following purposes (assuming that the Offer Price is HK\$4.10, being the mid-point of the indicative range of the Offer Price, and that the Over-allotment Option is not exercised):

- (1) as to 40% of the net proceeds, or HK\$145.9 million, for our share of contribution (in the percentage of 51%, the other 49% is to be contributed by Pingan Taisheng) for the capital expenditure (in the amount of HK\$54.5 million) and the working capital for Shanghai Joypolis and for use in planning the next Joypolis, subject to the approval by SEGA (in the amount of HK\$91.4 million). As of the Latest Practicable Date, we have not entered into any licensing agreement with SEGA for the operation of the next Joypolis in the PRC;
- (2) as to 30% of the net proceeds, or HK\$109.4 million, for possible investment in, or acquisition of, and/or formation of strategic cooperations with, domestic or international companies which operate animation-related businesses, including without limitation, animation-related event organisers, mobile and internet applications developers and animation-related multi-media platforms. As of the Latest Practicable Date, we did not identify any such target to be invested or acquired or to form strategic cooperations with nor have we commenced any due diligence process in relation to the same, but we intend to explore investment, acquisition or cooperation targets that can enhance, extend and cross sell our existing businesses or that have the potentials to enable us to further penetrate into and increase our share in the markets in which we operate. We intend to identify potential targets through market research and/or referral by our business partners. Upon identification of the target, we will take into account, among other

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## SUMMARY

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things, whether the business of the target is established, profitable, sustainable, complementary to our Group's business and/or in line with our Group's business strategies from time to time and the applicable legal and regulatory requirements in determining whether to proceed with the proposal. Currently, we do not set any thresholds or limits for potential targets in the event that financing is required, we may raise fund by equity financing or external borrowing as and when appropriate. The investment committee of our Board and/or our Board will review and approve any such proposal which, if approved, will take place in compliance with relevant rules and regulations including the Listing Rules;

- (3) as to 20% of the net proceeds, or HK\$72.9 million, for the development, production and technical enhancement of our music animation concerts and the related promotional and marketing activities and the development of our consignment sales business; and
- (4) as to the remaining balance of 10% of the net proceeds, or HK\$36.5 million, for our working capital and general corporate purposes.

To the extent that the net proceeds from the Global Offering received by us are not immediately required for the above purposes, our Directors intend that such proceeds be placed on short-term deposits with licensed banks or financial institutions and/or invested into money market instruments in Hong Kong and/or the PRC.

In the event that the Offer Price is determined at the high-end of the indicative range of the Offer Price of HK\$4.56 and that the Over-allotment Option is not exercised, the net proceeds from the Global Offering are expected to be HK\$410.5 million, and HK\$478.8 million assuming that the Over-allotment Option is exercised in full. Our Directors intend to apply such additional amount of the net proceeds in the same proportions as set forth above. In the event that the Offer Price is determined at the low-end of the indicative range of the Offer Price of HK\$3.65 and that the Over-allotment Option is not exercised, the net proceeds from the Global Offering are expected to be HK\$319.8 million, and HK\$374.4 million assuming that the Over-allotment Option is exercised in full. Our Directors intend to apply the reduced amount of the net proceeds in the same proportions as set forth above.

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## DEFINITIONS

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*In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set forth below.*

“Animate BVI”	Animate China Technology Limited (華夏動漫科技有限公司), a limited company incorporated in the BVI on 20 June 2014, the holding company of our multimedia entertainment business and a wholly-owned subsidiary of our Company upon completion of the Reorganisation
“Animate HK”	Animate China Technology (HK) Limited (華夏動漫科技(香港)有限公司), a limited company incorporated in Hong Kong on 1 August 2014, a member company of our multimedia entertainment business and a wholly-owned subsidiary Animate BVI following completion of the Reorganisation
“Application Form(s)”	<b>WHITE</b> application form(s), <b>YELLOW</b> application form(s) and <b>GREEN</b> application form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
“Articles” or “Articles of Association”	the articles of association of our Company conditionally adopted on 16 February 2015, as amended or supplemented from time to time
“associates”	has the meaning given to it under the Listing Rules
“BanjihanAce”	株式会社バンジハンエース (BanjihanAce Inc.*), a company established in Japan on 27 December 1990 and a subsidiary of IMA Group
“Best Toys”	Excel Best Toys Limited (卓佳玩具有限公司), a company incorporated in Hong Kong on 5 September 2008, one of our suppliers during the Track Record Period and an Independent Third Party
“BNP Paribas”	BNP Paribas Securities (Asia) Limited, acting as the sole global coordinator, one of the joint bookrunners and joint lead managers of the Global Offering and the sole sponsor of the Listing, a corporation licensed to conduct type 1 (dealing in securities), type 2 (dealing in future contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 7 (providing automated trading services) regulated activities under the SFO

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## DEFINITIONS

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“Board”	the board of Directors
“Bonville”	Bonville Glory Limited, a limited company incorporated in the BVI on 26 August 2013, the entire share capital of which is held by Mr. TING, a Controlling Shareholder and a Concert Party
“Bright Rise”	Bright Rise Enterprises Limited (明揚企業有限公司), a limited company incorporated in the BVI on 6 February 2008, the entire share capital of which is held by Newgate (PTC) Limited acting as the trustee of a trust created in the Cayman Islands by Mr. ZHAUNG on 18 November 2014, namely The Fortune Trust, a Controlling Shareholder and a Concert Party
“Business Day”	any day other than a Saturday or Sunday or public holiday in Hong Kong or days on which a tropical cyclone warning no. 8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m. on which licensed banks in Hong Kong are generally open for business during their normal business hours
“BVI”	the British Virgin Islands
“BWEBS”	BWEBS Limited, a limited company incorporated in the BVI on 3 August 2012, the entire share capital of which is held by Mr. WONG, and one of our Shareholders
“CAGR”	compound annual growth rate
“Capitalisation Issue”	the issue of 320,755,240 new Shares to be made upon the capitalisation of certain sums standing to the credit of the share premium account of our Company referred to in the paragraphs under “Further information about our Company — 3. Resolutions passed by our Shareholders in the general meeting held on 16 February 2015” in Appendix IV to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant

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## DEFINITIONS

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“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“China Animation BVI”	China Animation Group Limited (華夏動漫集團有限公司) (formerly known as Tak Wong Development Limited (德旺發展有限公司)), a limited company incorporated in the BVI on 27 September 2007, our main operating entity prior to completion of the Reorganisation and a wholly-owned subsidiary of China Animation Holding following completion of the Reorganisation
“China Animation HK”	China Animation Group (HK) Limited (華夏動漫集團(香港)有限公司) (formerly known as Animate China Technology Inc. Limited (華夏動漫科技有限公司)), a limited company incorporated in Hong Kong on 15 November 2010 and a wholly-owned subsidiary of China Animation BVI following completion of the Reorganisation
“China Animation Holding”	China Animation Holding (BVI) Limited (華夏動漫集團(英屬處女島)有限公司), a limited company incorporated in the BVI on 24 June 2014 and a wholly-owned subsidiary of our Company following completion of the Reorganisation
“China Animation IP”	China Animation IP Limited (中國動漫知識產權有限公司), a limited company incorporated in the BVI on 20 June 2014, the holding company of our intellectual property rights and a wholly-owned subsidiary of China Animation Holding following completion of the Reorganisation
“CHK”	China Hong Kong Digital Audiovisual Management Co., Limited (中國香港數碼音像管理有限公司), a company incorporated in Hong Kong on 24 May 2010 and our business partner in the multimedia entertainment business, and an Independent Third Party

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## DEFINITIONS

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“China Theme Park BVI”	China Theme Park Limited (中国主题乐园有限公司), a limited company incorporated in the BVI on 21 September 2012 and a wholly-owned subsidiary of China Animation Holding following completion of the Reorganisation
“China Theme Park HK”	China Theme Park Incorporation Limited (華夏樂園有限公司), a limited company incorporated in Hong Kong on 16 October 2012 and a wholly-owned subsidiary of China Theme Park BVI following completion of the Reorganisation
“close associate”	has the meaning given to it under the Listing Rules
“Companies Law”	Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented and/or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented and/or otherwise modified from time to time
“Company” or “we”	China Animation Characters Company Limited (華夏動漫形象有限公司) (formerly known as China Animation Group (Holding) Limited (華夏動漫集團(控股)有限公司)), a limited company incorporated in the Cayman Islands with limited liability on 25 September 2013
“Concert Parties”	Mr. ZHUANG, Bright Rise, Mr. TING, Bonville, Ms. LI, Fortress Strength, Mr. IKEDA, Dragon Year, Ms. OR and East Jumbo, being our Controlling Shareholders and parties to the Concert Party Agreement, further information on which is set forth in the section headed “Controlling Shareholders and Substantial Shareholders — Summary of the Concert Party Agreement” in this prospectus, and each a “Concert Party”
“Concert Party Agreement”	the agreement dated 25 November 2014 and entered into amongst the Concert Parties, further information on which is set forth in the section headed “Controlling Shareholders and Substantial Shareholders — Summary of the Concert Party Agreement” in this prospectus

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## DEFINITIONS

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“connected person”	has the meaning given to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning given to it under the Listing Rules and in the present context, means all the Concert Parties
“core connected person”	has the meaning given to it under the Listing Rules
“CUTV”	China United Television (城市聯合網絡電視台), an internet television channel through the website <a href="http://www.cutv.com">www.cutv.com</a> (the contents of which, for the avoidance of doubt, do not form part of this prospectus) operated by China City Internet Television Company Limited (華夏城視網絡電視股份有限公司), a company established in the PRC and an Independent Third Party
“CUTV Agreements”	the cooperation agreements dated 19 November 2013 entered into between Shenzhen Wald and China City Internet Television Company Limited (華夏城視網絡電視股份有限公司), pursuant to which we are granted an exclusive right to supply the contents for CUTV Hua Xia Animation Channel and manage and market such contents
“Deed of Indemnity”	the deed of indemnity dated 17 February 2015 signed by Mr. ZHUANG and Bright Rise, jointly and severally, in favour of our Group, further information on which is set forth in the paragraphs under “Other information — 1. The Deed of Indemnity” in Appendix IV to this prospectus
“Deed of Non-Competition”	the deed of non-competition dated 25 February 2015 signed by our Controlling Shareholders and our executive Directors in favour of our Group, further information on which is set forth in the section headed “Controlling Shareholders and Substantial Shareholders — Deed of Non-Competition” in this prospectus
“Deed of Termination”	the deed of termination dated 6 August 2014 entered into between Bright Rise, Mr. ZHUANG, the Initial Investors and China Animation BVI confirming the termination of all rights and obligations under the Initial Investment Agreements
“Directors”	directors of our Company



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## DEFINITIONS

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“Dragon Year”	Dragon Year Group Limited, a limited company incorporated in the BVI on 3 January 2012, the entire share capital of which is held by Mr. IKEDA, a Controlling Shareholder and a Concert Party
“East Jumbo”	East Jumbo Development Limited (華寶發展有限公司), a limited company incorporated in the BVI on 3 April 2012, the entire share capital of which is held by Ms. OR, a Controlling Shareholder and a Concert Party
“EIT”	the enterprise income tax of the PRC
“EIT Law”	the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) issued on 16 March 2007 and its implementation rules issued on 6 December 2007, both were effective on 1 January 2008
“Fortress Strength”	Fortress Strength Limited, a limited company incorporated in the BVI on 8 July 2013, the entire share capital of which is held by Ms. LI, a Controlling Shareholder and a Concert Party
“Fosun Yishen”	佛山毅樂文化傳播有限公司 (Fosun Yishen Culture Media Company Limited*), a company established under the laws of the PRC on 8 November 2012 and our business partner in the multimedia entertainment business, an Independent Third Party as of the Latest Practicable Date
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent market, research and consulting company
“Frost & Sullivan Report”	the report prepared by Frost & Sullivan and commissioned by us containing an analysis of the industry in which we operate and other relevant economic and statistical data, as referred to in the section headed “Industry overview” in this prospectus
“GDP”	gross domestic product
“General Mandate”	the general unconditional mandate granted to our Directors by our Shareholders in relation to the issue of new Shares, further information of which is set forth in the section headed “Share capital — General Mandate” in this prospectus

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## DEFINITIONS

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“Global Offering”	the Hong Kong Public Offering and the International Offering
“GREEN application form(s)”	the application form(s) to be completed by the <b>White Form eIPO</b> Service Provider, Computershare Hong Kong Investor Services Limited
“Group”, “our Group”, “we” or “us”	our Company and subsidiaries or, where the context so requires in respect of the period before our Company became the holding company of our present subsidiaries, the present subsidiaries of our Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors
“Harvest Progress”	Harvest Progress International Limited (沛豐國際有限公司), a limited company incorporated in the BVI on 19 January 2011, the entire share capital of which is held by Mr. LI
“HKASs”	Hong Kong Accounting Standard(s)
“HKFRS”	the Hong Kong Financial Reporting Standards (including HKASs and their interpretations) issued by the Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong Offer Shares”	10,728,000 Shares being initially offered by our Company for subscription at the Offer Price pursuant to the Hong Kong Public Offering subject to the adjustment as described in the section headed “Structure of the Global Offering” in this prospectus
“Hong Kong Public Offering”	the offer by our Company of the Hong Kong Offer Shares for subscription by the public in Hong Kong at the Offer Price, on the terms and subject to conditions set forth in this prospectus and the Application Forms, subject to the adjustment as described in the section headed “Structure of the Global Offering” in this prospectus

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## DEFINITIONS

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“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Underwriters”	underwriters of the Hong Kong Public Offering whose names are set forth in the section headed “Underwriting — Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 27 February 2015 relating to the Hong Kong Public Offering and entered into by the Sole Global Coordinator, the Hong Kong Underwriters, the Warranting Shareholders, the Warranting Directors and us, as further described in the section headed “Underwriting” in this prospectus
“Huajiatai PRC”	華嘉泰(上海)兒童室內遊樂有限公司 (Huajiatai (Shanghai) Children Indoor Playground Company Limited*), a sino-foreign equity joint venture established in China on 26 September 2014 and a non-wholly owned subsidiary of our Company in which 49.0% equity interest is held by China Theme Park HK, 2.0% equity interest is held by Shenzhen Wald and the remaining 49.0% equity interest is being held by Pingan Taisheng
“IMA Group”	株式会社イマ・グループ (IMA Group Inc.), a company established in Japan on 10 October 2003, of which Mr. IKEDA is the chairman and the chief executive officer
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the Listing Rules) any directors, chief executive or substantial shareholders of our Company or our subsidiaries, or any of their respective associates
“Initial Investment Agreements”	the ten agreements with information set forth below:- <ol style="list-style-type: none"><li>(1) the investment agreement entered into among Mr. ZHUANG, China Animation BVI, Bright Rise, and Mr. IKEDA dated 1 April 2008</li><li>(2) the investment agreement entered into among Mr. ZHUANG, China Animation BVI, Bright Rise, and Mr. WM LAM dated 1 April 2008</li><li>(3) the investment agreement entered into among Mr. ZHUANG, China Animation BVI, Bright Rise, and Singapore Zhongxin dated 1 April 2008</li></ol>

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## DEFINITIONS

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- (4) the investment agreement entered into among Mr. ZHUANG, China Animation BVI, Bright Rise, and Ms. HUANG dated 1 April 2008
- (5) the investment agreement entered into among Mr. ZHUANG, China Animation BVI, Bright Rise, and Ms. ZENG dated 1 April 2008
- (6) the investment agreement entered into among Mr. ZHUANG, China Animation BVI, Bright Rise, and Mr. WONG dated 1 April 2008
- (7) the investment agreement entered into among Mr. ZHUANG, China Animation BVI, Bright Rise, and Mr. TING dated 1 April 2008
- (8) the investment agreement entered into among Mr. ZHUANG, China Animation BVI, Bright Rise, and Ms. LI dated 1 April 2008
- (9) the investment agreement entered into among Mr. ZHUANG, China Animation BVI, Bright Rise, and Mr. LI dated 28 February 2009
- (10) the investment agreement entered into among Mr. ZHUANG, China Animation BVI, Bright Rise, and Ms. OR dated 28 February 2009

“Initial Investors”	the investors named in the Initial Investment Agreements, namely Mr. IKEDA, Mr. WM LAM, Singapore Zhongxin, Ms. HUANG, Ms. ZENG, Mr. WONG, Mr. TING, Ms. LI, Mr. LI and Ms. OR
“Integrated Supply Agreement”	the integrated supply agreement dated 12 November 2014 and entered into between China Animation BVI and Sino Action, as supplemented from time to time
“International Offer Shares”	96,552,000 Shares being initially offered under the International Offering together, where relevant, with any additional Shares that may be allotted and issued pursuant to the exercise of the Over-allotment Option, the number of which is further subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus

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## DEFINITIONS

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“International Offering”	the offering of the International Offer Shares at the Offer Price outside the United States in offshore transactions in reliance on Regulation S, as further described in the section headed “Structure of the Global Offering” in this prospectus
“International Underwriters”	the underwriters of the International Offering
“International Underwriting Agreement”	the international underwriting agreement relating to the International Offering to be entered into on or about the Price Determination Date by the Sole Global Coordinator, the International Underwriters, the Warranting Shareholders, the Warranting Directors and us, as further described in the section headed “Structure of the Global Offering — The International Offering” in this prospectus
“IRD”	the Hong Kong Inland Revenue Department
“Japanese Yen”, “JPY”, “¥” or “yen”	Japanese yen, the lawful currency of Japan
“Jiashun”	Jiashun Investment Management Ltd (嘉順投資管理有限公司), a limited company incorporated in the BVI on 25 July 2011, the entire share capital of which is held by Ms. ZENG
“Joint Bookrunners” or “Joint Lead Managers”	BNP Paribas and Ping An Securities
“Joypolis”	indoor amusement parks featuring arcade games and amusement rides featuring intellectual property rights owned by SEGA
“Kitlin”	Kitlin Investment Management Ltd (傑領投資管理有限公司), a limited company incorporated in the BVI on 25 July 2011, the entire share capital of which is held by Ms. HUANG
“Ku wagata”	株式会社クワガタ (Ku wagata Co., Ltd.*), a company incorporated in Japan on 1 February 1979, one of our customers and principally engages in the production and sales of toys, gift and other related products
“Latest Practicable Date”	18 February 2015, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication

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## DEFINITIONS

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“Listing”	the listing of the Shares on the Main Board
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Date”	the date, expected to be on 12 March 2015, on which dealings in our Shares on the Stock Exchange first commenced
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Main Board”	main board of the Stock Exchange
“Mr. IKEDA”	Mr. Shinichiro IKEDA (池田慎一郎), our honourable chairman and one of the Initial Investors and a Shareholder through Dragon Year following completion of the Reorganisation, and a Controlling Shareholder and a Concert Party
“Mr. LAI”	Mr. LAI Guanglin, the sole shareholder of Singapore Zhongxin
“Mr. LAW”	Mr. LAW Vincent Kai Ming (羅啟銘), the son of Ms. OR and the shareholder of East Jumbo during the period between April 2012 and September 2014
“Mr. LI”	Mr. LI Hanfa (李漢發), the father of Mr. LI Jian, one of the Initial Investors and a Shareholder through Harvest Progress following completion of the Reorganisation
“Mr. LI Jian”	Mr. LI Jian (李濟安), the son of Mr. LI and a joint venture partner of Shanghai Joypolis
“Mr. TING”	Mr. TING Ka Fai Jeffrey (丁家輝), our Chief Operating Officer, an executive Director and one of our Controlling Shareholders and a Concert Party
“Mr. WM LAM”	Mr. LAM Wai Ming (林偉明), one of the Initial Investors and a Shareholder through Quarterpound following completion of the Reorganisation
“Mr. WONG”	Mr. WONG Yee Shuen Wilson (黃以信), one of the Initial Investors and our Chief Financial Officer

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## DEFINITIONS

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“Mr. ZHUANG”	Mr. ZHUANG Xiangsong (庄向松), our founder and Chief Executive Officer, an executive Director, one of our Controlling Shareholders and a Concert Party
“Ms. HUANG”	Ms. HUANG Lizhe (黄立哲), one of the Initial Investors and a Shareholder through Kitlin following completion of the Reorganisation
“Ms. LI”	Ms. LI Ruifang (李瑞芳), the spouse of Mr. ZHUANG, one of the Initial Investors and a Shareholder through Fortress Strength following completion of the Reorganisation, one of our Controlling Shareholders and a Concert Party
“Ms. LIU”	Ms. LIU Moxiang (劉茉香), an executive Director
“Ms. OR”	Ms. OR Den Fung Bonnie (柯丹鳳), one of the Initial Investors and a Shareholder through East Jumbo following completion of the Reorganisation, one of our Controlling Shareholders and a Concert Party
“Ms. ZENG”	Ms. ZENG Wanqing (曾婉晴), one of the Initial Investors and a Shareholder through Jiashun following completion of the Reorganisation
“Network China BVI”	Network China Technology Limited (華夏網路科技有限公司), a limited company incorporated in the BVI on 20 June 2014, the holding company of the multimedia entertainment business and a wholly-owned subsidiary of our Company following completion of the Reorganisation
“Network China HK”	Network China Technology Limited (華夏網絡科技有限公司), a limited company incorporated in Hong Kong on 15 November 2010, a member company of the multimedia entertainment business, and a wholly-owned subsidiary of Network China BVI following completion of the Reorganisation
“Offer Shares”	the Hong Kong Offer Shares and the International Offer Shares

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## DEFINITIONS

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“Over-allotment Option”	the option expected to be granted by our Company to the Sole Global Coordinator under the International Underwriting Agreement, to require our Company to allot and issue up to 16,092,000 additional Shares at the Offer Price, to cover over-allocations in the International Offering, if any, further information on which is set forth in the section headed “Structure of the Global Offering — The International Offering” in this prospectus
“Phillip Sale and Purchase Agreement”	the sale and purchase agreement dated 6 August 2014 entered into between Bright Rise and Phillip Ventures in relation to the sale of 31,140 Shares by Bright Rise to Phillip Ventures, further information on which is set forth in the section headed “Pre-IPO investment” in this prospectus
“Phillip Ventures”	Phillip Ventures Enterprise Fund 3 Ltd, a company incorporated in the Republic of Singapore on 8 July 2008 and one of our Pre-IPO Investors
“Ping An Securities”	Ping An Securities Limited, acting as one of the joint bookrunners and joint lead managers of the Global Offering, a corporation licensed to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
“Pingan Taisheng”	深圳市平安泰盛投資有限公司 (Shenzhen Pingan Taisheng Company Limited*), a company established under the laws of the PRC on 16 October 2013 and is owned as to 80.0% by Mr. LI Jian and 10.0% by each of Mr. YANG Fan (楊帆) and Mr. HU Chang Hui (胡長惠)
“PRC” or “China”	The People’s Republic of China and “Chinese” which for the purpose of this prospectus does not include Hong Kong, The Macau Special Administrative Region of the PRC and Taiwan
“PRC government” or “Chinese government”	central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities)
“PRC Legal Adviser”	King and Wood Mallesons, our legal adviser as to the PRC law



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## DEFINITIONS

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“Pre-IPO Investors”	Phillip Ventures and Sun Smart, further information on which and the terms of their equity investment in our Company is set forth in the section headed “Pre-IPO investment” in this prospectus
“Price Determination Date”	the date, expected to be on or around Thursday, 5 March 2015 and, in any event, not later than Wednesday, 11 March 2015 on which the Offer Price is to be fixed by agreement between our Company and the Sole Global Coordinator (on behalf of the Underwriters) to determine the Offer Price
“Quarterpound”	Quarterpound Limited, a limited company incorporated in the BVI on 28 August 2013, the entire share capital of which is held by Mr. WM LAM
“Regulation S”	Regulation S under the US Securities Act
“Reorganisation”	the reorganisation steps implemented by our Group, further information on which is set forth in the section headed “History, development and Reorganisation — Reorganisation” in this prospectus
“Reorganisation Agreement”	the reorganisation agreement dated 6 August 2014 entered into between China Animation BVI, China Animation Holding and our Company for the purpose of the Reorganisation, further information on which is set forth in the section headed “History, development and Reorganisation” in this prospectus
“Repurchase Mandate”	the general unconditional mandate granted to our Directors by our Shareholders in relation to the repurchase of our Shares, further information of which is set forth in the section headed “Share capital — Repurchase Mandate” in this prospectus
“RMB” or “Renminbi”	the lawful currency of the PRC
“Roy Entertainment”	Roy Entertainment Hong Kong Limited, a company incorporated in Hong Kong on 1 September 2011, a film production company and an Independent Third Party as of the Latest Practicable Date
“SAFE”	中華人民共和國國家外匯管理局 (State Administration of Foreign Exchange of the PRC*)

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## DEFINITIONS

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“SEGA”	株式會社セガ (SEGA Corporation), a company established in Japan on 3 June 1960, a multinational video game developer, publisher and hardware development company headquartered in Tokyo with offices around the world and our business partner in our indoor amusement park business
“SEGA Licence Agreement”	the license agreement dated 31 March 2014 entered into between SEGA and China Animation BVI its first amendment effective from 22 November 2014 and a memorandum effective from 19 February 2015, pursuant to which a contractual right to establish and operate Joypolis in Shanghai, China has been granted to us, further information on which is set forth in the section headed “Business — Extension of our core businesses in the animation-related industry — Indoor animation amusement park — Shanghai Joypolis” in this prospectus
“SFC”	Hong Kong Securities and Futures Commission
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Shanghai Free-Trade Zone”	中國(上海)自由貿易試驗區 (China (Shanghai) Pilot Free-Trade Zone*), a free-trade zone in Shanghai established on 29 September 2013
“Shanghai Joypolis”	the Joypolis operated by us in Shanghai
“Shanghai Joypolis Tenancy Agreement”	the tenancy agreement dated 24 July 2014, together with its supplemental, entered into between China Animation BVI and Yue Xing
“Share Exchange Agreement”	the share exchange agreement dated 6 August 2014 entered into between Bright Rise, Bonville, BWEBS, Fortress Strength, Dragon Year, East Jumbo, Quarterpound, Singapore Zhongxin, Kitlin, Jiashun, Harvest Progress and our Company
“Share(s)”	share(s) with a nominal value of HK\$0.10 each of our Company
“Shareholder(s)”	holder(s) of our Share(s) from time to time

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## DEFINITIONS

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“Shenzhen Cultural Industry”	深圳市文化產業(國際)會展有限公司 (Shenzhen Cultural Industry (International) Convention Exhibition Company Limited*), a company established under the laws of the PRC on 6 March 2003 and our business partner in the multimedia entertainment business and an Independent Third Party as of the Latest Practicable Date
“Shenzhen Jiezhimei”	深圳市皆致美動漫衍生製品有限公司 (Shenzhen Jiezhimei Animation Derivative Product Co., Ltd.*), a limited liability company established in the PRC on 12 October 2011, one of our suppliers during the Track Record Period and an Independent Third Party as of the Latest Practicable Date
“Shenzhen Huaxia”	深圳市華夏動漫科技有限公司 (Shenzhen Huaxia Animation Technology Company Limited*), a limited liability company established in the PRC on 7 June 2007 and is wholly-owned by Mr. LI Haiyun (李海雲), an Independent Third Party
“Shenzhen Tangren”	深圳市唐人動畫影業有限公司 (Shenzhen Tangren Animated Film Company Ltd.*), a limited liability company established in the PRC on 9 August 2004 and an Independent Third Party as of the Latest Practicable Date
“Shenzhen Wald”	深圳華爾德動漫科技有限公司 (Shenzhen Wald Animation Technology Company Ltd.*), a wholly-foreign owned enterprise established in the PRC on 19 May 2011 and a wholly-owned subsidiary of China Animation HK following completion of the Reorganisation
“Singapore Zhongxin”	Singapore Zhongxin Investment Company Limited, a limited company incorporated in the BVI on 27 May 2004, the entire share capital of which is owned by Mr. LAI, and a Shareholder following completion of the Reorganisation
“Sino Action”	Sino Action Industrial Limited (華益實業有限公司), a company incorporated in Hong Kong on 5 March 1996, our major supplier during the Track Record Period and an Independent Third Party as of the Latest Practicable Date
“Sole Global Coordinator”, “Sole Sponsor” or “Stabilising Manager”	BNP Paribas

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## DEFINITIONS

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“Someno Films”	Someno Films Production Co. (染野企業電影工作室), a business firm first established in Hong Kong on 18 August 1993, and our business partner in our multimedia entertainment business
“sq.ft”	square feet
“sq.m.”	square metre
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into between the Sole Global Coordinator and Bright Rise on or about the Price Determination Date
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Studio Comet”	株式会社スタジオコメット (Studio Comet Co., Ltd.*), a company established in Japan on 21 January 1986, and our business partner in our multimedia entertainment business
“Subscription Agreement”	the subscription agreement dated 29 August 2014 entered into between Sun Smart and our Company in relation to subscription for 41,620 Shares by Sun Smart, further information on which is set forth in the section headed “Pre-IPO Investment” in this prospectus
“Substantial Shareholder”	has the meaning given to it under the Listing Rules
“Sun Smart”	Sun Smart Ventures Limited, a company incorporated in the BVI on 31 July 2014, one of our Pre-IPO Investors
“Tomy”	Tomy Company, Ltd., a company established in Japan on 17 January 1953 and its major businesses include planning, manufacturing, and selling of products such as toys, general merchandise, card games, and baby care products, etc., one of our major customers during the Track Record Period and an Independent Third Party as of the Latest Practicable Date
“Track Record Period”	the three years ended 31 March 2014 and the five months ended 31 August 2014
“Trademark Licence Agreement”	the trademark licence agreement dated 30 October 2011 entered into between China Animation BVI and Zing in respect of licensing various trademarks for commercial use by Zing in the PRC, Hong Kong, Macau and Japan, which has been terminated from 31 March 2014

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## DEFINITIONS

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“Underwriters”	Hong Kong Underwriters and International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“US” or “United States”	United States of America, its territories and possessions, any State of the United States and the District of Columbia
“US dollars” or “US\$”	United States dollars, the lawful currency of the United States
“US Securities Act”	United States Securities Act of 1933, as amended from time to time
“Wah Shing”	深圳龍崗區橫崗保安華盛塑膠玩具廠 (Shenzhen Longgang Baoan Wah Shing Plastic Toy Factory*), a collectively-owned enterprise established in the PRC on 29 June 1992 and the manufacturing plant of Sino Action under the “three-plus-one” (三來一補) agreement
“Warranting Directors”	means our executive Directors, namely Mr. ZHUANG, Mr. TING and Ms. LIU
“Warranting Shareholders”	means Bright Rise, Fortress Strength, Bonville, Mr. ZHUANG, Ms. LI and Mr. TING
“ <b>White Form eIPO</b> ”	the application for the Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website at <a href="http://www.eipo.com.hk">www.eipo.com.hk</a>
“ <b>White Form eIPO</b> Service Provider”	Computershare Hong Kong Investor Services Limited
“Yue Xing”	上海月星環球家飾博覽中心有限公司 (Shanghai Yuexing Worldwide Home Decoration Exhibition Centre Company Limited*), a company established in the PRC on 9 March 2000 and is engaged in real estate business, which is the lessor of the premises for Shanghai Joypolis and an Independent Third Party as of the Latest Practicable Date
“Zing”	株式会社ジング (Zing Co., Ltd.*), a company incorporated in Japan on 12 January 2010, the licensee under the Trademark Licence Agreement (which has been terminated from 31 March 2014) and an Independent Third Party as of the Latest Practicable Date

\* *The English names of Japan and PRC nationals, enterprises, entities, departments, facilities, certificates, titles and the like are translations of their Japanese and Chinese names and are for identification purposes only.*

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## FORWARD-LOOKING STATEMENTS

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This prospectus contains forward-looking statements that state our intentions, beliefs, expectations or predictions for the future that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include all statements in this prospectus that are not historical fact, including, without limitation, statements relating to:

- our business and operating strategies, plans, objectives and goals and our ability to implement and achieve such strategies, plans, objectives and goals;
- the business opportunities that we may pursue;
- our future operations and business prospects;
- future developments, trends and conditions (including but not limited to competitions) in the industries in the PRC, Japan and other jurisdictions in which we conduct or may conduct our businesses;
- our plan to expand into various animation-related businesses including the indoor animation amusement park industry, multimedia entertainment industry and consignment sales and the prospects in such expansion;
- the amount and nature of, and potential for, future development of our business;
- the regulatory environment relating to, and the general industry outlook for, the animation-related industries and the industries in which we conduct or may conduct our businesses;
- our future dividends and our dividend policy;
- prospective financial matters regarding our business;
- our future capital needs and capital expenditure plans;
- our ability to obtain funding;
- the competitive markets for suppliers of animation-related derivative products and the actions and developments of our competitors; and
- the general political and economic and regulatory environment in the PRC, Japan and other jurisdictions which we operate or may operate and our ability to comply with the applicable laws and regulations.

When used in this prospectus, the words “aim”, “anticipate,” “believe”, “could”, “endeavour”, “envisage”, “estimate”, “expect”, “going forward”, “intend”, “may”, “ought to”, “plan”, “project”, “seek”, “should”, “will”, “would” and similar expressions, as they relate to us, are intended to identify forward-looking statements. However, all statements in the prospectus other than statements of historical fact are forward-looking statements. Such forward-looking statements reflect our views of our management as of the date of this prospectus with respect to future events

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## FORWARD-LOOKING STATEMENTS

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and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. Although we believe that the expectations reflected in such forward-looking statements are reasonable, actual results and events may differ materially from information contained in the forward-looking statements as a result of a number of factors, including:

- our ability to maintain and achieve growth of our core business in the trading of animation derivative products and licensing of proprietary animation characters;
- our ability to successfully expand and develop in other animation-related businesses (notably in the indoor animation amusement park industry);
- our ability to integrate new businesses and create synergies;
- our ability to protect brand names, trademarks and other intellectual property rights;
- our ability to attract and retain key personnel and employees to support our continued expansion and development;
- our ability to attract and retain customers in different businesses and to understand and adapt to the market trends and demand;
- our ability to identify and retain suitable business partners in different businesses and maintain good relationships with them;
- changes in the governmental policies, laws or regulations of the jurisdictions relevant to us;
- general economic, market, business and political conditions; and
- the other risk factors discussed in this prospectus as well as other factors that may be beyond our control.

Should one or more of these risks or uncertainties materialise, or should the underlying assumptions prove to be incorrect, our results of operations and financial condition may be adversely affected and may vary materially from those described herein as anticipated, believed or expected. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on such forward-looking information. Moreover, the inclusion of forward-looking statements should not be regarded as representations by us that our plans and objectives will be achieved or realised.

The forward-looking statements in this prospectus reflect our views of our management as of the date of this prospectus and are subject to change in light of future developments. Subject to the requirements of the applicable laws, rules and regulations, we do not intend to update or otherwise revise the forward looking statements in this prospectus, whether as a result of new information, future events or otherwise.

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## RISK FACTORS

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*An investment in our Shares involves various risks. You should carefully consider the risks described below and all other information contained in this prospectus before making an investment decision. You should pay particular attention to the fact that we are incorporated in the Cayman Islands and that some of our business operations are conducted, and some of our markets in which we conduct our businesses are located, in China or otherwise outside of Hong Kong and are or may be governed by a legal and regulatory environment that differs in many material respects from those that prevail in other countries. Any of the following risks could adversely affect our business, financial condition and operating results. In that event, the trading price of our Shares could decline, and you could lose part or all of your investment.*

### **RISKS RELATED TO OUR TRADING OF ANIMATION DERIVATIVE PRODUCTS**

#### **We rely on the trading business of animation derivative products with a few customers.**

We rely on the sales of animation derivative products and we rely on a few customers. Our revenue generated from our trading of animation derivative products business for each of the three years ended 31 March 2014 and the five months ended 31 August 2014 amounted to HK\$279.0 million, HK\$251.6 million, HK\$245.1 million and HK\$185.5 million, respectively, which accounted for 95.5%, 88.7%, 72.4% and 99.3% of our total revenue for these periods, respectively. During the three years ended 31 March 2014 and the five months ended 31 August 2014, our sales of animation derivative products to the largest customer accounted for 40.2%, 29.2%, 40.0% and 40.3% of our total revenue, respectively, and our sales to the five largest customers accounted for 76.2%, 88.2%, 87.2% and 92.7% of our total revenue, respectively.

Given that the sales to our customers are negotiated under each purchase order, we may face pressure from our major customers in seeking price reductions, financial incentives or more favourable terms in the sales agreements. Any of these could also materially and adversely affect our business, financial condition and operating results. In addition, if one or more of our major customers experience financial difficulties, cease doing business with us or significantly reduce the amount of purchase from us, it could have a material adverse effect on our business, financial condition and operating results.

#### **We do not have long-term purchase commitment from our customers.**

We do not have long-term purchase commitment from our customers, nor do we have any exclusive agreement with any of our customers. Since our sales are made on the basis of individual purchase orders, the amount of sales to each customer may vary from time to time. Moreover, our customers are not the end customers of our products, and they re-sell our products to their own customers which we do not have any direct contractual relationship. We understand that these corresponding end customers include toy companies, outdoor theme parks and capsule toy vending machine operators. Any reduction in, or termination of, the purchase orders from any of our major customers, including as a result of reduction in, or termination of, orders from the corresponding customers of our customers for whatever reason, could materially and adversely affect our business, financial condition and operating results.



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## RISK FACTORS

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### **Our trading business of animation derivative products relies on the Japanese market.**

The revenue generated from the trading business of animation derivative products is mainly derive from the sales to customers in Japan. For the three years ended 31 March 2014 and the five months ended 31 August 2014, our revenue generated from sales to customers in Japan contributed 89.0%, 95.8%, 92.0% and 93.2% of our total revenue, respectively. In light of this geographical concentration, our operating results and prospects are significantly affected by the natural catastrophes in or affecting Japan as well as the economic, political or social conditions in or affecting Japan.

Japan has experienced large-scale earthquakes and is prone to other natural disasters such as typhoon, flooding and tsunami. These may result in material impact on our Japanese customers, which could adversely affect the volume of their purchase orders. For example, in March 2011, Japan was hit by the Great East Japan Earthquake. The earthquake triggered a destructive tsunami which struck a vast swath of Japan's coastal line facing the Pacific Ocean. The Great East Japan Earthquake and tsunami resulted in over 15,000 deaths and significant property damage in Japan, particularly in the Tohoku region, including the explosion at the nuclear power plant in Fukushima, Japan, leading to a global concern on nuclear meltdown and radiation leakage. The catastrophe has caused extensive damage and economic loss. Although we did not experience any significant decrease in our sales to Japan during the Great East Japan Earthquake, our concentrated sales to the Japanese customers and the recoverability of the trade receivables from them are vulnerable to these catastrophes. We cannot assure you that our business, financial condition and operating results would not be materially and adversely affected by natural catastrophes in the future.

### **Our trading business of animation derivative products is affected by the economic performance and the domestic consumption level in Japan.**

The Japanese economy, which went into recession in late 2008 that intensified through early 2009, showed some signs of a modest recovery during 2010 and 2011 due in part to the economic stimulus measures implemented by the Japanese government. However, the Great East Japan Earthquake that occurred in March 2011 again triggered recession in the Japanese economy, significantly affecting business and consumer. While there have been some signs of economic recovery in Japan due in part to the new Japanese government's quantitative easing measures, the effect and impact of such measures on the Japanese economic remains uncertain. While there are market speculations that the 2020 Olympics to be hosted by Tokyo may help Japan boost its economy, there is no assurance that the economic condition in Japan will be improved by the 2020 Olympics or our business will benefit from the 2020 Olympics. Continued weakness in the global economy or in the economy of Japan, where our major customers and their respective customers are located, may result in a reduction of the demand for our products which could adversely affect our business, financial condition and results of operation.

Recently, the government of Japan has released a series of measures to stimulate the growth of its economy, including quantitative easing monetary policy, which brought the depreciation of Japanese Yen. Further, the consumption tax has increased from 5.0% to 8.0% since 2014 and is expected to further increase to 10.0% in the near future. The above policies may suppress the increase in the domestic consumption in Japan and may affect the volume and price of the orders placed by our customers for animation derivative products. Although the Japanese government has launched a series of economic policies to improve the Japanese economy, there is no assurance that these measures will succeed.

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**We do not have our own manufacturing capability and we rely on a few suppliers to manufacture the animation derivative products for our customers.**

We do not have our own manufacturing capability and we rely on third-party suppliers to source the animation derivative products. In particular, during the Track Record Period, we relied heavily on Sino Action as our largest supplier. Our ability to meet the demands of our customers and grow our trading business depends on the efficient, proper and uninterrupted operation of our suppliers' production facilities. As a result, any mistakes made or difficulties encountered by the third-party suppliers that result in product defects, production delays, cost overruns or the inability to fulfil orders on a timely basis or at all could adversely affect our business, financial condition and results of operations. Power failures or disruptions, the breakdown, failure or sub-standard performance of equipment, labour strikes, the destruction of buildings and other facilities due to fire or natural disasters, such as severe weather, flood or earthquakes, among other things, could significantly affect our suppliers' ability to operate their facilities and meet the need of our customers. If as a result of events such as these, deliveries to our customers are delayed or we are not otherwise able to fulfil our obligations to our customers, we may be in breach of our sales agreements. Our failure to meet our customers' demands could also adversely affect our on-going relationship with them and their decision to purchase products from us in the future.

Our suppliers conduct their respective operations through a limited number of geographically concentrated production facilities, which exposes us to a higher risk of significant disruptions and may limit our ability to adequately respond to such disruptions. Should any disastrous events beyond our control occur at or affect any of these production facilities or the place where such production facilities are located, our business would be adversely affected.

We had three suppliers during the Track Record Period, namely Sino Action, Best Toys and Shenzhen Jiezhimei. Purchases from our three suppliers accounted for 96.7%, 95.8%, 95.1% and 97.7% of our total cost of sales and services, respectively. Purchases from our largest supplier during the Track Record Period, namely Sino Action, accounted for approximately 96.7%, 95.8%, 61.6% and 87.8% of our total cost of sales and services, respectively. Our trading business could be adversely affected if we lose our current suppliers, they are unable to meet our demand for whatever reasons or if we are unable to secure other replacement suppliers on terms acceptable to us or at all in a timely manner. Failure to fulfil orders on a timely basis or at all as a result of lack of the support from our suppliers could adversely affect our business, financial condition and results of operations.

**We may be subject to product liability claims, product recalls or complaints against our products.**

During the Track Record Period, we were not required to recall the products sold to our customers, nor were we subject to any product liabilities or other complaints, claims or investigations arising from any product quality issues. However, we are exposed to the risks associated with product liability, product recalls and complaints. If any of the products sold to our customers are alleged or proven to be harmful or of unsatisfactory quality, the sales to the relevant customers would decrease significantly. In addition, we would be required to accept the return of such products and suspend the sales altogether. Any such claims, recalls, suspensions or cessations could materially and adversely affect our business, reputation, financial condition and results of operations, regardless of whether or not such claims have merit. If we are required to defend any

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litigation related to product liability claims or product recalls, it may require significant financial resources and the time and attention of our management. Although our suppliers may contractually be responsible if there are disputes over the quality of our products, such contractual obligation may not effectively and efficiently cover the damages we suffer in the event of product liability claims, product recalls or complaints. Further, we do not purchase insurance coverage for product liability or third party liability and are therefore not covered or compensated by insurance in respect of losses, damages, claims and liabilities arising from or in connection with product liability or third party liability. In the event that we are held responsible for compensation for product liability or third party liability and we are unable to pass such obligation on to our suppliers, we may face material adverse impact on our financial position and results of operation. Please refer to “Risk Factors — Risks related to our business operation generally — We have limited insurance coverage.” for details of risks in relation to our limited insurance coverage.

**Our revenue growth in the future could be adversely affected by consumers’ concerns on product safety in China.**

There have been product quality and safety issues for producers of toys that manufacture their goods in China including those related to the use of excessive levels of lead paint. We believe that environmental concerns and toy safety are becoming key issues in customers’ purchases particularly following the large recall of Chinese products (including toys) in the past. It is possible that consumers will be less willing to purchase toys and other animation derivative products manufactured in China as a result of legacy environmental and safety concerns, whether justified or not. Any significant consumer rejection of toys or other animation derivative products manufactured in China could adversely impact our ability to expand our business in future periods.

**Delay in collecting payment from our customers could adversely affect our cash flow, working capital, financial condition and results of operations.**

We typically extend credit to our customers for 30 days. As of 31 March 2012, 2013 and 2014 and 31 August 2014, the amount of our trade receivables was HK\$19.7 million, HK\$38.3 million, HK\$29.5 million and HK\$53.9 million, respectively. The average turnover days of our trade receivables for the three financial years ended 31 March 2014 and the five months ended 31 August 2014 were 16.6 days, 37.3 days, 36.5 days and 34.0 days, respectively. There is no assurance that the average turnover days of our trade receivable will not be lengthened in the future. If our customers’ cash flow, working capital, financial condition or results of operations deteriorates, they may be unable or unwilling to pay the amount due to us promptly or at all. Any material default or delay may materially and adversely affect our cash flow, working capital, financial condition and results of operations.

**The sale of animation derivative products industry is competitive and our inability to compete effectively may materially and adversely impact our business, financial condition and results of operations.**

The sale of animation derivative products industry is competitive. In the PRC and other Asian countries, there are many business which have financial and strategic advantages over us, including, among other things, greater financial resources, larger scale of operation and marketing and product development capability, stronger name recognition, longer operating histories better cost structure

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and greater economies of scale. As a result of this competitive pressure, we cannot assure you that we will continue to compete effectively, which could result in our loss of one or more of our current customers and limit our ability to compete for such customers in the future.

In addition, the sale of animation derivative products industry has no significant barriers to entry. We compete primarily on the basis of quality and services, our ability to meet customers' specific product requirements, timeliness of delivery and price. Many of our competitors offer similar products or services and there are new competitors entering into the industry. We cannot assure you that we will be able to maintain or expand our sales of animation derivative products or that we will be able to continue to compete effectively against current and future competitors.

**Failure to protect the intellectual property rights of our customers or the intellectual property rights relating to our proprietary animations may adversely affect our business and results of operations.**

In general, the copyrights, designs, patents, trademarks or other intellectual property rights associated with the products, moulds, specifications and drawings prepared by us upon our customer's request are owned by our customers. We will be held liable if we misuse of the moulds or designs or are involved in infringements of the customers' intellectual property rights. We cannot guarantee that our customers' designs and other intellectual property rights would not be misappropriated even though we have taken the necessary precautionary steps for the protection of those rights. In the event that the precautions we have taken do not adequately safeguard our customers' intellectual property rights, our customers could reduce or discontinue their purchase orders with us, which could have a material adverse effect on our business, results of operations and reputation.

**The production cost and expense will increase as a result of the increase in labour cost and remuneration of our Directors respectively.**

Labour costs directly associated with the manufacturing of our products is a significant component in the cost of manufacturing, which in turn directly affects the manufacturing fee we pay to our suppliers. If our suppliers face labour shortage or significant increases in the labour costs for whatever reasons, their cost of production could increase, which in turn raise the cost of products we source from them.

The cost of labour in the PRC has been increasing over the past years as a result of, among other things, government-mandated wage increases and other changes in PRC labour laws, as well as increasing competition for employees among suppliers. On 1 July 2011, the PRC Social Insurance Law became effective, which includes requirements with respect to a wide range of social insurance programs, such as basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance. The law involves enhanced compliance and enforcement measures. As a result, our suppliers may incur increased costs to ensure continued compliance with these laws and any other applicable labour laws that are implemented in the future.

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We did not incur any staff costs until June 2012 as we did not employ any staff for our business activities. Historically, we engaged Shenzhen Huaxia for the research and development support for the development of our proprietary animation characters. We also had an arrangement with Sino Action pursuant to which Wah Shing designated a team for quality control during the production process. After the establishment of Shenzhen Wald, our PRC wholly-owned subsidiary, Shenzhen Wald gradually accepted the transfer of certain employees from Shenzhen Huaxia and Wah Shing. For the three years ended 31 March 2014 and the five months ended 31 August 2014, staff costs amounted to nil, HK\$1.9 million, HK\$3.7 million and HK\$3.0 million, respectively. The cost payable by us for the services rendered by Shenzhen Huaxia and Sino Action is different from the cost of employing dedicated teams of staff for the services.

Further, we believe that the remuneration of our Directors for the year ending 31 March 2015 and for subsequent periods will be increased as compared with the Track Record Period. For details of the differences please refer to “Directors, Senior Management and Employees — Directors’ and senior management’s remuneration” in this prospectus. We will review the amount of salaries, wages and remuneration from time to time in order to remain competitive and will comply with the employment laws and regulations on, among other things, employees’ benefits, social security, insurance, and work safety. All of these affect our cost structure. If we are not able to manage our staff efficiently, our cost will increase. The increase in cost could affect our profitability and operating results.

### **Animation derivation products are not necessities and demand for them can be volatile.**

As our products are not necessities, demand for them depends to a significant extent on a number of factors relating to discretionary consumer spending. These factors include, among other things, general economic conditions and perceptions of such conditions by consumers, employment rates, the level of consumers’ disposable income, business conditions and interest rates. An economic downturn in the markets in which our products are sold could significantly decrease demand for those products, reducing the number of purchase orders we receive from our customers, which could have a material adverse effect on our business, financial condition and results of operations.

**Wah Shing has enjoyed beneficial tax treatment from its operation as a “three-plus-one” (“三來一補”) manufacturing plant through its cooperation with Sino Action, our major supplier. In the event such beneficial tax treatment becomes unavailable or otherwise changes or terminates, our purchase price from Sino Action may increase, which could adversely affect our profit margins and results of operations.**

We understand that Wah Shing has enjoyed beneficial tax treatment from its operation as a “three-plus-one” (“三來一補”) manufacturing plant through its cooperation with Sino Action, our major supplier. As advised by our PRC Legal Adviser, “three-plus-one” represents a trading model whereby PRC enterprises process raw materials, manufacture products and assemble imported parts based on the requirements as specified by overseas companies, to whom the finished products are supplied in return for processing fees. The “three-plus-one” manufacturing plants became prevalent in the PRC coastal regions in the 1980s, and enterprises adopting such trading model were eligible for certain beneficial tax treatment from relevant PRC government. Wah Shing entered into a processing agreement with a third party on 29 June 1992, which was substituted by Sino Action on

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24 June 1997. As advised by our PRC Legal Adviser, pursuant to the agreement, Wah Shing has been entitled to the beneficial tax treatment applicable to enterprises engaged in “three-plus-one” trading model. As advised by Sino Action, the processing agreement will expire towards the end of 2017, upon which the corresponding beneficial tax treatment currently applicable to Wah Shing will terminate. As advised by our PRC Legal Adviser, pursuant to Interim Value-Added Tax Regulations of the People’s Republic of China (《中華人民共和國增值稅暫行條例》) and Circular of Administration of State Taxation of Shenzhen Municipality on Tax Administration Issues Concerning Commercial Party Undertaking (or undertaking as an agent) the Projects of Processing with Supplied Materials (《深圳市國家稅務局關於商務單位元承接(或代理承接)的來料加工業務稅收管理問題的通知》), Wah Shing enjoys the preferential tax treatment of exemption of value-added tax in respect of the processing fees on condition that it has been filed with the competent administration of state taxation for the record, whilst the normal value-added tax rate that applied to Wah Shing will be 17% after the termination of the beneficial tax treatment.

As for enterprise income tax, as advised by our PRC Legal Adviser, pursuant to Several Provisions of the People’s Government of Shenzhen Municipality on Strengthening the Regulation of “three-plus-one” (《深圳市人民政府關於加強“三來一補”管理的若干規定》) and Reply of Administration of Local Taxation of Shenzhen Municipality Concerning Issues of exemption of Tax for “three-plus-one” Enterprise (《深圳市地方稅務局關於對“三來一補”企業免稅問題的批復》), Wah Shing, as an enterprise established before 1994, can enjoy the preferential tax treatment of exemption of enterprise income tax for the first three years on condition that Wah Shing had applied for the exemption; however, Wah Shing cannot enjoy the aforesaid preferential tax treatment at present, since it applies only for the first three years since the establishment of the enterprise. In addition, the current or future preferential tax treatments, tax concessions and tax allowances applicable to Wah Shing may be changed, terminated or otherwise become unavailable due to many factors, including changes in government policy or administrative decisions by the relevant government authorities. Any of the above condition may increase our purchase price from Sino Action, which could adversely affect our profit margins and results of operations.

### **RISKS RELATED TO THE COMMERCIALISATION OF OUR PROPRIETARY ANIMATION CHARACTERS**

**We rely on a few of our proprietary animation characters for our commercialisation of proprietary animation characters business.**

We rely on trademarks registration and copyright protection for our proprietary animation characters. In this connection, we have registered and are applying for registration on a number of trademarks in selected jurisdictions relating to our proprietary animation characters. Leveraging these animation characters, we develop our licensing business and multimedia entertainment business. The Trademark Licence Agreement was entered into in October 2011 with Zing but subsequently terminated in March 2014. As advised by Zing, its business development in connection with the licensed animation characters did not achieve the expected result due to a number of factors including unfamiliarity with the Chinese market, and consequently, it terminated the Trademark Licence Agreement in March 2014. The Trademark Licence Agreement generated a significant amount of licensing income to us during the Track Record Period. For the three years ended 31 March 2014, our revenue from the licensing of animation characters to Zing amounted to HK\$13.3 million, HK\$31.9 million and HK\$73.6 million, respectively, representing 4.5%, 11.3% and 21.7%

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of our total revenue, respectively. The first large-scale animation concert of our proprietary animation character and virtual artist “*Violet*” (紫媽) was performed on 1 February 2015. In addition, we also plan to increase the market awareness of our proprietary animation characters by introducing new animations or films from time to time. The success of these business initiatives is largely determined by the appeal of the animation characters to the target audience and the effectiveness of the marketing campaigns for the animation or films. We cannot predict the popularity of our planned production as the acceptance of animation characters and the films is subject to the changes in the market trends. If our animation characters do not achieve the desirable level of market acceptance, the revenue to be generated from them would be substantially lower than our expectation. We entered into agreements with three licensees (which are also our consignors under our consignment sales business and as confirmed by our Directors, Independent Third Parties). Pursuant to the agreements, we grant licence to the consignors to sell products of a certain category that contain our various proprietary animation characters in China. We do not have any track record in conducting business with them and there is no assurance that our cooperation with them will be successful and they will honour their obligations under the agreements. Furthermore, there is no assurance that our licensees will be able to commercialise and promote products featuring our proprietary animation characters as contemplated or at all. If our licensees become unsuccessful in their commercialisation of products featuring our proprietary animation characters, our licensing business would not be able to achieve the results as expected.

Given the limited number of our proprietary animation characters, if one or more of our proprietary animation characters are not well received by the market as expected or at all or their popularity fades as time goes by, our licensees may not continue to obtain the relevant licence from us, which in turn will impact on our financial position and operation results. Further, given that we only have a limited history and number of licensees for our commercialisation of proprietary animation characters business, and given the continuously changing dynamics of the animation industry in China, it would be difficult to evaluate our growth prospect and future financial results for this business. Among other things, if we are unable to generate, maintain and enhance popularity of our existing proprietary animation characters or develop new proprietary animation characters that are successful in gaining popularity, or if we are otherwise unable to attract other licensees to obtain licence from us in respect of our proprietary animation characters, we could not grow the business with our own proprietary animation characters.

Furthermore, although we intend to develop additional proprietary animations, public acceptance of our new self-created animations will remain uncertain until they are marketed to the public. If the new proprietary animation characters are not well received by consumers or the related characters do not become popular, the revenue to be generated from the sale of products featuring our new proprietary animation characters and other related businesses would likely be adversely affected. This will result in us incurring expenses and possible losses, which could have a material and adverse impact on our business, financial condition and results of operations.

### **We may not be able to adequately protect our intellectual property rights.**

Our Directors believe that our current intellectual property rights, and those for which we have pending applications, provide protection to our business and are all the rights necessary for our operations and business development. However, we cannot assure you that the applications for trademark registrations for our own proprietary animation characters will be approved as

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contemplated or at all. Nor are we able to assure you that any of our intellectual property rights will be adequately protected and that such intellectual property rights will not be challenged by third parties or found to be invalid or unenforceable. We may also be subject to disputes, claims or litigation involving our intellectual property rights or third-party intellectual property rights and we may infringe third party intellectual property rights.

In addition to trademark registrations, we rely on confidentiality with our senior management team and other precautionary procedures to protect our intellectual property rights. Despite our efforts, we may not be able to prevent third parties from infringing our intellectual property rights, including our trademarks, brands and the appearance of our proprietary animation characters. If our efforts to maintain and protect our intellectual property rights are inadequate, or if any third party misappropriates or infringes on our intellectual property rights, the value of our proprietary animation characters could be harmed.

Any of the above developments could disrupt our business and divert our management's attention from our operations. We may, from time to time, be required to institute litigation, arbitration or other proceedings to enforce our intellectual property rights, which would likely be time-consuming and expensive to resolve and would divert our time and attention regardless of its outcome. Even if we are able to successfully enforce our rights, any harm done to our brands and the image of our proprietary animation characters could have a material and adverse impact on our business, financial condition and operating results.

### **Our trademark applications may not be successful.**

As of the Latest Practicable Date, we have filed applications for registration of a number of trademarks in the jurisdictions in which we believe to be our major markets. We have not undertaken any worldwide intellectual property protection strategies in the countries and territories which we believe are not important to us. The lack of such strategies would provide opportunities for our competitors to exploit our intellectual property rights and legitimate business interest in these potential markets, which could hinder our future business development.

Some of our trademark applications are being processed by the relevant government authorities. We cannot assure you that we will be able to have all the marks to be registered as contemplated or at all as our trademarks in the designated jurisdictions. If we fail to register any of these marks, we may have difficulty in defending our intellectual property rights from infringement by third parties, which could have a material adverse effect on our business, financial condition and operating results.

In addition, we may be unaware of intellectual property registrations or applications relating to our proprietary animation characters that may give rise to potential infringement claims against us. Intellectual property litigation is expensive and time-consuming and could divert management's attention from our business. A successful infringement claim against us could, among other things, make us pay substantial damages and cease using our brands that have infringed a third party's intellectual property rights. Any intellectual property claim or litigation, regardless whether we ultimately win or lose, could damage our reputation and have a material adverse effect on our business, results of operations or financial condition.



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### **Our licensing business may encounter counterfeiting issue, which could adversely affect the growth potential of the business.**

During the Track Record Period, we entered into the Trademark Licence Agreement with Zing pursuant to which we licensed our animation characters to Zing. This agreement was subsequently terminated in March 2014. Our Directors believe that product counterfeiting issue in the PRC was a reason which affected Zing in achieving its contemplated results in product development. Enforcement of intellectual property rights in the PRC could be costly and may not achieve the desirable outcome. The counterfeiting issue would continue to affect us as and when we enter into the licence agreements for the sales of the animation derivative products featuring our proprietary animation characters. If we or our licensees encounter the counterfeiting issue in the future and fail to resolve the issue, our licensees of the animation derivative products would not be able to grow their business as anticipated. We would then be adversely affected if our licensees would not be able to operate their business profitably. Licensing business was one of our principal source of income during the Track Record Period and we believe that it will continue to be an integral part of our business model in the future. Any failure to combat the counterfeiting issue in the PRC could materially and adversely affect our business, financial condition and operating results.

### **Inappropriate use of the name of “华夏动漫” by Shenzhen Huaxia in the PRC could affect our reputation and business.**

We are the registered owner of the “华夏动漫” (in style) in Hong Kong. As of the Latest Practicable Date, the Chinese name of Shenzhen Huaxia was identical to our trademarks. Shenzhen Huaxia is not a member of our Group, and we have no entity in the PRC that using the words “华夏动漫”. Shenzhen Huaxia is currently providing us with certain ancillary and supportive services in product design and the development of computer graphics. Our Directors confirm that one of the reasons for not including Shenzhen Huaxia as a member of our Group is that Shenzhen Huaxia is granted the television programme production licence in the PRC which, as advised by our PRC Legal Adviser, is not permitted to be held by a company with foreign investments. We entered into an agreement with Shenzhen Huaxia that Shenzhen Huaxia would change its name by removing the words of “华夏动漫” within six months from 12 February 2015. Shenzhen Huaxia has agreed to allow us to use the “华夏动漫” trademarks registered in the PRC at no cost and such trademarks shall be transferred to us within the six-month period.

Nevertheless, during the interim period, we cannot guarantee that there would be no confusion amongst our customers or business partners. Negative publicity may arise if there is any dispute between Shenzhen Huaxia and its customers, which may harm the value of our trademarks in Hong Kong and China, as well as the business, operating results and growth prospectus of our Group as a whole.

## **RISKS RELATED TO OUR INDOOR ANIMATION AMUSEMENT PARK BUSINESS**

### **We have no proven track record in operating indoor animation amusement park in China.**

During the Track Record Period, we focused our business on the trading of animation derivative products, coupled with the licensing of our proprietary animation characters. As part of our growth strategies, we plan to expand our business into other sectors, particularly the indoor animation amusement park industry. In this connection, we entered into the SEGA Licence Agreement on 31 March 2014.

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We have no track record or experience in operating indoor animation amusement park business. In particular, we will incur additional start-up costs, including but not limited to additional labour costs, which could adversely affect our profit margin. As of 31 August 2014, we have paid the deposits for acquisition of game machines for Shanghai Joypolis in the amount of HK\$59.1 million, whilst, barring unforeseen circumstances, the total capital expenditure and the pre-opening costs for the establishment of Shanghai Joypolis up to its grand opening (which, solely for budgeting purpose, is expected to take place on 2 February 2016) is expected to be approximately RMB173.8 million and RMB25.4 million, respectively.

For reference and illustration purposes only, we have performed two highly hypothetical stress tests by assuming all other factors remain constant, the possible impact on our working capital up to and including 31 March 2016: (i) in the worst case scenario where there is zero visitor to Shanghai Joypolis in from its phase 1 opening up to and including 31 March 2016; and (ii) the total capital expenditure and pre-opening costs for Shanghai Joypolis increase by 20%. For further details of the stress tests, please refer to “Business — Extension of our core businesses in the animation-related industry — Indoor animation amusement park — Expected impact on our Group—Stress test on working capital” and “Financial Information — Liquidity and Capital Resources — Working Capital” in this prospectus. Although the stress tests show that taking into account the financial resources available to us and in the absence of unforeseen circumstances, we will be able to meet our working capital requirements up to 31 March 2016, they only reflect our current intention and estimation of the budget for Shanghai Joypolis that are subject to significant uncertainties and risks, and there is no assurance that our actual spending or other factors will not deviate from our current budget plans. In addition, the stress tests are based on a series of assumptions that may not reflect actual circumstances and there is no assurance that the analysis accurately represents our ability to meet our working capital requirements.

Furthermore, for reference and illustration purposes only, we have performed a highly hypothetical analysis on the payback periods in respect of our investment for Shanghai Joypolis built on an assumed scale of estimated number of visitors. Please refer to “Business — Extension of our core businesses in the animation-related industry — Indoor animation amusement park — Sources of income from Shanghai Joypolis” for further details. The analysis is based on a series of assumptions that are speculative in nature and may or may not reflect actual circumstances. In particular, since the phase 1 of Shanghai Joypolis only recently took place on 30 December 2014 and the grand opening is yet to take place, our assumptions on the estimated number of visitors and expected spending per visitor for Shanghai Joypolis are not based on our proven historical record and are subject to significant uncertainties and risks. In addition, the analysis only reflects our current intention and estimation of the budget for Shanghai Joypolis, and there is no assurance that our actual expenditure will not deviate from our current budget plans. Any difference in actual circumstances from any of the key assumptions adopted for the analysis may also result in a significant change in the actual investment payback period. Consequently, the estimated payback periods and breakeven points may or may not accurately represent the actual investment payback period or breakeven point for our investment in Shanghai Joypolis.

This new business also requires a high level of expertise and experience. Although pursuant to the SEGA Licence Agreement, SEGA shall provide trainings to our management and staff of the amusement park as to its operation, we cannot assure you that we will be able to gain the required expertise and experience in a timely manner or at all. In addition, we may not be able to recruit and

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retain sufficient personnel with the required expertise and experience for the operation of indoor animation amusement park in a timely manner or at all. If we are not able to gain the required expertise and experience in a timely manner or we are unable to hire new management and staff at remuneration package commercially acceptable to us with the required expertise and experience from the market, Shanghai Joypolis may not be successful, which could in turn materially and adversely affect our business and operating results.

**Our indoor animation amusement park business may not achieve the desirable outcome as anticipated.**

The profitability of the indoor animation amusement parks depends to a significant extent on a number of factors outside our control, which include, among other things, the location of our indoor animation amusement park and its proximity to public transport systems, the level of consumers' disposable income in the PRC, the availability of similar recreational centres in nearby localities and the effectiveness of the marketing or promotion of the indoor animation amusement park. We face competition from operators of indoor animation amusement parks and other amusement venues of different natures. In particular, SEGA is preparing to open its own indoor animation amusement park with a joint venture partner in Qingdao, Shandong Province in 2015, which may potentially compete with our Joypolis indoor animation amusement park(s) in China. In addition, as new attractions and recreation centres are developed or being developed in China, including but not limited to the Shanghai Disney Resort, the number of expected visitors to our Joypolis indoor animation amusement park(s) may be adversely affected by the availability of other attractions in or near the cities. These factors will make it difficult for investors to evaluate our future business and prospects. The non-refundable joining fee of HK\$20.0 million paid to us by Harvest Progress, for and on behalf of Pingan Taisheng, in consideration of our effort in securing the business opportunity to operate Shanghai Joypolis during the Track Record Period was made in consideration of our effort in securing the business opportunity from SEGA to operate Shanghai Joypolis and the preliminary planning, market research and feasibility study conducted. The receipt of the non-refundable joining fee is not in breach of the terms and conditions of the SEGA Licence Agreement. We may not receive similar payments or at all in the future.

SEGA may terminate the SEGA Licence Agreement with one month's written notice to China Animation Holding if there is a "change of control" of our Company as defined in the SEGA Licence Agreement. Pursuant to the SEGA Licence Agreement, SEGA will not exercise such termination if (a) Bright Rise continues to be our single largest Shareholder; (b) all shares of Bright Rise will continue to be held by The Fortune Trust; and (c) Bright Rise continues to maintain the majority of the voting right at general meetings of our Company, i.e. over 50.0%, through the Concert Party Agreement. The written notice may only be given by SEGA if there is no agreed remedial action to rectify the situation within one month immediately after any "change of control" event. Our Directors confirm that, having confirmed with our Controlling Shareholders (including Bright Rise and other Concert Parties), all of the above conditions are satisfied as of the date of this prospectus and that none of our Controlling Shareholders has intention to dispose of their Shares as of the date of this prospectus. Further, all of our Controlling Shareholders are subject to non-disposal undertakings in respect of their Shareholding following the Listing, details of which are set forth in the section headed "Underwriting" in this prospectus. However, we cannot guarantee that the aforesaid conditions (a) to (c) will continue to be satisfied, or SEGA will not exercise the termination right. If the SEGA Licence Agreement is early terminated, we will be unable to continue operating Shanghai Joypolis and our business operation and financial performance will be materially and adversely affected.

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Moreover, our success in the indoor amusement park business will also depend on our ability to open other amusement park(s) in addition to Shanghai Joypolis. As of the Latest Practicable Date, we were licensed by SEGA to operate Joypolis in Shanghai only. We cannot assure that we will be able to secure additional licensing agreements from SEGA to operate other Joypolis indoor animation amusement parks on terms acceptable to us or at all. If we are unable in doing so, our development plans and strategies for the indoor animation amusement park business will be materially and adversely affected.

Pursuant to the Shanghai Joypolis Tenancy Agreement between China Animation BVI and the landlord for the premises at which Shanghai Joypolis is situated, Yue Xing shall be entitled to, during the 10-year term of the tenancy, a fixed rent or 4% to 6% of the revenue before tax of Shanghai Joypolis, whichever is higher. If the actual average annual revenue before tax of Shanghai Joypolis for the first five years of the term does not achieve 80% of the average targeted annual revenue before tax for those five years, Yue Xing will be entitled to terminate the tenancy agreement. Barring from unforeseen circumstances and based on (1) the historical number of visitors of the Shanghai Global Harbour (上海環球港) provided by Yue Xing and (2) the number of visitors to Shanghai Joypolis estimated based on the experience of SEGA in operating similar indoor animation amusement parks in Japan, our Directors believe that Shanghai Joypolis is able to achieve the annual revenue target set out in the tenancy agreement. However, we cannot assure that the management expectation will be achievable. Further, Yue Xing will also be entitled to terminate the Shanghai Joypolis Tenancy Agreement if Shanghai Joypolis encounters any disruption of operation for a period of more than six months. If Yue Xing early terminates the Shanghai Joypolis Tenancy Agreement on the above grounds or otherwise, we may not have sufficient time and resources to secure another venue for relocation of Shanghai Joypolis and the operation of the indoor amusement park may therefore be disrupted for a prolonged period of time, while other fixed costs and expenses such as rages and maintenance cost will continue to be incurred. If that occurs, our results of operations and financial conditions will be materially and adversely affected.

Consequently, there is no assurance that the expansion plan will achieve the economic results or benefits as contemplated or at all.

### **Our right to operate Joypolis is only limited to Shanghai under the SEGA Licence Agreement.**

Our right to operate Joypolis is only limited to Shanghai under the SEGA Licence Agreement. Please refer to “Business — Extension of our core businesses in the animation-related industry — Indoor animation amusement park — SEGA Licence Agreement” for detailed terms of the SEGA Licence Agreement. There is no assurance that SEGA will grant us the right to operate another Joypolis in the PRC with terms similar to the SEGA Licence Agreement or at all. It is possible that SEGA may on its own or choose to cooperate with its other business partner(s) in establishing and operating Joypolis in the PRC that may compete with Shanghai Joypolis. Our Directors understand that SEGA is expected to open its own Joypolis indoor animation amusement park with a joint venture partner in Qingdao, Shandong Province, which may potentially compete with Shanghai Joypolis. In the future, SEGA may grant the right to operate Joypolis in additional cities in China to other companies or operate its own Joypolis together with its other business partner(s). Any of these circumstances could adversely affect the number of expected visitors to Shanghai Joypolis and our future business and prospects.

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### **Grand opening of Shanghai Joypolis has not yet taken place and any delay or unexpected complication in the approval process could materially and adversely affect our business plans.**

Phase 1 of Shanghai Joypolis was opened on 30 December 2014 with gross floor area of 1,000 sq.m., while the grand opening is expected to take place in the first quarter of 2016 with expected gross floor area of 8,239 sq.m.. Further information is set forth in the sections headed “Business — Extension of our core businesses in the animation-related industry — Indoor animation amusement park” in this prospectus. It requires a significant amount of preparation work leading up to the opening of each phase of Shanghai Joypolis, including, among other things, site renovation, installation and testing of machines and systems and staff training. In addition, as advised by our PRC Legal Adviser, the opening of Shanghai Joypolis is subject to Huajiatai PRC having obtained the requisite licenses, approval and permits. For instance, prior to the grand opening of Shanghai Joypolis, Huajiatai PRC is required to obtain, among other things, the License on Operating Entertainment Business (娛樂經營許可證) from Shanghai Municipal Administration of Culture, Radio, Film & TV (上海市文化廣播影視管理局). As of the Latest Practicable Date, according to the PRC Legal Adviser, while Huajiatai PRC has obtained the requisite licences, approvals and permits for its current business scope of “children’s playground services”, which is appropriate for the operation of the phase 1 opening of Shanghai Joypolis, we have not yet obtained all the requisite licences, approval and permits for the grand opening of Shanghai Joypolis. We cannot assure that Huajiatai PRC will meet the requisite criteria to obtain all requisite licenses, approval and permits for the grand opening in a timely manner or at all.

Furthermore, in order to speed up the approval process, we have established Huajiatai PRC with the business scope limited to “children’s playground services”, which, as advised by our PRC Legal Adviser, is sufficient only for the operation of the phase 1 opening of Shanghai Joypolis on 30 December 2014. Although we expect the approval for expanding the business scope to cover “game machines” and “amusement park” will be obtained for the proposed grand opening of Shanghai Joypolis in the first quarter of 2016, there is no assurance that Huajiatai PRC will meet the requisite criteria and that the approval for the business scope expansion will be obtained in a timely manner or at all.

If Huajiatai PRC fails to obtain all requisite licenses, permit and approvals in a timely manner or at all, this may result in a delay or even change of plans in the proposed grand opening of Shanghai Joypolis, which may in turn have materially adverse impact on our expansion into this business, financial conditions and results of operations.

### **Our business may be vulnerable to the political tension between the PRC and Japan.**

Japan has been subject to national politics and frequent political turnover. Future political developments may lead to changes in the Japanese foreign policies that could affect the relationship with other Asian countries, including the PRC. Japan’s relations with its other Asian countries, such as China, North Korea and South Korea, have at times been strained due to territorial disputes, historical animosities and defence concerns. The territorial dispute between China and Japan on Diaoyu Islands led to large scale boycotts of the Japanese products in China. While our sales to Japan were not affected by the dispute because most of our customers are in Japan, our business, including Shanghai Joypolis, could be affected if the conflict or dispute intensifies.

We have entered into the SEGA Licence Agreement, pursuant to which we have been granted the exclusive right in Shanghai to establish and operate Joypolis. We also intend to expand our

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operation of the indoor animation amusement park business into other cities in China. Persisting anti-Japan sentiment in China could result in a smaller number of visitors than envisaged and consequently low revenue being generated from the operation. This could potentially adversely affect our business, financial condition and planned expansions of Joypolis to other cities across China. In extreme cases, anti-Japan sentiment in China may result in public protests and our properties, including our offices and our indoor animation amusement park(s) to be established, may become the targets of attack in these protests due to, among other things, our relationship with our Japanese customers, our products with Japanese cartoons characters and our cooperation with SEGA in the proposed indoor animation amusement park business. These attacks may damage our properties and disrupt our operations, and may in turn materially adversely impact on our business, financial condition and results of operations.

**Accidents or breakdown of amusement rides may discourage customers from visiting our proposed indoor animation amusement parks.**

Although we endeavour to ensure the safe operations of the machines and facilities in our proposed indoor animation amusement parks by performing regular inspections and conducting proper trainings for the machine/facility operators, we cannot guarantee that no accidents or breakdown of machines or facilities will happen within Shanghai Joypolis and other proposed indoor animation amusement park(s). A fatal accident happened in 2005 in Tokyo Joypolis, in which a man fell out of the skydiving simulator “Viva! Skydiving” died. According to SEGA, the “Accident Committee of Tokyo Joypolis” which investigated the accident concluded that the direct cause of the accident was inappropriate site management and negligence. We understand from SEGA that Tokyo Joypolis was closed down for inspection. Although “Viva! Skydiving” will not be one of the amusement facilities to be installed in Shanghai Joypolis, any accident or breakdown within Shanghai Joypolis or any other amusement or theme parks (whether or not operated by us) may raise public concern on the safety of the indoor animation amusement park and discourage customers from visiting which will bring impact on our revenue and profitability as well as negatively affect our reputation as an amusement park operator. If the accident or breakdown in our amusement park causes deaths or serious injuries of the users, such as the accident that took place in Tokyo Joypolis, this could significantly interrupt the business operation of our indoor animation amusement park business. We may also be subject to legal liabilities and face claims for penalty or criminal prosecution. Pursuant to the Shanghai Joypolis Tenancy Agreement, in respect of Shanghai Joypolis, Yue Xing is entitled to terminate the Shanghai Joypolis Tenancy Agreement if Shanghai Joypolis encounters any disruption of operation for a period of more than six months. If Yue Xing early terminates the tenancy agreement on such grounds, we may not have sufficient time and resources to secure another venue for relocation of Shanghai Joypolis and the operation of the indoor amusement park may therefore be disrupted for a prolonged period of time. If that occurs, our results of operations and financial conditions will be materially and adversely affected. Furthermore, any such accident or breakdown may also affect our ability to renew the various approvals, permits, licences, and certificates required by government authorities for operation of the amusement park and our business operation, financial condition and results of operations will therefore be materially and adversely affected. Further, any accident or breakdown in the amusement parks or theme parks operated by others, particularly those causing serious injuries, may receive media attention and may in turn negatively affect customers’ confidence in our amusement parks, reduce attendance at our indoor animation amusement parks and negatively impact our results of operations.

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### **Our business partners may fail to perform their obligations under the relevant agreements.**

We rely on SEGA Licence Agreement for the operation of Shanghai Joypolis. Besides the SEGA Licence Agreement, in connection with our operation of Shanghai Joypolis, China Theme Park HK has entered into a joint venture agreement with Pingan Taisheng pursuant to which China Theme Park HK and Shenzhen Wald hold an aggregate of 51% interest in Huajiatai PRC, the joint venture company operating Shanghai Joypolis. In the future, we plan to adopt a similar business corporation model in the expansion of our indoor animation amusement park business. SEGA and/or our joint venture partners may have conflicting economic interests with us, and may take actions that are not in our interests. They may also be unable or unwilling to fulfil their obligations under the relevant agreements, disagree with us about the scope of their obligations, or have financial difficulties. We cannot assure you that we will not encounter problems with respect to SEGA or our joint venture partners or in agreeing the terms and conditions acceptable to us or at all, which could have a material adverse effect on our expansion plans.

Furthermore, the SEGA Licence Agreement and the joint venture agreement with Pingan Taisheng will expire on 31 March 2024 and after 30 years from the establishment of the joint venture company, respectively, unless they are renewed according to the respective terms thereof, and there is no guarantee that the licensing agreement and/or the joint venture agreement will be renewed on the same terms or on terms better than the current terms in force, or at all. If we cannot renew the licensing agreement and/or the joint venture agreement on the same or better terms or at all, our contemplated indoor animation amusement park may not continue to be developed as expected or at all, and our business prospects may be materially and adversely affected.

### **We rely on SEGA's expertise in the operation of Shanghai Joypolis.**

We ride on SEGA's expertise and reputation to attract our target customers. We expect that Shanghai Joypolis will feature amusement facilities and attractions based on SEGA's intellectual properties, and we expect to build on SEGA's expertise in developing these facilities and attractions and on SEGA's reputation as a recreation operator to attract our target customers. Customers tastes and preferences for these amusement facilities and attractions may change, and there is no guarantee that going forward the amusement facilities and attractions developed based on SEGA's expertise will suit our target customers' tastes and preferences. SEGA's reputation as a recreation operator may also decline and become less popular to our target customers in the future. Moreover, while SEGA will provide the design and technical support to us pursuant to the licensing agreement, we (instead of SEGA) will be the operator of Shanghai Joypolis. Accordingly, we cannot assure that going forward the amount of revenue generated from the indoor animation amusement park can be sustained. While we plan to introduce new amusement facilities and attractions to the indoor animation amusement park regularly, there is no assurance that these facilities and attractions will be able to attract our target customers.

### **We may not obtain adequate or timely financing for our investments in our indoor animation amusement park business.**

Pursuant to the SEGA Licence Agreement, we expect to make significant investments in our proposed indoor animation amusement park business. As a result, we will require adequate financing for such business expansion. Although our sale of animation derivative products and licensing of

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animation characters during the Track Record Period were generally financed through our operating cash flow and we expect to finance the establishment and operation of Shanghai Joypolis with internal resources and proceeds from the Global Offering, we may require external financing for future expansion of our indoor animation amusement park business. A number of factors such as general economic conditions, our financial position and performance, credit availability from financial institutions and China's monetary policies may affect our ability to obtain adequate financing on favorable terms and to achieve a reasonable return on our investments. Any failure by us to raise sufficient funds on terms acceptable to us, or at all, may render us unable to expand our proposed indoor animation amusement park business within the expected time frame and within our budget, or at all. In particular, the construction of indoor animation amusement parks may be capital intensive. Even if we can secure the necessary financing, such construction may be subject to cost overruns and may not be completed on time or at all, which may in turn impact our liquidity and limit our ability to obtain additional financing.

**We may be affected by the performance of third party construction contractors.**

We will employ third party contractors to carry out various works in constructing Shanghai Joypolis, including renovation, equipment installation, interior decoration, engineering, etc. We may not be able to engage sufficient quality third-party contractors in Shanghai and the other cities into which we may expand, if any. Moreover, completion of the indoor animation amusement park may be delayed and we may incur additional costs due to contractors' financial or operational difficulties. The contractors may undertake projects from other clients or otherwise encounter financial or other difficulties, which may cause delay in the completion of our indoor animation amusement parks or increase our project development costs. There is no guarantee that the services rendered by any of these contractors will always be satisfactory and meet our standards. Any of these factors could have a negative impact on our reputation, business, results of operations and financial condition.

**Our indoor animation amusement park operations could be adversely affected by any material disruption to such public infrastructure.**

Our indoor animation amusement park operations rely on the proper performance of a variety of public infrastructure such as transportation, water and electricity supply. If the traffic flow near our indoor animation amusement parks is affected by the lack or disruption of transportation infrastructure, attendance of visitors and our revenue may decrease. In addition, if we experience shortage in the supply of electricity and water, we may have to close part of or the entire indoor animation amusement park until such supplies resume. If any of these occur, our business, results of operations and financial condition may be materially and adversely affected.

**The fixed cost structure of indoor animation amusement park operations can result in significantly lower margins if our revenue declines.**

A large portion of our expenses are relatively fixed as the costs for depreciation, full-time employees, maintenance, utilities, advertising and insurance do not vary significantly with attendance. These costs may increase at a greater rate than our revenue and may not be reduced at the same rate as declining revenues. If cost-cutting efforts are insufficient to offset declines in revenue or are impracticable, we could experience a material decline in margins and profitability and



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reduced or negative cash flows. Such effects can be especially pronounced during periods of economic contraction or slow economic growth.

**Huajiatai PRC has not yet been relocated to the Shanghai Free-Trade Zone and may not be entitled to any preferential policies and treatments even if it can be relocated successfully.**

We plan to relocate Huajiatai PRC, the operator of Shanghai Joypolis and our non-wholly owned subsidiary, to the Shanghai Free-Trade Zone with a view to becoming one of the first movers to this new free trade zone. As confirmed by our PRC Legal Adviser, Huajiatai PRC has obtained the approval of the Shanghai Municipal Commission of Commerce regarding operation of phase 1 of Shanghai Joypolis. Huajiatai PRC's phase 2 business involves the operation of entertainment venues, which is classified as the restricted category and is limited to Sino-foreign equity or cooperative joint ventures pursuant to the Foreign Investment Catalogue. In addition, as the phase 2 of the business operation of Huajiatai PRC falls within the category of "restricted projects" and the total investment amount is less than USD50 million, it would be subject to the approval of the Shanghai Municipal Commission of Commerce. Once Huajiatai PRC has been successfully relocated to the Shanghai Free-Trade Zone, the laws and regulations applicable in the Shanghai Free-Trade Zone shall apply to Huajiatai PRC's phase 2 operation with priority over the Foreign Investment Catalogue. As advised by our PRC Legal Adviser, Huajiatai PRC's phase 2 operation, based on the current shareholding structure of Huajiatai PRC, will not be subject to any foreign shareholding restriction after the successful relocation of Huajiatai PRC to the Shanghai Free-Trade Zone. As of the Latest Practicable Date, Huajiatai PRC has not been relocated to the Shanghai Free-Trade Zone. We cannot assure you whether Huajiatai PRC would be able to be relocated to the Shanghai Free-Trade Zone successfully. Although our PRC Legal Adviser is of the opinion that the current shareholding structure of Huajiatai PRC is not in violation of the Foreign Investment Catalogue for both phase 1 and phase 2 of Shanghai Joypolis, in the event we fail to relocate Huajiatai PRC to the Shanghai Free-Trade Zone in a timely manner or at all, there is no assurance that the shareholding structure of Huajiatai PRC for the operation of Shanghai Joypolis will not be subject to regulatory scrutiny. This may affect our plan with respect to phase 2 of Shanghai Joypolis and our business, results of operations and financial condition may be materially and adversely affected. Please refer to "Applicable Laws and Regulations — Company establishment and foreign investment — The provisions on guiding foreign investment" for further details of the rules and regulations relating to regulatory restrictions on foreign shareholding.

As advised by our PRC Legal Adviser, based on the applicable laws and regulations with respect to the Shanghai Free-Trade Zone as of the Latest Practicable Date, the existing preferential policies and treatments in the Shanghai Free-Trade Zone might not be available to Huajiatai PRC even if it were relocated to the Shanghai Free-Trade Zone. The relevant preferential policies of the Shanghai Free-Trade Zone in the PRC are promulgated by the relevant government authorities and may change. In addition, since the Shanghai Free-Trade Zone was newly established in 2013, many of its policies are not clear as to the threshold or condition of certain treatments or are lacking in implementing rules. Therefore, the competent government authorities have discretionary power to determine who are entitled to enjoy such preferential treatments and the degree of benefit. Any failure for Huajiatai PRC to enjoy or reduce such policies/treatments in the future that it may enjoy could affect our revenue and financial performance.

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### **RISKS RELATED TO OUR MULTIMEDIA ANIMATION ENTERTAINMENT BUSINESS AND CONSIGNMENT SALES BUSINESS**

#### **We have no proven track record in the multimedia animation entertainment business**

In order to further commercialise our proprietary animation characters, we also intend to develop in the consignment sales business and other multimedia animation entertainment, including a variety of areas such as music, investment in movies, internet and mobile applications. Please refer to “Business — Extension of our core businesses in the animation-related industry” for further details.

Our revenue generated from multimedia animation entertainment, in aggregate amounted to only HK\$0.4 million during the Track Record Period, all of which was recognised during the five months ended 31 August 2014. The profitability of these businesses that we intend to expand into are subject to various factors beyond our control, and the limited historical financial information will make it difficult for investors to evaluate their prospects.

The first large-scale music animation concert featuring “*Violet*” (紫嫣) was performed on 1 February 2015 at China Resources Shenzhen Bay Sports Centre Spring Cocoon Stadium (華潤深圳灣體育中心春繭體育館), a stadium in Shenzhen. This was the first time for us to be involved in a large-scale music animation concert. Pursuant to the agreement with Shenzhen Cultural Industry dated 18 November 2014, we are only responsible for providing technical support and the contents for the concert and Shenzhen Cultural Industry is responsible for the overall preparation, coordination, implementation and management of the concert. We expect that similar arrangement may be adopted for our large-scale animation concerts in the future. We may not be able to provide the necessary technical support and the contents for the smooth operation of the concerts. Further, we cannot guarantee that any advertisement will be effective to promote the ticket sales of the animation concerts to attract the expected number of audience members. Further, we cannot guarantee that our concerts will be well-received by the audience. Any technical errors or poor management of any concerts to be held in the future could result in negative impact on the reputation and popularity of our proprietary animation characters, which in turn would adversely affect the relevant segments of our business which rely on popularity of such animation characters.

#### **We have no proven track record in the consignment sales business**

With a view to bringing synergies to our other businesses, in November 2014, we entered into agreements (as amended and supplemented) with three licensees (which are also our licensees under our licensing of animation characters business and as confirmed by our Directors, Independent Third Parties), pursuant to which we grant licence to the consignors to sell certain categories of derivative products featuring our proprietary animation characters on a consignment basis at the designated counters at our large scale music animation concerts and Shanghai Joypolis. These consignors are also licensees of our licensing of animation characters business. We do not have any track record in conducting business with them and there is no assurance that they will honour their obligations under the agreements. During the Track Record Period, we did not generate any revenue from consignment sales. We have no prior experience in engaging in consignment sale business. Since we have not accumulated any retail, store management or consignment experience as of the Latest Practicable Date, this business may not develop as planned or at all.

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In expanding into our new businesses, we may not have adequate experience in integrating the new operations into our core business. The process of integration may also produce unforeseen delays or operating difficulties and substantial expenditures and may absorb significant attention of our management, and our management may not have the necessary experience and resource to implement our expansion strategies successfully or at all. Our failure in these business operations will result in us incurring expenses and possible losses, which may have a material and adverse impact on our business, financial condition and results of operations.

### **We rely on our business partners in conducting our multimedia animation entertainment business and our consignment business**

In relation to our multimedia animation entertainment business, according to our PRC Legal Adviser, as a foreign investor, we may only take part in the production and distribution of movies, and production and broadcast of TV plays (including TV cartoons) in the PRC through Sino-foreign co-operation and subject to approval by the relevant PRC authorities. To import movies that are produced outside of the PRC, such as the movie tentatively known as “七號公館” (House No. 7) in which we invested an amount of HK\$1.8 million without involving in the production, distribution or screening arrangements, we rely on third parties on such an arrangements including entities that are allowed to distribute imported foreign movies. As advised by our PRC Legal Adviser, in respect of our internet business, we may only supply contents for broadcast on online CUTV Huaxia Animation Channel (華夏動漫頻道) and we may not take part in the operation of channel. Similarly, in respect of the commercialisation of our proprietary animation characters for mobile applications, we only supply designs of our proprietary animation characters for use by users of mobile instant messengers operated by third parties but we do not operate any of such mobile applications in the PRC. Given the above restrictions, we rely on other Chinese entities to undertake the aforesaid businesses and therefore we may be disadvantaged when competing with other local competitors which are not subject to the relevant restrictions. Further, for our music animation concert business, we rely on our business partners, such as Shenzhen Cultural Industry, CHK and Fosun Yishen to organise and manage the operation of the music animation concerts. In respect of our consignment business, we rely on our consignors to provide products for sale at our designated counters in our music animation concerts, Shanghai Joypolis and animation festival that we participate.

Since we depend on our business partners in conducting the above businesses, our role may be relative passive and we may not be able to control the entire process (for instance, among other things, the expected timeframe for the business, and the contents or presentation). For instance, if these business partners fail to renew or maintain their licences and permits required for conducting such businesses, are unable or unwilling to carry out the business as contemplated (in accordance with the expected timeframe, contents, presentation or otherwise) or otherwise fulfil their obligations under the relevant agreements, or even dispute with us, our businesses may not be able to proceed as contemplated or at all, and our performance and financial position may thereby materially and adversely affected.

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### RISKS RELATED TO OUR BUSINESS OPERATION GENERALLY

**Our historical performance may not reflect our future profitability and our net profit for the year ending 31 March 2015 could be significantly lower than our net profit for the year ended 31 March 2014.**

Our core businesses during the Track Record Period were trading of animation derivative products and the commercialisation of proprietary animation characters, and our extension of core businesses in the animation-related industry, namely the establishment and operation of indoor animation amusement park business, multimedia animation entertainment business and consignment sales business, are new businesses to our Group. These new businesses have different business models from our core businesses during the Track Record Period and our historical performance, including our revenue, profit and profit margins, does not necessarily reflect or provide an appropriate basis to assess future profitability of our Group. In addition, our profit for the year ending 31 March 2015 is expected to be adversely affected by: (a) the absence of the one-off deferred licensing income of HK\$41.7 million from Zing recognised as revenue for the year ended 31 March 2014; and (b) the recognition of non-recurring expenses, including the estimated listing expenses of HK\$38.6 million (assuming that the Offer Price is HK\$3.65, being the low end of the indicative range of the Offer Price, and the Over-allotment Option is not exercised) for the year ending 31 March 2015. Our Group may not be able to off-set or satisfactorily mitigate the adverse effect caused by these non-recurring items for the year ending 31 March 2015, which may materially and adversely affect our financial performance and results of operations. Although our Directors believe that, on a normalised basis without taking into account the one-off deferred licensing income and non-recurring expenses, there will not be material adverse change to our financial performance for the year ending 31 March 2015 as compared to the year ended 31 March 2014, our net profit for the year ending 31 March 2015 could be significantly lower than the net profit for the year ended 31 March 2014. As at the Latest Practicable Date, we have not reached our financial year end and the financial results of our Group for the year ending 31 March 2015 are yet to be finalised. Prospective investors should be aware of the impact of the absence of one-off deferred licensing income and the recognition of additional listing expenses on the financial performance of our Group for the year ending 31 March 2015. Based on the actual circumstances, we will make announcements regarding the financial results of our Group pursuant to the SFO and the Listing Rules as and when appropriate.

**If the IRD charges a Hong Kong profits tax and/or penalty that substantially exceeds the tax provision we made, it will have a negative impact on our financial condition and results of operations.**

Historically, as the trading business of animation derivative products, which was the primary driver of our business, was carried out by Mr. ZHUANG outside Hong Kong and Mr. ZHUANG was a non-Hong Kong resident, the management was previously under the impression that China Animation BVI, which was the key operating entity of our Group during the Track Record Period, was not subject to registration and tax reporting in Hong Kong. On 30 August 2013, after considering the advice from the professionals regarding compliance matters in Hong Kong, China Animation BVI applied for registration with the Companies Registry of Hong Kong under Part XI of the then in force Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as a non-Hong Kong company and in October 2013, China Animation BVI informed the IRD that it had established a place of business in Hong Kong since the financial year of 2008 and had derived assessable profits to Hong Kong profits tax since then. Profits tax returns in respect of the six financial years ended 31 March 2009 to 2014 were also submitted to the IRD.

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China Animation BVI has lodged offshore profits claims in respect of the trading income (other than trading income derived from the Hong Kong affiliates of Japanese customers) and licensing income on the basis that the profits were derived from outside Hong Kong. According to the returns submitted to the IRD and taking into account the advice from the tax adviser, China Animation BVI estimated that the total tax payable for the years of assessment of 2008/09 to 2012/13 (on the assumption that the aforesaid offshore profits claims will be accepted) amounts to HK\$4.6 million in aggregate and has already paid such amount to the IRD. As of the Latest Practicable Date, the offshore profits claims were still under review by the IRD. We have sought tax advice from a tax adviser that in the event that the offshore profits claims in respect of the trading income are not accepted but the offshore profits claims in respect of the licensing income are accepted by the IRD, the estimated outstanding tax payable by China Animation BVI in Hong Kong for the six years of assessment ended 31 March 2014 and the five months ended 31 August 2014 would be HK\$71.9 million. Our tax adviser is also of the view that it is likely that China Animation BVI would be able to substantiate that its licensing income is offshore sourced for Hong Kong profits tax purpose. We have made accumulated provision as tax payable in the amount HK\$71.1 million in our consolidated financial statements prepared up to 31 August 2014. Our Directors consider that we have made appropriate provision in respect of the possible tax liability. Based on the advice of our tax adviser, our Directors are of the view that since China Animation BVI had not notified the IRD of its assessable profits in Hong Kong for the years of assessment of 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 on time in prior years, China Animation BVI may be held liable for its failure to notify the IRD its assessable profits in Hong Kong. In such event, China Animation BVI may be liable for penalty, the amount of which according to the penalty policy of the IRD should not exceed 60% of the relevant tax charge (on the basis of full voluntary disclosure). The amount of penalty may be less than the maximum amount if China Animation BVI can prove to the satisfaction of the IRD that the delay was not intentional.

China Animation BVI has received Notices of Assessment for the year of assessment of 2008/09 in March 2014, the year of assessment 2009/10 in May 2014, the years of assessment 2010/11, 2011/12 and 2012/2013 in July 2014, respectively, from the IRD which stated that tax payable for the years of assessment 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 amounting to approximately HK\$4,566,000 in aggregate, which is same as the tax position proposed by China Animation BVI for the relevant years assuming no penalty would be imposed by the IRD. As of the Latest Practicable Date, the IRD has not issued any penalty notice to China Animation BVI in respect of the late notification of chargeability for the relevant years as mentioned above.

In addition to making tax provision for the relevant years as discussed above, our Directors have also considered possible penalty that may be imposed by the IRD, if any, arising from the late notification of assessable profits for the years of assessment 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13. Following the receipt of professional advice from the tax adviser, our Directors understand that the possible penalty, if any, is likely to be at the level of 50% of the amount of tax under charged at a maximum of HK\$2,283,000 as of 31 August 2014. However, based on the relevant facts and circumstances and taking into account professional advice, our Directors believe that it is not probable that such penalty will be imposed on China Animation BVI. As a result, no provision has been made against the such potential penalty. Since we hold the position that our licensing income and part of our trading income is offshore sourced and not subject to Hong Kong profits tax, there should be no late notification of chargeability to tax on the relevant profits in Hong Kong. In the event that the offshore income claim is not accepted by the IRD, we would generally be required to pay back the amount of tax undercharged, while no penalty would generally be charged on the ordinary difference on opinion in tax position of the offshore income.

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Based on review of the related tax returns and supporting documents for the relevant years of assessment and information provided by us, since (1) we took the initiative to perform our backlog tax filings with the IRD and the tax returns were all filed on time once they were issued by the IRD; (2) we declared our total income including onshore and offshore income to the IRD when performing the backlog tax filings; (3) upon the tax filings were made and assessments were issued by the IRD, we made all the required tax payment on time; and (4) the IRD is still at the stage of collecting/assessing information from us about the offshore claim and, as of the Latest Practicable Date, we have not been notified that the tax matter was transferred to the tax investigation unit of the IRD, which will investigate any suspected tax evasion case; our Directors, taking into account advice of our tax adviser, are of the view that the above factors (1) to (3) indicate that China Animation BVI did not have the intention to hide its chargeability on the portion of profits which should be subject to tax in Hong Kong, and all these factors indicated that the difference in opinion between China Animation BVI and the IRD on the tax position (if any) is more of ordinary in nature rather than tax evasion and therefore it is unlikely that penalty for tax evasion will be imposed.

We cannot assure you that the IRD would not charge us tax payable which exceeds our provision and/or charge penalty in respect of the submission of late assessment or otherwise. If the IRD requires us to pay the full amount of the Hong Kong profits tax or imposes penalty on us, it could affect our cash flow and could have a material adverse impact on our financial condition and results of operations.

**Natural disasters, acts of war, terrorism, political unrest and occurrence of epidemics could adversely affect our business.**

Our business is subject to general economic and social conditions. Natural disasters, acts of war, terrorism, political unrest and epidemics which are beyond our control may adversely affect our operations. For example, serious earthquakes and their successive aftershocks hit Sichuan province in May 2008 and April 2013, resulting in tremendous loss of life and injury, as well as destruction of properties and assets in the region. Additionally, the PRC reported a number of cases of severe acute respiratory syndrome (“SARS”) in 2003 and H1N1 swine flu between 2009 and 2010. In early 2013, there were reports of reoccurrences of avian flu which caused several confirmed human deaths. Recently, there are cases of H7N9 and H3N2 influenza reported in different parts of China. There are outbreaks of Ebola virus disease in East Africa and reported cases of infection in other continents. We have not adopted any written preventive measures or contingency plans to combat any future outbreak of swine flu, avian flu, SARS, Ebola virus disease or any other epidemics, and any outbreak of epidemics, natural disaster, acts of war or terrorist attacks may severely restrict the level of economic activity in the affected areas, significantly disrupt our business, materially impact our overall results of operations and financial condition, or otherwise cause our business to suffer in ways that we currently cannot predict.

In particular, if there occurs outbreak of epidemics such as SARS or H1N1 swine flu in the cities where our indoor animation amusement parks situate, our potential customers may avoid visiting crowded public areas including our indoor animation amusement parks to be established and therefore may affect our results of operations.

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## RISK FACTORS

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**The properties in Shenzhen leased by Mr. ZHUANG to us have title defect, and any interference to the lease agreements may result in disruption to our business.**

We have entered into two lease agreements with Mr. ZHUANG pursuant to which we lease from Mr. ZHUANG the properties situated at Longgang District, Shenzhen for an aggregate gross floor area of 13,422 sq.m. (the “**Shenzhen Properties**”) as our offices and research and development centre for the period from 1 August 2014 to 31 March 2016. These lease agreements constitute exempt continuing connected transactions for our Company. Please refer to the sections headed “Business — Properties” and “Exempted Continuing Connected Transactions” in this prospectus for further information. We have also incurred substantial amount of the leasehold improvement on the Shenzhen Properties with the carrying value of HK\$52.5 million as of 31 August 2014. The leasehold improvement is recognised as part of our non-current assets as of 31 August 2014.

As advised by our PRC Legal Adviser, Mr. ZHUANG has not been legally granted the title ownership to the Shenzhen Properties. This legal defect to the Shenzhen Properties could result in various risks under the PRC law, such as Mr. ZHUANG’s inability to perform the obligations under the lease agreements and the interference by the PRC government to the lease agreements. In any of these events, we may be required to vacate the Shenzhen Properties and we may also need to write down the value of some or all of the leasehold improvement. If we are not able to efficiently identify a comparable property for relocation on terms and conditions acceptable to us or at all or we are not adequately indemnified by Mr. ZHUANG as the landlord under the Deed of Indemnity, our business operation, financial condition and operating results could be adversely affected.

**We have limited insurance coverage.**

Our business is subject to hazards and risks beyond our control that may result in breakdowns or interruptions and cause significant damage to persons or property. In particular, for the trading of animation derivative products business, we face exposure to product liability claims in the event that any of our product is alleged or have resulted in property damage, bodily injury or other adverse effects. We do not purchase insurance coverage for product liability or third party liability and are therefore not covered or compensated by insurance in respect of losses, damages, claims and liabilities arising from or in connection with product liability or third party liability.

We carry property insurance for our offices Hong Kong. We also expect to purchase insurance in respect of our offices in Shenzhen and the operation of Shanghai Joypolis. However, our insurance coverage may still be limited in terms of amount, benefit and scope. We consider that the insurance industry in China is still in an early stage of development, and our existing insurance may not be sufficient to cover us for all accidents and potential liabilities. For example, if serious and fatal accidents happen in Shanghai Joypolis and we are held liable for claims arising therefrom which exceed the limits of our insurance coverage or outside the scope of our insurance coverage, our business, results of operations and financial condition may be materially and adversely affected. We do not have any business disruption insurance coverage for our operations to cover losses that may be caused by natural disasters or catastrophic events, such as epidemics or earthquakes, so that any business disruption or natural disaster could result in substantial costs and a diversion of resources, which would have a material adverse effect on our business and results of operations.

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## RISK FACTORS

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In addition, to the extent our insurance policies do cover particular risks, we cannot assure you that all claims made by us under our insurance policies will be honoured fully or on time by our insurance providers. Should an accident, natural disaster, terrorist act or other event result in an uninsured loss or a loss in excess of insured limits, we could suffer financial loss and damage to our reputation and could lose all or a portion of future revenue anticipated to be derived from relevant product or operation. Any material loss not covered by our insurance or reimbursed by our insurance providers could materially and adversely affect our business, financial condition and results of operations.

**We may be unable to obtain or renew requisite approvals, permits, licences and certificates necessary for our business on a timely basis or at all.**

Our business is subject to obtaining various approvals, permits and licences. In particular, among other things, we are required to obtain and maintain the registration licences for operating special equipment in Shanghai Joypolis. Applications for the requisite approvals, permits, licences or certificates are assessed by the relevant government authorities, using standards that may be amended from time to time. We cannot predict how such standards will be amended in the future, and we may not be able to comply with such subsequent modifications or the amended interpretations of the compliance standards at acceptable costs or at all. There can be no assurance that all approvals, permits, licences and certificates currently in place for our operations can or will be renewed, or that new approvals, permits, licences or certificates will be received in a timely and cost-effective manner or at all. Our inability to obtain or renew requisite approvals, permits, licences and certificates necessary for our business on a timely basis or at all could materially and adversely affect our business, financial condition and results of operations.

**We did not fully comply with the then in force Companies Ordinance.**

During the Track Record Period, two of our Company's subsidiaries incorporated in Hong Kong, namely China Animation HK and Network China HK, did not fully comply with certain statutory requirements in the then in force Companies Ordinance with respect to late filing of the notices of change of registered office within the prescribed time. Each of the relevant subsidiaries and their respective officers, and each director of the relevant subsidiaries, who fail to file the notice could be liable to a fine of HK\$10,000 and a maximum daily default fine of HK\$300 for continued default. Further information on these non-compliant incidents is set forth in the paragraphs under "Other Information — 11. Non-compliance with the then in force Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (the "Predecessor Companies Ordinance") during the Track Record Period" in Appendix IV to this prospectus.

If the Hong Kong Companies Registry takes any actions against the two subsidiaries, including imposing fines or other penalties, our operating results could be adversely affected.

**Our business is subject to safety and health regulations as well as various customer-imposed safety, health, and anti-terrorism guidelines that may increase our costs or restrict our operations.**

Our business is subject to safety and health regulations governing the animation derivative products industry. Our failure to comply with these regulations may result in penalties, fines,



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governmental sanctions, proceedings and/or suspension or revocation of our licences or permits to conduct our business. In addition, our efforts to comply with these regulations may result in us having to suspend or delay delivery of our products, which could result in us losing customers, having to cancel orders or incurring additional costs. Moreover, the PRC's regulations are constantly evolving. There can be no assurance that the PRC government will not impose additional or stricter laws and regulations. Our failure to comply with current or future applicable safety or health regulations as well as the consequences of our efforts to comply with such regulations could materially and adversely affect our business.

In addition, some of our customers require us to fulfil their own standards and guidelines. Should we fail to fulfil standards required by our customers or be perceived to fail to fulfil such standards, our customers may decide not to purchase our products and our business could be materially and adversely affected. New customer guidelines could also require us to incur significant expense or restrict our operations.

**We depend on our senior management team, and our business and growth may be disrupted if we lose their services.**

We rely on the expertise and experience of all of our executives and other senior managers. We are highly dependent on our executive Directors and the senior management team to develop business strategies and customer relationships. Our founder, Mr. ZHUANG, the expertise and experience of whom are set out in the section of “Directors, Senior Management and Employees” in this prospectus, is a key contributor to the growth and development of our Group. If we lose any member of our management team, we may not be able to replace him or her adequately and timely, and our business may be severely disrupted and our financial condition and results of operations may be materially and adversely affected.

Furthermore, as we expect to continue expanding our operations and product portfolio, we will need to continue attracting and retaining experienced management personnel. We believe that competition for experienced personnel in the animation-related industry and amusement park industry is intense, and the availability of suitable and qualified candidates in China is limited. Competition for these individuals could cause us to offer higher compensation and other benefits in order to attract and retain them, which would increase our operating costs.

**Our business growth could be adversely affected if we are unable to attract, motivate and retain a sufficient number of qualified employees in order to grow our business.**

Our ability to continue to grow our business and deliver effective service to our customers depends on our ability to attract and retain qualified and professional employees that are, among other things, able to effectively conduct quality control, create popular animations or operate indoor amusement parks. However, competition for qualified personnel is intense; we cannot assure you that we will be able to attract, hire and retain a sufficient number of qualified and professional personnel to continue to expand our business in the manner we contemplate and deliver effective service to our customers. In addition, competition for these individuals could cause us to offer higher compensation and other benefits in order to attract and retain them, which would increase our operational costs.

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**Fluctuations in exchange rates may result in foreign currency exchange losses and foreign exchange regulations may limit the ability of our operating subsidiaries to remit payments to us and may expose us to exchange rate volatility.**

The revenue generated by our core businesses during the Track Record Period, namely our animation derivative products trading and licensing of animation characters business, was denominated in US dollar and Hong Kong dollar, and we expect that Shanghai Joypolis will generate revenue denominated in Renminbi. Further, we pay Japanese Yen to SEGA pursuant to the SEGA Licence Agreement in respect of Shanghai Joypolis. Therefore, we are exposed to foreign currency risk, such as fluctuations in the exchange rates of Japanese Yen against other currencies would have a negative effect on the amount we are required to pay SEGA. Moreover, Renminbi is not readily convertible into other currencies. As advised by our PRC Legal Adviser, under the existing foreign exchange regulations in China, RMB is freely convertible for payments of current account items (such as trade) by complying with certain procedural requirements, while it is not freely convertible for capital account items (such as direct investment) unless prior approval from SAFE or its local counterparts is obtained. However, the PRC government may decide to restrict access to foreign exchange for current account transactions in the future.

Recently, Japanese Yen has depreciated substantially against other currencies mainly due to the monetary policy implemented by the Japanese government. According to Frost & Sullivan, due to the specific characteristics of animation derivative products, in particular toys, their demand has maintained relatively steady and is less affected by the fluctuations in the macro economy due to reliable loyalty of fans. However, if the Japanese Yen continues to depreciate, the price of animation derivative products in terms of Japanese Yen would increase. If our customers and their onward customers cannot transfer the price increase to the end customers or that they don't have appropriate hedging arrangements in place, they may request us to reduce the selling prices to ensure their profitability. In such event, we may not have sufficient bargaining power to maintain our profitability and we may even lose purchase order from our customers if our quotations are not acceptable to them, which could in turn adversely affect our revenue and financial performance.

Any change in foreign exchange regulations may severely restrict our ability to pay dividends or satisfy other foreign exchange requirements. The convertibility of the Renminbi into other currencies is subject to changes in the PRC policies and international economic and political developments. In 2005, the PRC government changed its policy of pegging the value of the RMB to the US dollar. Under the current policy, the RMB is pegged against a basket of currencies, determined by the PBOC, against which it can rise or fall within stipulated ranges against different currencies each day. This change in policy has resulted in an appreciation of the value of the Renminbi against the US dollar of approximately 30% from July 2005 to June 2013. We cannot predict whether the PRC government may change its policies that have effect on the exchange rate of the Renminbi, as well as when and how Renminbi exchange rates may change going forward.

Fluctuations in exchange rates may adversely affect the value, translated or converted into other currencies, of our net assets, earnings or any declared dividends. Also, we are of the view that there are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. To date, we have not entered into any agreements to hedge our exchange rate exposure. In any event, to the extent such hedges are available, their effectiveness may be limited and we may be unable to hedge our exposure successfully, or at all.

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### **Seasonal fluctuation may materially and adversely affect our financial condition and results of operations.**

Historically, our sales were subject to seasonality, which was mainly driven by the seasonal purchase patterns of our customers and end-consumers of animation derivative products. We generally record higher sales in around the third quarter of the year when our customers place purchasing orders with us in anticipation of stronger market demand for toys around Christmas. However, these sales patterns may not be indicative of future sales performance which may fluctuate substantially. Seasonal fluctuations in the future may not match the expectations of investors. Should there be any reduction in the demand for our products in the third quarter in any year, our financial condition and results of operations may be materially and adversely affected.

Our indoor animation amusement park business could be affected by seasonal fluctuations in revenue and profitability. Generally, summer and winter when there are consecutive school holidays are the peak seasons for recreational businesses targeting students and families, including Shanghai Joypolis and other indoor animation amusement park(s), if any. Shanghai Joypolis and other indoor animation amusement park(s), if any, may therefore experience fewer customer flow in other seasons, resulting in sharp drop in revenue and profits across non-peak seasons.

### **RISKS RELATED TO THE PRC**

#### **Changes in economic, political and social conditions or government policies in the PRC could affect our business and prospects.**

Our suppliers of the animation derivative products are located in the PRC. We expect to have much closer affiliation with the PRC market given our development in the various animation-related businesses (notably the indoor animation amusement park business) in the PRC in addition to our traditional trading of animation derivative products namely for the Japanese customers. Accordingly, our financial condition and results of operations as well as the growth of our business will be affected to a significant extent by the economic, political and social conditions in the PRC.

The economy of the PRC differs from the economies of most developed countries in many respects, including the degree of government involvement, control of capital investment and foreign currency exchange, growth rate, overall level of development and access to financing. The PRC economy has experienced significant growth in the past decades and the PRC government has implemented a range of measures to encourage economic growth and development. Economic reform measures, however, may be adjusted, modified or applied inconsistently from industry to industry or across different regions. Any changes in PRC's political, economic and social conditions, laws, regulations and policies or any significant decline in the condition of the PRC economy could have a material adverse effect on our business, financial condition and results of operations.

#### **Uncertainties in the PRC legal system may have a material adverse effect on us.**

Our business and operations are primarily conducted in the PRC and are therefore subject to PRC laws, rules and regulations. Our PRC subsidiaries are generally subject to laws, rules and regulations applicable to foreign investments in PRC and, in particular, laws, rules and regulations

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applicable to wholly foreign-owned enterprises and equity joint ventures. The PRC legal system is based on written statutes. Previous court decisions may be cited for reference by the courts but have limited value as legal precedents. Since the late 1970s, the PRC government has significantly enhanced PRC legislation and regulations to provide protections to various forms of foreign investments in the PRC. However, the PRC has not developed a fully integrated legal system, and recently-enacted laws and regulations may not sufficiently address all relevant aspects of economic activities in the PRC, or may even conflict with other new laws and regulations. As many of these laws, rules and regulations are relatively new, and because of the limited volume of published decisions, the interpretation and enforcement of these laws, rules and regulations involve uncertainties and may not be as consistent or predictable as in other more developed jurisdictions. In addition, the PRC legal system is based in part on government policies and administrative rules that may have a retroactive effect. As a result, we may not be aware of our violations of these policies and rules until sometime after the violation. Furthermore, the legal protection available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted and may result in substantial costs and the diversion of resources and management attention.

**PRC regulation of direct investment and loans by offshore holding companies to PRC entities may delay or limit us from using the proceeds of the Global Offering to make additional capital contributions or loans to our PRC subsidiaries.**

Any capital contributions or loans that our Company, as an offshore entity, make to our PRC subsidiaries, including the proceeds from the Global Offering, are subject to PRC regulations. For example, any of our loans to our PRC subsidiaries cannot exceed the difference between the total amount of investment each of our PRC subsidiaries is approved to make under relevant PRC laws and the registered capital of each of our PRC subsidiaries, and such loans must be registered with the local branch of SAFE. In addition, our capital contributions to each of our PRC subsidiaries must be approved by MOFCOM or its local counterpart. We cannot give any assurance that we will be able to obtain these approvals on a timely basis, or at all. Moreover, we may fail to pay up all registered capital of our PRC subsidiaries in a timely manner or at all. If we fail to obtain such approvals or make such payments, our ability to make equity contributions or provide loans to our PRC subsidiaries or to fund their operations may be negatively affected, which may materially and adversely affect our PRC subsidiaries' liquidity and ability to fund their working capital and expansion projects and meet their obligations and commitments.

**We rely principally on dividends and other distributions paid by our subsidiaries, and limitations on their ability to pay dividends to us could have a material adverse effect on our business, financial condition and results of operations.**

Our Company is a holding company incorporated in the Cayman Islands, and our business operations will be conducted through our subsidiaries incorporated in the PRC, Hong Kong and the BVI. Shortages in the availability of foreign currency may restrict our ability to remit sufficient foreign currency to pay dividends, or otherwise satisfy any foreign currency dominated obligations we may incur. In addition, since our future cash flow from operation of Shanghai Joypolis will be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to receive dividends and distributions from our subsidiaries in China, namely Shenzhen Wald and Huajiatai PRC. Regulations in China currently permit payment of dividends by PRC

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subsidiaries only out of accumulated profits as determined in accordance with the PRC generally accepted accounting principles. According to applicable PRC laws and regulations, some of our PRC subsidiaries is required to maintain a general reserve fund, a staff welfare fund and a bonus fund.

Each of our PRC subsidiaries is also required to set aside at least 10% of its after-tax profit, based on PRC generally accepted accounting principles, each year for general reserves until the cumulative amount of such reserves reaches 50% of its registered capital. These reserves are not distributable as dividends. Contributions to such reserves are made from each of our PRC subsidiaries' net profit after taxation. As a result, each of our PRC subsidiaries is restricted in its ability to transfer its net profit to us in the form of dividends. If our PRC subsidiaries cannot pay dividends due to government policies or regulations, or because they cannot generate sufficient cash flow, we may not be able to pay dividends, service our debt or pay our expenses, which may have a material adverse effect on our business, financial condition and results of operations.

### **We may be deemed a PRC “resident enterprise” under the PRC Enterprise Income Tax Law and be subject to PRC taxation on our worldwide income.**

The PRC EIT Law and its implementation regulations issued by the State Council defines the term “de facto management bodies” as “bodies that substantially carry out comprehensive management and control on the business operation, employees, accounts and assets of enterprises”. Under the EIT Law, a foreign enterprise whose “de facto management bodies” are located in China is considered a “resident enterprise” and will be subject to an uniform 25% enterprise income tax rate on its global income. In April 2009, the SAT further specified certain criteria for the determination of what constitutes “de facto management bodies” for foreign enterprises which are controlled by PRC enterprises. If all of these criteria are met, the relevant foreign enterprise controlled by a PRC enterprise will be deemed to have its “de facto management bodies” located in China and therefore be considered a PRC resident enterprise. These criteria include whether: (i) the enterprise's day-to-day operational management is primarily exercised in China; (ii) decisions relating to the enterprise's financial and human resource matters are made or subject to approval by organisations or personnel in China; (iii) the enterprise's primary assets, accounting books and records, company seals, and board and shareholders' meeting minutes are located or maintained in China; and (iv) 50% or more of voting board members or senior executives of the enterprise habitually reside in China.

We are currently not treated as a PRC resident enterprise by the relevant tax authorities in the PRC. Since our management may be present in China based on business needs, we cannot give any assurance that we will not be considered as a “resident enterprise” under the PRC EIT Law and not be subject to the enterprise income tax rate of 25% on our global income.

### **RISKS RELATED TO THE GLOBAL OFFERING**

#### **There has been no prior public market for our Shares, and an active trading market in our Shares may not develop.**

Prior to the Global Offering, there was no public market for our Shares. The Offer Price for our Shares will be determined by us and the Sole Global Coordinators (on behalf of the Underwriters) based on, among other things, market and economic conditions on the date the Offer Price is

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determined, our results of operations, market valuations of other companies engaged in similar activities, the present state of our business operations, our management, indications of interest from potential investors in our Shares and other factors deemed relevant, and may differ significantly from the market price for the Shares after the Global Offering. We have applied to list and deal in our Shares on the Stock Exchange. There can be no assurance that an active trading market for our Shares will develop following the Global Offering or, if it does develop, that it will be sustained or that the market price for our Shares will not decline below the initial offer price.

**The price and trading volume of our Shares may be volatile, which could result in substantial losses for investors purchasing our Shares in the Global Offering.**

Factors such as fluctuations in our revenue, earnings, cash flows, new investments, acquisitions or alliances, regulatory developments, additions or departures of key personnel, or actions taken by competitors could cause the market price of our Shares or trading volume of our Shares to change substantially and unexpectedly. In addition, financial markets around the world have been experiencing heightened turmoil and stock prices have been subject to significant volatility in recent years. Given the potential market fluctuations, the price of our Shares may decline significantly, and as a result you may incur substantial losses on your investments.

**The interests of our Controlling Shareholders may conflict with the best interests of the other shareholders.**

Upon completion of the Global Offering and the Capitalisation Issue and assuming that the Over-allotment Option is not exercised, our Controlling Shareholders will hold 56.0% of our Shares in issue. All our Controlling Shareholders are Concert Parties and their shareholding as well as the exercise of the voting rights attached with the Shares are subject to the terms and conditions of the Concert Party Agreement. Hence, our Controlling Shareholders will have significant influence over us, including on matters relating to potential mergers, consolidations, the sale of all or substantially all of our assets, the election of Directors and other significant corporate acts and decisions. This concentration of ownership may discourage, delay or prevent a change in control of us, which could deprive our Shareholders of any opportunity to receive a premium for their Shares as part of a sale of us or our assets, and might reduce the liquidity or trading price of our Shares. The interests of our Controlling Shareholders may not be consistent with the interests of our other Shareholders, including those who subscribe for our Shares in the Global Offering. We cannot assure you that our Controlling Shareholders will always take actions that will benefit our other Shareholders.

**Investors will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.**

As the Offer Price of our Shares is higher than the net tangible book value per Share of our Shares immediately prior to completion of the Global Offering and the Capitalisation Issue, investors of our Shares in the Global Offering will experience an immediate dilution in pro forma combined net tangible assets to HK\$1.26 per Share (assuming an Offer Price of HK\$4.10, which is the mid-point of the indicative range of the Offer Price of HK\$3.65 to HK\$4.56, and assuming that the Over-allotment Option is not exercised), and our existing Shareholders will experience an increase in the pro forma adjusted net tangible asset value per Share of their Shares. In addition, holders of our Shares may experience a further dilution of their Shareholding if the Over-allotment Option is exercised or if we seek equity financing in the future.

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**Future sales or perceived sales of substantial amounts of our securities in the public market could have a material adverse effect on the prevailing market price of our Shares and our ability to raise capital in the future, and may result in dilution of your shareholding in our Company.**

The market price of our Shares could decline as a result of future sales of substantial amounts of our Shares or other securities relating to our Shares in the public market or the issuance of new Shares or other securities, or the perception that such sales or issuances may occur. Future sales, or perceived sales, of substantial amounts of our securities, including any future offerings, could also materially and adversely affect our ability to raise capital in the future at a time and at a price we deem appropriate. In addition, our Shareholders may experience dilution in their holdings to the extent we issue additional securities in future offerings.

Certain amounts of our Shares currently outstanding are and/or will be subject to contractual and/or legal restrictions on resale for a period of time after completion of the Global Offering. Further information on the restrictions on the sale of our Shares by our Controlling Shareholders is set forth in the section headed “Underwriting — The Hong Kong Public Offering — Undertakings” in this prospectus. After these restrictions lapse or if they are waived or breached, future sales, or perceived sales, of substantial amounts of our Shares could negatively impact the market price of our Shares and our ability to raise capital in the future.

**Historical dividends may not be indicative of our future dividend policy and we may not be able to pay any dividends on our Shares.**

Our historical dividends may not be indicative of our future dividend policy. Prior to the Reorganisation, China Animation BVI declared and paid dividends of HK\$75.0 million, HK\$85.0 million, HK\$83.2 million and HK\$25.0 million for the three years ended 31 March 2014 and the five months ended 31 August 2014, respectively, to its then equity holder, Mr. ZHUANG. For details of the reasons for the historical dividends, please refer to “Financial Information — Dividend paid during the Track Record Period and dividend policy” in this prospectus. Following the Listing, the historical pattern of dividend payment may not recur as before or at all. We cannot assure you when, if and in what form dividends will be paid on our Shares following the Global Offering. A declaration of dividends must be proposed by the Board and is based on, and limited by, various factors, including, without limitation, our business and financial performance, capital and regulatory requirements and general business conditions. We may not have sufficient or any profits to enable us to make dividend distributions to our shareholders in the future, even if our financial statements indicate that our operations have been profitable.

**Due to a gap of several business days between pricing and trading of our Shares, and given that our Shares will not commence trading on the Stock Exchange until the Listing Date, the initial trading price of our Shares could be lower than the Offer Price.**

The Offer Price will be determined on the Price Determination Date. However, our Shares will not commence trading on the Stock Exchange until the Listing Date, which is around four business days after the Price Determination Date. As a result, you may not be able to sell or otherwise deal in our Shares during such period, and thus are subject to the risk that the market price of our Shares could fall before trading begins as a result of adverse market conditions or other adverse developments occurring during this period.

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**Certain facts and statistics in this prospectus are derived from various sources, the reliability of which cannot be assumed or assured.**

The information and statistics contained in this prospectus related to China, Japan and the industries in which we operate have been derived from various sources. We believe that the sources of such information and statistics are appropriate and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information or statistics is false or misleading in any material respect or that any fact has been omitted that would render such information or statistics false or misleading in any material respect. Such information and statistics have not been independently verified by us, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering and no representation is given as to their correctness or accuracy.

While we have taken reasonable care to reproduce such information, we cannot guarantee the accuracy and reliability of the information contained in such sources. Those facts and statistics may not be consistent with other information compiled within or outside the PRC and may not be complete or up-to-date. Collection methods of such information may be flawed or ineffective, or there may be discrepancies between published information and market practice, which may result in the statistics included in this prospectus being inaccurate or not comparable to statistics produced for other economies. In addition, we cannot assure you that they are stated with the same degree of accuracy as may be elsewhere. You should give consideration as to how much weight or importance to place on all such facts and statistics.



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## **RESPONSIBILITY STATEMENT**

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### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to us.

Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

### **INFORMATION AND REPRESENTATION**

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants in the Hong Kong Public Offering, this prospectus and the Application Forms set forth the terms and conditions of the Hong Kong Public Offering. The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set forth herein and therein.

We have not authorised anyone to provide any information or to make any representation not contained in this prospectus and the Application Forms. You should not rely on any information or representation not contained in this prospectus and the Application Forms as having been authorised by us, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers, agents, employees, advisers, representatives or any other party involved in this Global Offering. No representation is made that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

You should consult your professional advisers if you are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of or dealing in the Shares (or exercising rights attached to them). No responsibility is accepted by us or by any of the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers, agents, employees, advisers, representatives or any other party involved in this Global Offering for any tax effects or liabilities resulting from the subscription for, purchase, holding or disposing of, or dealing in, our Shares or your exercise of any rights attaching to our Shares.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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The Global Offering	<p>Global Offering of 107,280,000 Shares (excluding any Shares to be allotted and issued pursuant to the Over-allotment Option) comprising 10,728,000 Hong Kong Offer Shares and 96,552,000 International Offer Shares, in each case subject to reallocation. All Offer Shares are new Shares to be allotted and issued by our Company.</p> <p>Further information on the structure of the Global Offering, including its conditions, is set forth in the section headed “Structure of the Global Offering” in this prospectus.</p>
Indicative range of the Offer Price	HK\$3.65 to HK\$4.56
Procedures for application for the Hong Kong Offer Shares	The application procedures for the Hong Kong Offer Shares are set forth in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus and on the relevant Application Forms.
Stock borrowing arrangements in connection with settlement	The Stabilizing Manager or any person acting for it may borrow from Bright Rise up to 16,092,000 Shares.
Number of Shares to be issued under the Over-allotment Option	Up to 16,092,000 additional new Shares to be allotted and issued by our Company.
Number of Shares outstanding after the Global Offering and Capitalisation Issue (assuming the Over-allotment Option is not exercised)	429,108,000 Shares
Number of Shares outstanding after the Global Offering and Capitalisation Issue (assuming the Over-allotment Option is exercised in full)	445,200,000 Shares
Commencement of dealings in our Shares	Dealings in our Shares on the Main Board are expected to commence on Thursday, 12 March 2015. Our Shares will be traded on the Main Board in board lots of 1,000 Shares each. The stock code of our Shares will be 1566.
Lock-up undertakings by the Company and the Controlling Shareholders	See the section headed “Underwriting — The Hong Kong Public Offering — Undertakings” in this prospectus.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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Dividend policy	See the section headed “Financial information — Dividend paid during the Track Record Period and dividend policy” in this prospectus.
Voting rights	Holder of each Share is entitled to one vote at our general meetings. See Appendix III to this prospectus.
Registers and Hong Kong stamp duty	<p>Our Company’s principal register of members will be maintained by our principal registrar, Codan Trust Company (Cayman) Limited, in Cayman Islands and our Company’s branch share register of members will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong. Unless otherwise approved by our Directors, all documents evidencing transfer of title to any Shares must be lodged for registration by the Hong Kong Share Registrar and may not be lodged in the Cayman Islands.</p> <p>Dealings in our Shares registered in our Company’s branch share register of members in Hong Kong will be subject to Hong Kong stamp duty.</p>
Restrictions on offers and offers for sale	<p>No action has been taken to permit a public offering of the Offer Shares or the general distribution of this prospectus and/or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions and pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.</p> <p>Each person subscribing for the Hong Kong Offer Shares will be required to, or be deemed by its/his/her acquisition of the Hong Kong Offer Shares to, confirm that it/he/she is aware of the restrictions on offers of the Hong Kong Offer Shares described in this prospectus and on the relevant Application Forms.</p>

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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Application for listing on the Stock Exchange

Application has been made to the Listing Committee for the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Global Offering (including any Shares which may be issued pursuant to the Capitalisation Issue and the exercise of the Over-allotment Option).

No part of our share or loan capital of our Company is listed on or dealt in on any other stock exchange and nor is there at present any proposal to do so.

Underwriting

The Listing is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement. The International Underwriting Agreement relating to the International Offering is expected to be entered into on or around the Price Determination Date, subject to agreement on the Offer Price between the Sole Global Coordinator (on behalf of the Underwriters) and us. The Global Offering is managed by the Sole Global Coordinator.

If, for any reason, the Offer Price is not agreed, the Global Offering will not proceed and will lapse. Further information about the Underwriters and the underwriting arrangements is set forth in the section headed “Underwriting” in this prospectus.

Shares will be Eligible for Admission into CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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### Exchange rate conversion

Unless otherwise specified, this prospectus contains certain translations for the convenience of the reader at the following rates:

- HK\$1.00 to RMB0.791
- US\$1.00 to RMB6.139
- US\$1.00 to HK\$7.755
- HK\$1.00 to JPY15.21

These translations are provided for reference and convenience only, and no representation is made, and no representation should be construed as being made, that any amounts in RMB, US\$, JPY or HK\$ can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

### Rounding

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

### Translation

The English name of Japanese and PRC nationals, enterprises, entities, departments, facilities, certificates, titles and the like are translations of their Japanese and Chinese names and are for identification purpose only.

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### DIRECTORS

<u>Name</u>	<u>Residential address</u>	<u>Nationality</u>
<i>Executive Directors</i>		
Mr. ZHUANG Xiangsong (庄向松)	House 168 23 Sam Mun Tsai Road The Beverly Hills Boulevard Du Lac, Tai Po New Territories Hong Kong	Chinese
Mr. TING Ka Fai Jeffrey (丁家輝)	7th Floor, Flat C 9-15 Marble Road North Point Hong Kong	Chinese
Ms. LIU Moxiang (劉茉香)	Room B903, Block 37 Phase 2, Wanke Qian Lin Shan Ju Wulian Community Long Cheng Street Longgang District Shenzhen City PRC	Chinese
<i>Independent non-executive Directors</i>		
Mr. NI Zhenliang (倪振良)	Room 10, 3rd Floor Block 50, Lianhua Beicun Futian District Shenzhen PRC	Chinese
Mr. TSANG Wah Kwong (曾華光)	Flat B, 11th Floor, Block 9 Vista Paradiso 2 Hang Ming Street Ma On Shan New Territories Hong Kong	Chinese
Mr. HUNG Muk Ming (洪木明)	Flat B, 45th Floor, Block 2 The Pinnacle Tseung Kwan O Kowloon Hong Kong	Chinese

Further information on the qualifications and experience of our Directors is set forth in the section headed “Directors, senior management and employees” in this prospectus.

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### PARTIES INVOLVED IN THE GLOBAL OFFERING

**Sole Global Coordinator and  
Sole Sponsor**

**BNP Paribas Securities (Asia) Limited**  
59/F to 63/F, Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

**Joint Bookrunners and  
Joint Lead Managers**

**BNP Paribas Securities (Asia) Limited**  
59/F to 63/F, Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

**Ping An Securities Limited**  
15/F, 122 QRC  
122 Queen's Road Central  
Hong Kong

**Co-managers**

**Shenyin Wanguo Securities (H.K.) Limited**  
Level 19, 28 Hennessy Road  
Hong Kong

**GF Securities (Hong Kong) Brokerage Limited**  
29-30/F, Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

**Oriental Patron Securities Limited**  
27/F, Two Exchange Square  
8 Connaught Place  
Central, Hong Kong

**Reporting accountants**

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
35/F, One Pacific Place  
88 Queensway  
Hong Kong

**Legal advisers to our Company**

*as to Hong Kong law:*

**Squire Patton Boggs**  
29th Floor, Edinburgh Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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*as to PRC law:*

**King & Wood Mallesons**  
28/F, Landmark  
4028 Jintian Road, Futian District  
Shenzhen  
PRC

*as to Cayman Islands law:*

**Conyers Dill & Pearman (Cayman) Limited**  
Cricket Square, Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

**Legal advisers to the Sole Sponsor  
and the Underwriters**

*as to Hong Kong law:*

**Ashurst Hong Kong**  
11/F, Jardine House  
1 Connaught Place  
Central  
Hong Kong

*as to PRC law:*

**Zhong Lun Law Firm, Shenzhen office**  
9–10/F, Tower A, Rongchao Tower  
6003 Yitian Road  
Futian District  
Shenzhen, Guangdong  
PRC

**Industry consultant**

**Frost & Sullivan (Beijing) Inc.,  
Shanghai Branch Co.**  
Suite 2802-2803, Tower A  
Dawing Center  
500 Hongbaoshi Road  
Shanghai 201103  
PRC

**Compliance adviser**

**Quam Capital Limited**  
18th Floor, Aon China Building  
29 Queen's Road  
Central  
Hong Kong

**Receiving banker**

**Standard Chartered Bank (Hong Kong) Limited**  
15/F Standard Chartered Tower  
388 Kwun Tong Road  
Kwun Tong



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## CORPORATE INFORMATION

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<b>Registered office</b>	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Principal place of business in Hong Kong registered under Division 2 in Part 16 of the Companies Ordinance</b>	Suite 2102, Concordia Plaza 1 Science Museum Road Tsim Sha Tsui East Kowloon Hong Kong
<b>Principal place of business in China</b>	China Animation Creative Industry Park (華夏動漫創意產業園) Youyi Road, Longcheng Street Longgang District Shenzhen PRC
<b>Company's website</b>	<u><a href="http://www.animatechina.com">www.animatechina.com</a></u> <i>(information contained in this website does not form part of this prospectus)</i>
<b>Authorised representatives</b>	Mr. ZHUANG Xiangsong (庄向松) House 168, 23 Sam Mun Tsai Road The Beverly Hills, Boulevard Du Lac Tai Po, New Territories, Hong Kong  Mr. LUK Sik Tat, Patrick (陸適達) FCCA, FCPA Flat 7, 27th Floor, Block E, Kwai Fong Garden New Territories Hong Kong
<b>Company secretary</b>	Mr. LUK Sik Tat, Patrick (陸適達) FCCA, FCPA
<b>Audit committee of our Board</b>	Mr. TSANG Wah Kwong (曾華光) (Chairman) Mr. HUNG Muk Ming (洪木明) Mr. NI Zhenliang (倪振良)
<b>Remuneration committee of our Board</b>	Mr. HUNG Muk Ming (洪木明) (Chairman) Mr. TSANG Wah Kwong (曾華光) Mr. TING Ka Fai Jeffrey (丁家輝)

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## CORPORATE INFORMATION

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<b>Nomination committee of our Board</b>	Mr. ZHUANG Xiangsong (庄向松) ( <i>Chairman</i> ) Mr. HUNG Muk Ming (洪木明) Mr. NI Zhenliang (倪振良)
<b>Investment committee of our Board</b>	Mr. ZHUANG Xiangsong (庄向松) ( <i>Chairman</i> ) Ms. LIU Moxiang (劉茉香) Mr. TSANG Wah Kwong (曾華光) Mr. TING Ka Fai Jeffrey (丁家輝) Mr. WONG Yee Shuen Wilson (黃以信) <i>FCPA</i>
<b>Principal share registrar and transfer office</b>	<b>Codan Trust Company (Cayman) Limited</b> Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Hong Kong Share Registrar</b>	<b>Computershare Hong Kong Investor Services Limited</b> Shops 1712–1716 17th Floor Hopewell Centre 183 Queen’s Road East Wanchai Hong Kong
<b>Principal bankers</b>	<b>The Hongkong and Shanghai Banking Corporation Limited</b> Tsim Sha Tsui CVC Branch 82–84 Nathan Road Kowloon Hong Kong  <b>Hang Seng Bank Limited</b> Chung On Street Branch 38 Chung On Street Tsuen Wan, New Territories Hong Kong

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## INDUSTRY OVERVIEW

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*We believe that the sources of the information in this section are appropriate sources for such information, and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading, or that any fact has been omitted that would render such information false or misleading. The information from official government and non-official sources has not been independently verified by us, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of their respective directors and advisers, or any other persons or parties involved in the Global Offering, and no representation is given as to its accuracy. Accordingly, the official government and non-official sources contained herein may not be accurate and should not be unduly relied upon.*

We have commissioned Frost & Sullivan to prepare the Frost & Sullivan Report. We paid a total consideration of RMB900,000 for the preparation of the Frost & Sullivan Report. Frost & Sullivan is an independent consulting firm, providing industry research and market strategies in various industries including the industry of toys, animation and theme park. Our Directors confirm that, after taking reasonable care, there has been no adverse change in the market information since the date of the Frost & Sullivan Report which may qualify, contradict or have an impact on the information in the section and that, after considering the major assumptions, industry development and competition landscape, they are satisfied that the disclosure is not misleading and consider the data and statistics in the Frost & Sullivan Report reliable.

The Frost & Sullivan Report includes both historical and forecast information relating to the toys industry in Japan and the toys, animation and theme park industry in the PRC and other relevant economic data. Frost & Sullivan has relied on a variety of industry sources in determining its market data, including but not limited to, industry databases, interviews with market participants, publicly available statistics, publicly released corporate information and the expertise of Frost & Sullivan industry analysts. Based on the following reasons, Frost & Sullivan considered the above sources of information and data to be reliable.

The Frost & Sullivan Report was prepared taking into consideration the following factors and assumptions:

- Japan's economy is likely to recover gradually in the following decade;
- Japan's social, economic and political environment is likely to remain stable in the forecast period;
- Market drivers like continuous growth of animation industry, enlarging adult consumers are likely to drive the Japan toys market, and the demand of animation related toys is inelastic to the macro environment of Japan;
- China's economy is likely to maintain steady growth in the next decade;
- China's social, economic, and political environment is likely to remain stable in the forecast period;
- Market drivers like favorable regulatory policies, the increasing number of targeted population group, emerging media channels, consumers' growing purchasing power and advancing technologies are likely to drive the China animation industry; and
- Market drivers like growing per capita disposable income and urbanization rate, rapid development of tourism, government investment/stimulus on theme park industry, demographic changes in the local population, commercial interests in theme parks as a business are expected to drive the growth of china theme park market.

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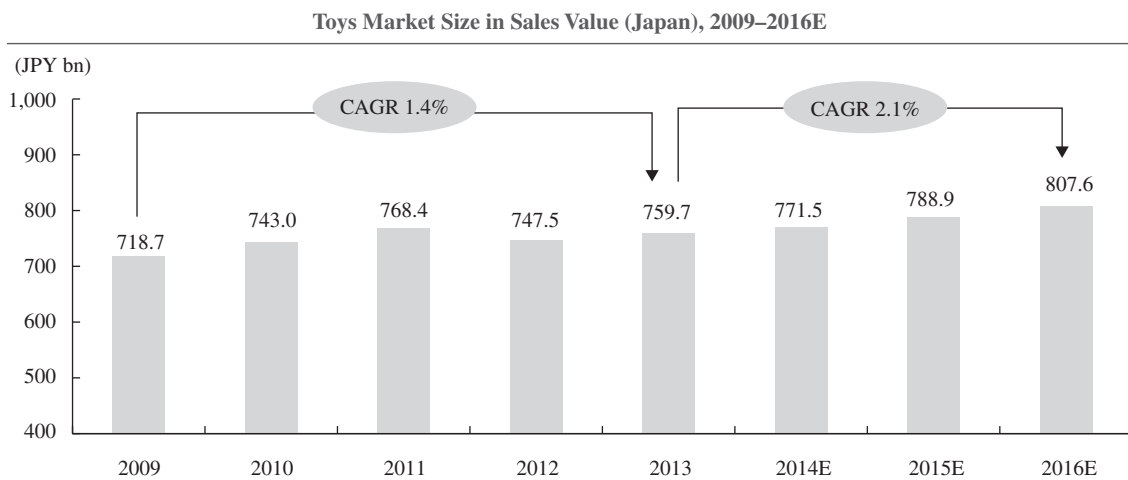
## INDUSTRY OVERVIEW

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### OVERVIEW OF THE JAPAN TOYS INDUSTRY

#### Market size and trends of Japan toys industry

As one of the major toys markets in the world, Japan toys market was well established with decades of development. Japan toys market size reached approximately JPY759.7 billion in 2013 in terms of sales value, increased from JPY718.7 billion in 2009, representing a CAGR of approximately 1.4% over the period. It is expected to steadily grow with a CAGR of approximately 2.1% from 2013 to 2016, primarily driven by the continuous growth of Japan animation industry, the recovery of macro economy, as well as enlarging adult consumers, according to Frost & Sullivan Report.



Source: Frost & Sullivan Report

Note: The statistics period for Japan toys market indicates the fiscal year from April 1st of the same calendar year to March 31st of the next calendar year.

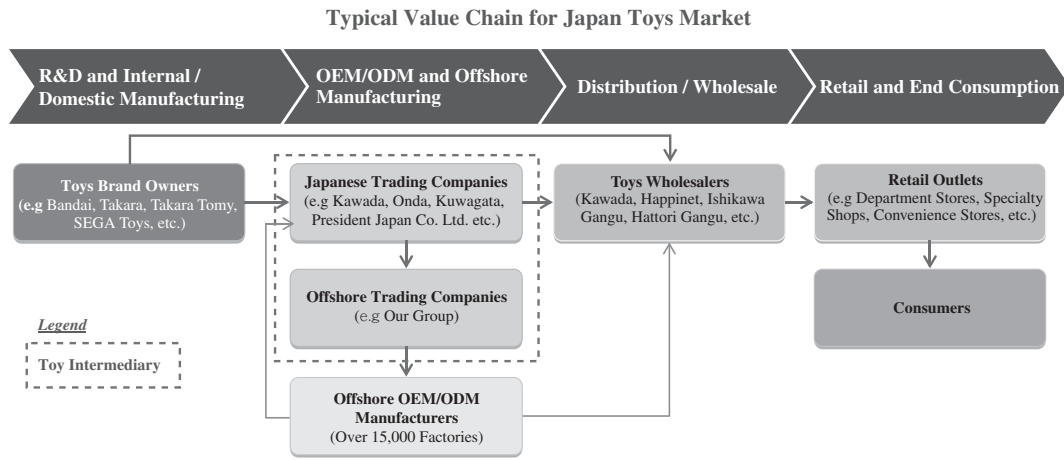
#### Major types of toys in Japan

Japan toys market was highly segmented with a variety of toys categories. Animation related toys were commonly represented by the toys derived from animation or comics and mostly related to animation characters. Associated with the well-developed animation industry in Japan, animation related toys were one of the major segments that continuously engined Japan toys market. Animation related toys include several different categories, such as figure toy, capsule toys, food grade toys, toys for boys and toys for girls. The sales of animation related toys were largely impacted by the popularity of animation characters as well as animation TV and movies, according to Frost & Sullivan Report.

## INDUSTRY OVERVIEW

### Typical value chain for toys in Japan

The chart below stated the major players in the Japanese toys' value chain:



Source: Frost & Sullivan Report

Note:

- (1) Toy Intermediary refers to companies that typically liaise between toy brand owners and toy OEM manufacturers. They help the brand owners to source the 'most appropriate' toy OEM manufacturers (i.e. those with the 'best fit' manufacturing capabilities/techniques) for the toy products manufacturing.
- (2) In some cases, Japanese trading companies and wholesaler are acted by the same company or market player.

In the value chain for toys in Japan, toy trading companies play an important role in connecting the upstream and downstream as well as smoothing manufacturing process. Japanese toy trading companies are generally also responsible for the toy's import and distribution. Offshore toy trading companies (mostly in China) mainly focus on supporting toys brand owners and Japanese counterparties to identify the offshore OEM/ODM factories, ensuring the quality control and communication process. It is a typical practice in Japan toy market that Japanese trading companies would engage offshore trading companies in the PRC to source products instead of directly source from PRC toy manufacturers.

### China is the key global manufacturing site for toys

In 2013, China was the largest supplier and exporter of toys in the world. Total export volume of toys from China to the world reached 3.0 million tonnes, accounting for approximately 67.9% of total toys trading volume in the world. Benefiting from the sufficient labor resources and relatively low labor cost, China has become the key global manufacturing site for toys manufacturing. A majority of toys products consumed in the global major toys markets like the US and Japan were manufactured in China.

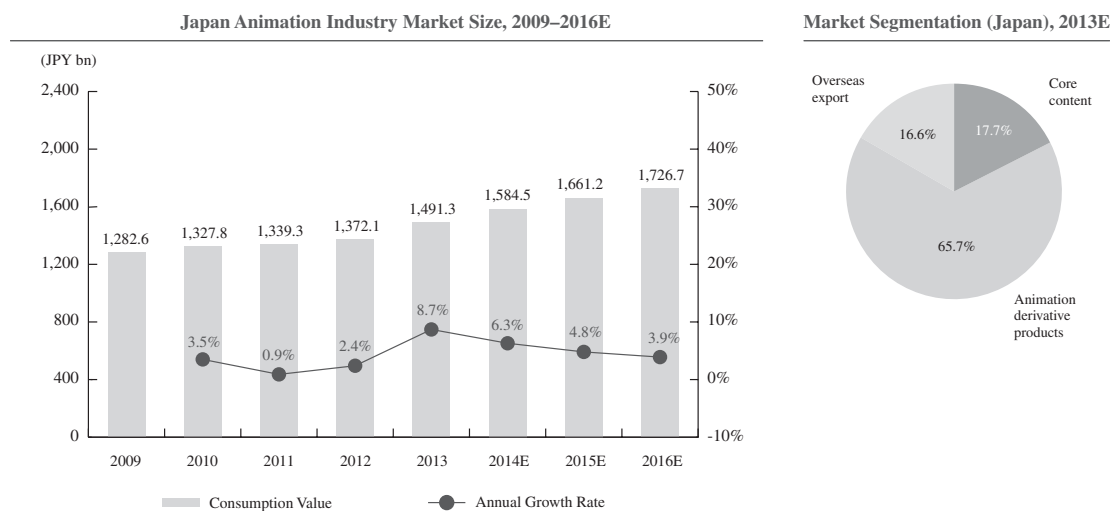
Considering the manufacturing cost, most of the toy brands in Japan market have been seeking for OEM/ODM manufacturers outside Japan. In 2013, the total import value of toys reached JPY453.5 billion, representing approximately 59.7% of total sales value of toys in Japan. In terms of import value, over 90.0% of imported toys in Japan were imported from China from 2009 to 2013.

## INDUSTRY OVERVIEW

### Key market driver for Japan toys market

#### *Continuous growth of Japan animation industry*

Japan's toys market was to a large extent driven by the continuous growth of animation industry in Japan. Japan animation industry experienced a significant increase of 8.7% between 2012 and 2013, mainly due to the rapid growth of the emerging form of animation derivative products such as animation concerts, animation stage play, animation model exhibition, etc, according to Frost & Sullivan Report. Animation derivative products, including animation related toys, apparels, games and others contributed approximately 65.7% of total revenue of Japan animation industry in 2013. The continuous growth of animation industry as well as the popularity of animation characters and animation TV is expected to drive the further development of Japan toys market.



Source: Frost & Sullivan Report

- Note: (1) The statistics period for Japan animation industry market indicates the fiscal year from April 1st of the same calendar year to March 31st of the next calendar year.
- (2) Overseas export represent the revenue Japanese animation enterprise received from the exportation of its animation core contents and animation derivative products to overseas countries.

#### *The demand of animation related toys is inelastic to the macro economy environment of Japan*

The Japanese government has released a series of stimulus plan to promote the economic development since the end of 2012. The new quantitative easing monetary policy which will accelerate the depreciation of Japanese yen, together with the increased consumption tax are likely to restrain the domestic consumption in Japan. On the other hand, the Japanese government is also considering a series of policies to reduce the impact of increasing consumption tax, including approximately JPY5,000 billion supplementary budget and approximately JPY1,000 billion tax reduction for enterprises. These policies are expected to stimulate the sound growth of Japan's domestic economics as well as domestic consumption in the long term, according to Frost & Sullivan.

The demand of animation related toys which mainly associated with the popularity of animation characters, are largely depend on the loyalty of the fans of these animation characters.

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## INDUSTRY OVERVIEW

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Therefore, the fluctuation of macro economy imposed limited impact on the demand of animation related toys, according to Frost & Sullivan.

### *Enlarging adult consumers*

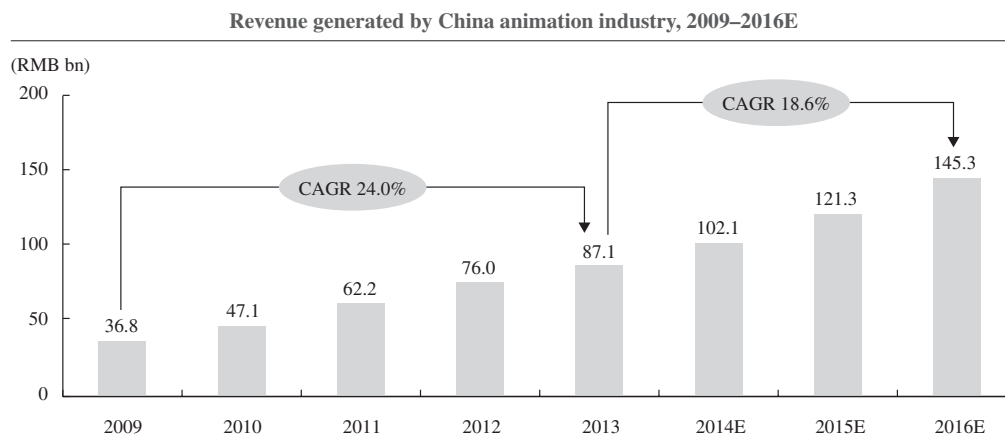
Japan toys market has a large consumer base covering a wide range of ages. Not only toys for babies or children but also toys for adult were popular and well developed in the past years. With the shrinking population of children, leading toys manufacturers and brand owners in Japan has shifted their focus towards toys to adult. These toys for adult were usually targeted to help release the pressure of adults or recall their memories of childhood. The trend resulted in the expanding of targeted consumer groups for toys and further brought a new development phase for toys for adults.

## OVERVIEW OF THE CHINA ANIMATION INDUSTRY

### Market size and trends of China animation industry

The China animation industry generated total revenues of approximately RMB87.1 billion in 2013, increasing from approximately RMB36.8 billion in 2009, representing a CAGR of approximately 24.0% over the period, according to the Frost & Sullivan Report. Total revenue for the China animation industry has been calculated based on the aggregating revenue of animation enterprises that operate different types of business models or products, including but not limit to core content like animation TV, animation movie, comics and related publications and derivative products, as reported from statistics compiled by the Ministry of Culture of the PRC and set forth in the Frost & Sullivan Report.

Despite the rapid development in the past decade, China animation industry which accounted approximately 0.2% of overall nominal GDP in China in 2013, was still at the early stage of the growth phase and is expected to step into a fast growing stage. China animation industry is expected to grow with a CAGR of approximately 18.6% from 2013 to 2016, primarily driven by consumers' growing purchasing power, the increasing number of targeted population group, favorable regulatory policies, emerging technologies as well as diversified media and channels, according to Frost & Sullivan Report.

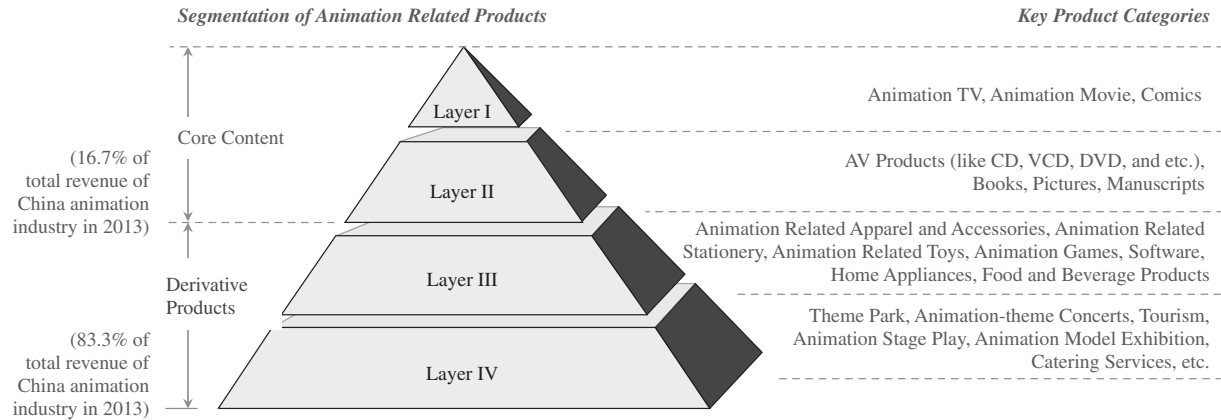


Source: Frost & Sullivan Report

# INDUSTRY OVERVIEW

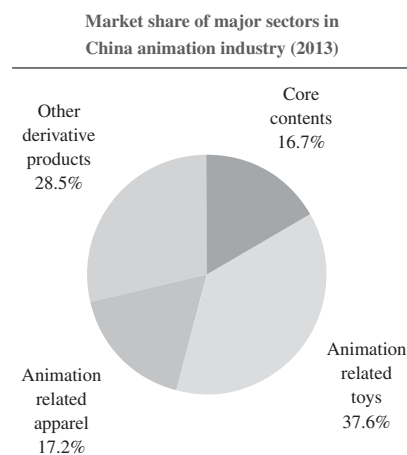
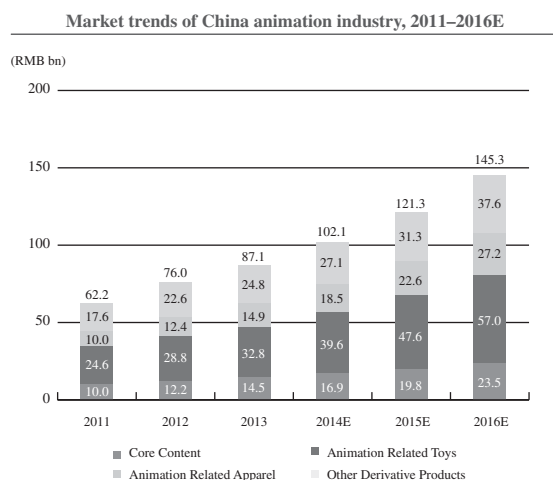
## Market structure of animation-related products

The animation industry is generally divided into two parts: (1) core content; and (2) derivative products.



Source: Frost & Sullivan Report

Core content is the most core products of animation industry, directly connected with original IP animation figures and its stories. Core content contributed approximately 16.7% of total revenue of China animation industry in 2013. Derivative products like animation related toys, apparels, games, theme parks and others contributed approximately 83.3% of total revenue of China animation industry in 2013, in which animation related toys took the largest market share, according to Frost & Sullivan Report.



Source: Frost & Sullivan Report

## The popularity of key animation characters in China

Intellectual property rights licensing was the high value-added practice as well as the most important sector in the industrial value chain. Although most Chinese companies focus currently their business on the downstream of value chain like derivative products manufacturing or original



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## INDUSTRY OVERVIEW

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equipment manufacturing (OEM), an increasing number of animation related companies are expected to be transitioned to develop original intellectual property and licensing business.

To promote the Chinese original key animation characters, SARFT, cooperated with China Animation Association and other reputable animation enterprises, initiated to elect top 10 Chinese animation characters on a yearly basis since 2010. The first batch of China top 10 animation was issued in 2010, “*Han Ba Gui*” (憨八龜) was listed among the first batch of China top 10 animation characters, associating with the other noted and popular animation characters like Pleasant Goat (喜羊羊), Blue Cat (藍貓), Duludubi (嘟嚕嘟比) and etc. In addition to the conventional animation characters appeared in Animation TV and movie, musical girl is a new category of animation character in animation industry, which first started in Japan. This new category of animation character has largely expanded the scope of derivative products. Their income is sourced from multiple channels such as derivative products, concerts, records, advertising endorsements.

Similar trend for musical girl has just started in China with “*Violet*” (紫嫣) as the first original musical girl who performed in China. Other musical girls in China such as Luo Tianyi (洛天依), Yue Zhengling (樂正綾), Mo Qingxian (墨清弦), Oriental Gardenia (東方梔子) were also introduced to the market.

### **Key market drivers of the China animation industry**

#### *Favorable regulatory policies*

With the issue of the National Development Plan on Animation Industry During the 12th Five-year Period (《十二五時期國家動漫產業發展規劃》), a series of detailed regulations and policies are expected to be launched in the near future. The favorable policies and governmental support are likely to drive China animation industry to step into a fast growing stage.

#### *The increasing number of targeted population group*

The relaxing population policy issued in 2013 is expected to bring higher birth rate in the near future, largely increasing the number of new-borns as well as the population of children and teenagers. The increasing number of targeted population group is likely to become a large audience base of animation TV and movies, and also to drive the growing demand on animation related products.

#### *Expansion of new media channels*

The expansion of new media channels, such as internet and mobile devices, is affecting the development of the whole animation industry. The mainstream platform of animation is transitioning from traditional TV to the internet. The growing number of online video websites and the prevalence of mobile devices like smartphones, tablet PC and e-book enable animation information to reach a larger pool of audience and at a faster speed.

#### *Consumers' growing purchasing power*

The growth of the Chinese economy and the per capita disposable income has led to the improvement of consumers' purchasing power. This trend is likely to continue to drive consumers' growing expenditure on animation related products.

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## INDUSTRY OVERVIEW

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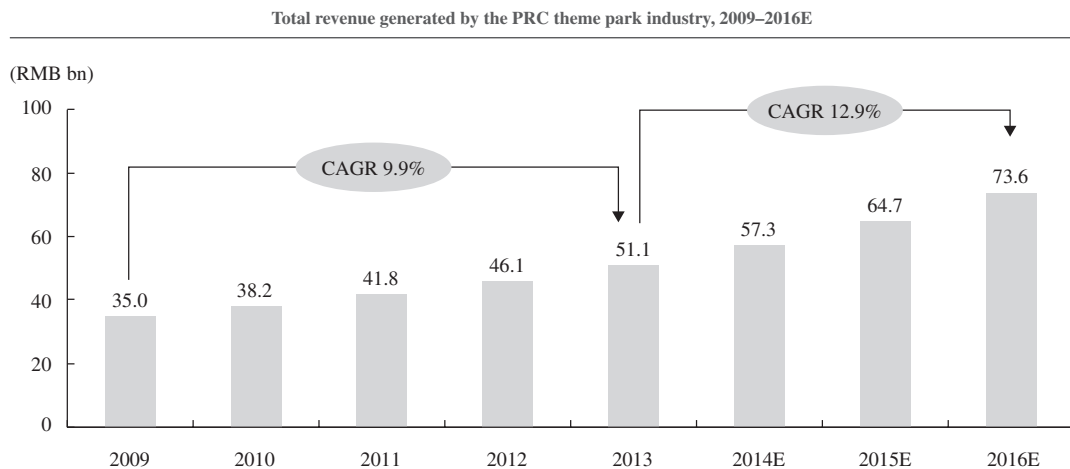
### OVERVIEW OF THE CHINA THEME PARK MARKET

#### Market size and trends of China theme park industry

A theme park can be defined as “an amusement park that has themed attractions, be it food, costumes, entertainment, retail stores and/or rides”, according to the International Association of Amusement Parks and Attractions (IAAPA).

Theme park was firstly appeared in the US in the later 1950s and witnessed a fairly rapid international expansion in the recent years. Following US and Europe, Asia has been identified as the world’s next leading international theme park market. The number of theme parks has been growing in China since early 1990s, China was opened its first theme park “China Folk Culture Village” in Shenzhen in 1991, followed by Splendid China, Happy Valley, among others.

The China theme park industry generated total revenue of approximately RMB51.1 billion in 2013, increasing from approximately RMB35.0 billion in 2009, representing a CAGR of approximately of 9.9% over the period, according to the Frost & Sullivan Report. It is expected to further grow with a CAGR of approximately 12.9% from 2013 to 2016, primarily driven by the increasing per capita disposable income, rapid growth of tourism demographic changes in the local population, among others.



Source: Frost & Sullivan Report

#### Number of visitors and per capital consumption in the theme park in China

Tourist attendance has reached 388.9 million visitors in 2013, increasing from approximately 284.3 million in 2009, representing a CAGR of approximately of 8.1% over the period. This trend is expected to remain from 2013 to 2016, and reach 520.4 million in 2016, primarily driven by the further development of tourism market, growth of disposal income and increased urban population, according to the Frost & Sullivan Report.

Per capital consumption in the theme park in China is RMB126.2 in 2013, which was largely due to ticket consumption. The per capital consumption is expected to reach RMB135.8 in 2016, primarily driven by the increasing spending on dinning and derivative products in the theme park, according to the Frost & Sullivan Report.

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### Major types of theme park in China

Theme park can generally divide into 2 groups, outdoor theme park and indoor theme park.

The occupied area of indoor theme park is relatively smaller than the outdoor theme park. In comparison with the outdoor theme park, the indoor theme park mainly target local cities and attract less visitors and shorter stay time due to the limited area. On the other hand, the indoor theme park take a series of advantages like uninfluenced by the weather condition, more flexible on updating entertainment facilities, less land cost, higher revisit rate etc.

The table below sets forth the major type of theme park (both outdoor and indoor) and its characteristics.

Park	Main Type	Estimated Investment Scale (USD)	Major Market	Estimated Annual Tourist arrivals	Length of Stay Time	Example
Outdoor Theme Park	Theme Park of Destination	Over 1.5 billion	International market	10 million	Over 8 hours	Disneyland
		Over 1 billion	Domestic market	5 million	6-8 hours	Shenzhen OCT
	Regional Theme Park	100-200 million	The province and the neighboring provinces	1.5-3.5 million	4-6 hours	Hong Kong Ocean Park
	Amusement Park	50-100 million	The city and its surrounding areas	1-2 million	About 5 hours	Suzhou Amusement Park
	Local Theme Park	3-80 million	Local city	0.2-1 million	Less than 2 hours	Hangzhou Song Dynasty
	Small-scale Theme Park	Less than 3 million	Local city	Less than 0.4 million	Shorter than others	Dalian Sunasia Ocean World
Indoor Theme Park	Amusement Park	10-30 million	The city and its surrounding areas	About 1 million	About 4-5 hours	Joypolis; Lotte World
	Game Arena	Less than 1 million	Local city	Less than 0.5 million	About 1-3 hours	Tom's World; Jumpingym USA
	Educational Park	20-300 million	Local city	1-3 million	About 4-5 hours	Shanghai Science & Technology Museum

*Source: Frost & Sullivan Report*

The indoor theme parks include amusement park, game arena and educational park. The main difference between an amusement park and a game arena is the amusement park focus on providing wonderful experience for the customers in the limited area through a series of high-tech entertainment facilities.

The indoor amusement park was firstly appeared in Japan and Korea since the late of 1980s. Joypolis and Lotte World can be regarded as typical examples of large indoor amusement park:

- Following the first Joypolis opened on July 20, 1994 in Yokohama, Japan. Joypolis have opened in several cities in Japan with the parks featuring arcade games and amusement rides based on SEGA intellectual properties. The high-tech entertainment facilities will offer visitors similar experiences as in the animation movies. Such wonderful visitor experiences play an important role of attracting wide ages of groups and increasing visit rate.

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- Lotte World opened on July 12, 1989 in Seoul, South Korea. As one of largest indoor theme park in the world, Lotte World receives over 8 million visitors each year. In addition to providing high-tech entertainment facilities like flume ride, 3D desperados, Lotte train etc, Lotte World also offers a variety of small and big performances and festivals in the park. Lotte World plans to open its first amusement park in Shenyang (China) by 2015.

The indoor theme park market in China is at a relatively early stage and they are mainly represented by small to medium size game arenas. The indoor amusement park market in China was still at the infant stage of development with very limited number of market participants. These indoor amusement parks mainly located in tier 1 or tier 2 cities where local residents have stronger purchasing power and higher disposable income. China's indoor amusement park market is likely to enjoy a rapid growth in China in the future, primarily driven by the growing per capita disposable income and urbanization rate, the enlarged target consumer group, the increasing penetration of indoor amusement park and the technology development of its entertainment facilities, according to Frost & Sullivan Report.

### **Key market drivers for China theme park market**

#### *Growing per capita disposable income and urbanization rate*

Per capita disposable income of urban households in China has increased from RMB15,781 in 2007 to RMB27,873 in 2013, representing a CAGR of 12.0% over the period. The urbanization rate reached 53.8% in 2013, increased from 47.0% in 2008. The growing per capita disposable income encourages citizen to spend more on amusement activities, and indoor amusement parks are usually considered as emerging amusement destinations thanks to their proximity to CBDs. Furthermore, an increasing number of indoor amusement parks started opening in tier 1 and tier 2 cities.

#### *Rapid development of tourism*

The Chinese government stated tourism industry as a pillar industry of the economy's tertiary sector in the 12th Five-Year Plan period. In 2013, China's total domestic tourism revenue reached RMB2.85 trillion, up nearly 60% from five years ago. The rapid development of Chinese tourism industry is conducive to the growth of the theme park market.

#### *Government investment/stimulus on theme park industry*

Government investment and stimulus play an importing role in the further development of theme park industry in China. The government stimulus mainly reflected in the following ways: land resource, public infrastructure, investment and tax incentive.

#### *Demographic changes in the local population*

Theme parks are often built in big cities with good regional condition, well-developed economy and more floating population in order to ensure a steady stream of tourists. Nowadays, with economic development in the inland areas and the movement of people toward inland cities, the theme park developers are tended to expand such areas.

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### **Key market drivers for China indoor amusement park market**

#### *The growing number of target consumer group*

Indoor amusement parks have enlarged its target consumer group from children only to young adults in recent years. The indoor amusement park is usually equipped with high-tech entertainment facilities and fashion design, which enable them to attract a broader range of consumers.

#### *The increasing penetration of indoor amusement park*

Indoor amusement parks were firstly appeared in developed countries like Japan and were introduced to China later. Riding on the rapid growth of China's macro economy and the growing disposable income, overseas indoor amusement park operators have accelerated its expansion and increased penetration to Chinese market. The launch of these indoor amusement parks is expected to fuel the further growth of Chinese indoor amusement market.

#### *The technology development of entertainment facilities*

An increasing number of new and advanced technologies are applied in the entertainment facilities of indoor amusement parks. These emerging and advanced technologies can bring consumers unprecedented experiences, and attract consumers to come to the amusement park frequently. Therefore, the technology development of the entertainment facilities will help to raise the revisit rate in the amusement park.

### **COMPETITIVE LANDSCAPE**

The market of offshore toy trading companies was highly fragmented with no clear market leader. There were over 8,000 toys OEM/ODM manufacturers in China and over 3,000 toys trading companies according to Frost & Sullivan. Most of toys trading companies are traditional trading house, which do not offer value-added services in the product design, quality control, technical guidance. Major offshore toys trading companies in China included Goldlok Toys Holdings (Guangdong) Co. Ltd, Hua Wei Technology Co. Ltd, Guangdong Attop Technology Co. Ltd, and etc. Our Group operates its toy trading business since 2007, and accumulated years of experiences in the toys industry. The long-term relationships with other toys players in the value chain and the ability of offering value-added services differentiate our Group with other traditional trading houses.

The indoor theme park market in China is mainly represented by many small to medium size of game arenas. There is few indoor amusement park in China, including Ant Kingdom, Baolong Park, Lotte World (to be opened by 2015 in Shenyang), Wandamao Movie Indoor Theme Park (to be opened by 2015 in Qingdao) and Oriental Universal Studio (to be opened by 2016 in Tianjin). As of the Latest Practicable Date, Joypolis is the only indoor amusement park opened in Shanghai according to Frost & Sullivan Report.

### **Entry barriers for toy trading business**

#### *Long-term partnership*

The toy trading companies are an indispensable link between toy brand owners and toy OEM manufacturers. The toy trading companies have to establish and maintain relationships with toys

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brand owners to guarantee orders. The toy trading companies, on the other hands, own its capabilities to find the appropriate OEM/ODM manufacturers to meet the high quality as required by toys brand owners. Toys trading companies need long time to build its track record and reliability. New entrants are difficult to build long-term relationship, especially with the upstream brand owners.

### *R&D capability*

The toy trading companies are not only involved in the trading activities of toys, but also participated in the designing toys and offering certain technical guidance for the OEM/ODM manufacturers. The designing expertise was usually learned from long-term cooperation with toys brand owners. The new entrants are difficult to obtain such capability in a near term.

### **Entry barriers for China animation industry**

#### *Licensing requirement*

Licensing is especially crucial for cultural industries as well as animation industry. With the improvement of China's relevant laws and regulations on IP protection, the animation related companies are required to own its original IP or get licensing from the IP owners before they run the animation related business.

#### *Technology requirement*

The animation industry was largely driven by the emerging producing and broadcasting technologies recently. To enter the market, new entrants must command the relevant technologies expertise and keep updating its capability to follow up with the latest technologies. Those who failed to keep up with the emerging technologies could see risks of market elimination.

#### *Distributing/broadcasting network*

Compared with established companies in the animation industry, new entrants need to find their own distributing or broadcasting channels for their products. To maintain a sound cooperation with media network is essential for animation related companies. However, with the emerging media channels like internet and mobile phones, the barrier of distributing or broadcasting network is becoming weaker than before.

### **Entry barriers for China theme park industry**

#### *Brand image establishment*

The establishment of good brand image is key to maintain the attractiveness of theme parks. Branding of a theme park not only ensures the security of entertainment facilities, but also guarantees good quality service and wonderful experience. Moreover, successful branding of theme park is likely to increase the re-visit rate. A famous theme park brand may take years to develop. New entrants do not easily gain brand awareness in the short term. Therefore, some new entrants choose to cooperate with foreign theme park brand to expand the market and further gain market shares.

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### *Investment requirement*

The well-developed theme park requires a huge amount of investment. The average investment runs up to USD300-400 million for Walt Disney World Resort, Parc du futuroscope etc in Western countries. The investment for indoor amusement park is relatively lower due to smaller occupied area, and the average investment scale is around USD10-30 million, according to Frost & Sullivan Report. The investment entry barriers are high for new entrants.

### *Licensing requirement*

The increasing number of theme parks in China might lead to stricter examination from the Chinese government, especially on service, sanitation and security. New entrants lacking reputation and related supports will likely face difficulties in getting licences in the short term in this industry.

### *Industry experience*

Experienced industry players are able to provide the theme park with steady operation and support. They have adequate know-how to adjust the offered products and services based on customers' habit change in a timely and effective manner. It might be difficult for new entrants who lacked industry experience to react quickly on customer's habit change, which will eventually lead to deterioration of business.

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### COMPANY ESTABLISHMENT AND FOREIGN INVESTMENT

#### The Company Law and the Foreign Invested Enterprise Laws

The establishment, operation and management of corporate entities in China is governed by the Company Law of the PRC (中華人民共和國公司法) (the “**Company Law**”), which was promulgated by the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會) (the “**Standing Committee**”) on 29 December 1993 and came into effect on 1 July 1994. The Company Law was subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013. According to the Company Law, companies established in the PRC are either limited liability companies or joint stock limited liability companies. The Company Law applies to both PRC domestic companies and foreign-invested companies; however, where the Company Law is silent on matters related to foreign invested enterprises (the “**FIEs**”), such matters may be addressed by the specific PRC laws and regulations governing the FIEs.

The establishment procedures, approval procedures, registered capital requirements, foreign exchange matters, accounting practices, taxation and labour matters of a wholly foreign-owned enterprise are regulated by the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法, the “**WFOE Law**”), which was promulgated on 12 April 1986 and amended on 31 October 2000, and the Implementation Regulation of the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法實施細則, the “**WFOE Law Implementation Regulation**”), which was promulgated on 12 December 1990 and amended on 12 April 2001 and 19 February 2014.

Pursuant to Law of the People’s Republic of China on Sino-Foreign Equity Joint Ventures (Revised in 2001) (中華人民共和國中外合資經營企業法(2001年修訂)), which was promulgated on 15 March 2001, effective on 15 March 2001 and its implementing rules, joint venture agreements, contracts and articles of association concluded by the parties to a joint venture shall be submitted to the state foreign economic relations and trade administrative department (the “**approval authority**”) for examination and approval. The approval authority shall make a decision on whether or not to approve a joint venture within three months. Once approved, a joint venture shall register with the relevant administration for industry and commerce (the “**AIC**”) and commence its operations after obtaining a business licence.

#### The Provisions on Guiding Foreign Investment

In 1995, the State Planning Commission (國家計劃委員會), the State Economic and Trade Commission (國家經濟貿易委員會) and the Ministry of Foreign Trade and Economic Cooperation (對外經濟貿易部) jointly promulgated the Provisional Provisions on Guiding Foreign Investment (指導外商投資方向暫行規定) (the “**Provisional Foreign Investment Provisions**”) and the Catalogue for the Guidance of Foreign Investment (外商投資產業指導目錄, the “**Foreign Investment Catalogue**”), classifying all foreign investment projects into four categories: encouraged projects, permitted projects, restricted projects and prohibited projects.

On 11 February 2002, the State Council promulgated the Provisions on Guiding Foreign Investment (指導外商投資方向規定, the “**Foreign Investment Provisions**”), re-stating the four categories of foreign investment projects. The Foreign Investment Provisions came into force on 1 April 2002 and the Provisional Foreign Investment Provisions were simultaneously repealed. The



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Foreign Investment Catalogue has been revised several times since it was first promulgated, with the most significant revisions taking place in 1997, 2002, 2004, 2007 and 2011. The version of the Foreign Investment Catalogue currently in effect was jointly promulgated by the National Development and Reform Commission (the “**NDRC**”) and the Ministry of Commerce (the “**MOFCOM**”) on 24 December 2011 and came into effect on 30 January 2012.

The purpose of the Foreign Investment Provisions and the Foreign Investment Catalogue is to direct foreign investment into certain priority industry sectors while restricting or prohibiting investment in other sectors. If the industry in which the investment is to occur falls into the encouraged category, foreign investment can be conducted through the establishment of a wholly foreign owned enterprise. If restricted, foreign investment may be conducted through the establishment of a wholly foreign owned enterprise if certain requirements are met or in some cases must be conducted through the establishment of a joint venture enterprise, with varying minimum shareholdings for the Chinese party depending on the particular industry. If prohibited, foreign investment of any kind is not allowed. Any industry not falling into any of the encouraged, restricted or prohibited categories is classified as a permitted industry for foreign investment.

Pursuant to the Foreign Investment Catalogue, operation of entertainment venues is classified as the restricted category and is limited to Sino-foreign equity or cooperative joint ventures. However, the Foreign Investment Catalogue does not, neither does any other laws of the PRC, specify the minimum shareholding percentage the Chinese investor(s) shall have in a Sino-foreign joint venture engaging in the operations of entertainment venue business.

Since the business scope of Huajiatai PRC’s phase 1 operation does not involve operation of entertainment venues, the aforesaid restriction in the Foreign Investment Catalogue on operation of entertainment venues do not apply to Huajiatai PRC. Therefore, as advised by our PRC Legal Adviser, there are no other foreign shareholding restriction regarding Huajiatai PRC’s phase 1 operation, and the current shareholding structure of Huajiatai PRC, i.e. Pingan Taisheng 49%, Shenzhen Wald 2% and China Theme Park HK 49%, which is duly approved by the Shanghai Municipal Commission of Commerce, complies with the Foreign Investment Catalogue and other relevant laws and regulations.

On 4 November 2014, NDRC commenced the public consultation on the amendments to the Foreign Investment Catalogue, and issued the Foreign Investment Catalogue (Revised draft) (the “**Revised Catalogue**”). According to the Revised Catalogue, the NDRC proposes to cancel the restriction on foreign investment in operating entertainment venues in the PRC, which means that, if this proposal is implemented, the operation of entertainment venues in the PRC would no longer be restricted to domestic companies, or sino-foreign equity joint ventures (中外合資經營企業), or sino-foreign cooperative joint ventures (中外合作經營企業). Foreign investors would be allowed to invest and operate entertainment venues in the PRC through the establishment of wholly foreign-owned enterprises.

However, pursuant to the Notice of the Ministry of Culture on the Application of Cultural Market Administration Policies in the China (Shanghai) Pilot Free Trade Zone (文化部關於實施中國(上海)自由貿易試驗區文化市場管理政策的通知) which was promulgated and effective on 29 September 2013, and Notice of the General Office of Shanghai Municipal People’s Government on Printing and Distributing the “Implementing Rules for Open-up Projects on Culture Market in the

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China (Shanghai) Pilot Free Trade Zone” Formulated by Shanghai Municipal Administration of Culture, Radio, Film & TV and Other Four Departments (上海市人民政府辦公廳關於印發市文廣影視局等五部門制訂的《中國(上海)自由貿易試驗區文化市場開放專案實施細則》的通知) which was promulgated and effective on 10 April 2014, foreign-invested entertainment venues are allowed to be established within the FTZ. A proprietor that intends to establish an entertainment venue in the form of a Sino-foreign equity joint venture, Sino-foreign cooperative joint venture or wholly foreign-owned venue within the FTZ shall satisfy the establishment conditions prescribed under the Regulations on the Administration of Entertainment Venues (娛樂場所管理條例), the Administrative Measures for Entertainment Venues and other regulations and rules (娛樂場所管理辦法), and submit an application to the competent cultural department of Shanghai Municipality which shall make a decision within 20 days upon acceptance of the application.

Huajiatai PRC’s phase 2 operation involves operation of entertainment venues. Our PRC Legal Adviser is of the opinion that the current shareholding structure of Huajiatai PRC is not in violation of the Foreign Investment Catalogue for both phase 1 and phase 2 of Shanghai Joypolis. However, since Huajiatai PRC will be relocated to FTZ, the laws and regulations applicable to enterprises in FTZ shall apply to Huajiatai PRC’s phase 2 operation with priority over the Foreign Investment Catalogue. As advised by our PRC Legal Adviser, Huajiatai PRC’s phase 2 operation, based on the current shareholding structure of Huajiatai PRC, will not be subject to any foreign shareholding restriction after the successful relocation of Huajiatai PRC to FTZ.

Our PRC Legal Adviser is of the opinion that the current shareholding structure of Huajiatai PRC is not in violation of the Foreign Investment Catalogue for both Phase 1 and Phase 2 of Shanghai Joypolis. Our PRC Legal Adviser also advises that, upon the fulfilment of the following conditions, the physical venue of Shanghai Joypolis need not be located in the FTZ:

1. the relocation of Huajiatai PRC to FTZ has been approved by the relevant competent authorities, and the necessary approval, registration and filing for the conduct of the Phase 2 business have been duly obtained. In this connection, based on the confirmation by the relevant competent authorities, they hold a positive view on such arrangement, including the shareholding structure and business of Huajiatai PRC and Huajiatai PRC is in the process of such approval, registration and filing; and
2. in terms of the operation of Shanghai Joypolis in Shanghai Putuo District, the necessary approval, registration and filling from the relevant competent authorities at the place where such business is operated have been duly obtained. In this connection, the relevant competent authorities in Shanghai Putuo District hold the same policy as FTZ does as long as the relevant competent authorities duly grant the relevant approvals.

As advised by our PRC Legal Adviser, there is no material legal impediment for Huajiatai PRC to obtain such relevant approvals as mentioned above.

Pursuant to the Decision of the State Council on Reforming the Investment System (國務院關於投資體制改革的決定) which was promulgated and effective on 16 July 2004, the approval system of the government shall be regulated, while the record-filing system shall be improved.

On the one hand, the scope of the approval system shall be strictly restricted, and shall be adjusted in a timely manner according to the circumstances. The Catalogue of Investment Projects

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Approved by the Government (the “**Approved Catalogue**”) shall be brought forward by the competent investment authority of the State Council together with the relevant authorities upon study, and shall be implemented after being reported to and approved by the State Council. An enterprise needs only to submit the project application report to the government for a project of its investment that is subject to approval.

On the other hand, the record-filing system shall apply to investment projects not listed in the Approved Catalogue. Unless otherwise specified by the state, proprietors shall, based on the principle of territory, report such projects to the competent investment authority of the local government.

Pursuant to the Administrative Measures for Approval and Record-filing of Foreign Investment Projects (外商投資項目核准和備案管理辦法) promulgated by the NDRC on 17 May 2014 and effective on 17 June 2014, two systems are developed for the management of foreign investment projects, namely (1), approval system and (2) record-filing. According to the Circular of the State Council on Releasing the Investment Project Catalogue Approved by the Government (2013 Version) (國務院關於發佈政府核准的投資項目目錄(2013年本)的通知) (the “**2013 Approved Catalogue**”) which was promulgated and effective on 2 December 2013, the foreign investment projects set forth in the following shall be subject to the approval system:

1. The following projects requiring Chinese holding (including relative shareholding) which are listed in the Foreign Investment Catalogue shall be approved by the NDRC: encouraged projects with total investment (including capital increase) amounting to USD300 million or above; restricted projects (excluding real estate projects) with total investment (including capital increase) amounting to USD50 million or above.
2. Real estate projects falling into the restricted category and other restricted projects with total investment (including capital increase) less than USD50 million, as listed in the Catalogue for the Foreign Investment Catalogue, shall be approved by the provincial government. The encouraged projects requiring China holding (including relative share holding) with total investment (including capital increase) less than USD300 million, as listed in the Foreign Investment Catalogue, shall be approved by the local government.
3. The foreign investment projects other than the above two items but listed in Items 1 to 11 of the Approved Catalogue shall be approved according to the provisions in Items 1 to 11 of the Approved Catalogue.
4. The provincial government may determine specific approval authority of local governments at all levels for projects to be approved by the local governments as per actual local conditions. The authority of the provincial government to approve projects shall not be delegated to the governments at lower level.

As confirmed by our PRC Legal Adviser, Huajiatai PRC has obtained the approval of the Shanghai Municipal Commission of Commerce regarding operation of phase 1 of Shanghai Joypolis. As the phase 2 of the business operation of Huajiatai PRC falls within the category of “restricted projects” and the total investment amount is less than USD 50 million, it would be subject to the approval of the Shanghai Municipal Commission of Commerce. Once Huajiatai PRC has been

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successfully relocated to FTZ, the laws and regulations applicable in FTZ shall apply to Huajiatai PRC's phase 2 operation with priority over the Foreign Investment Catalogue. Our Directors expect that the approvals for the relocation of Huajiatai PRC to FTZ would be obtained before the grand opening of Shanghai Joypolis.

According to the Administrative Measures for Approval and Record-filing of Foreign Investment Projects, the foreign investment projects other than those stated in above shall be filed with the competent investment department of the local government for the record.

Pursuant to the Special Management Measures for the Market Entry of Foreign Investment in the China (Shanghai) Pilot Free Trade Zone (Negative List) (中國(上海)自由貿易試驗區外商投資准入特別管理措施(負面清單)) (the "**Negative List**") which was promulgated and effective on 29 September 2013 and revised on 30 June 2014, fields not covered by the Negative List shall be governed by the management principle of equal treatment of domestic and foreign investment. Specifically, foreign investment projects shall be subject to record-filing (except where the verification and approval of domestic investment projects is retained as prescribed by the State Council), while the establishment and change of foreign-invested enterprises shall also be managed by record-filing. As regards fields covered by the Negative List, foreign investment projects shall be subject to verification and approval (except where record-filing shall apply to foreign investment projects as prescribed by the State Council), while the establishment and change of foreign-invested enterprises shall be managed by examination and approval. As advised by our PRC Legal Adviser, upon Huajiatai PRC having obtained all the requisite licences, approval and permits for its relocation to the FTZ and becoming a company incorporated in the FTZ, Huajiatai PRC will be governed by the Negative List, which will prevail over the Foreign Investment Catalogue in case of contradiction. Since Huajiatai PRC's business does not fall into the Negative List, the project as well as the establishment and change of Shanghai Huajiatai are subject to record-filing, rather than verification and approval.

Pursuant to the Administrative Measures for the Record-Filing of Foreign-invested Enterprises in the China (Shanghai) Pilot Free Trade Zone (中國(上海)自由貿易試驗區外商投資企業備案管理辦法) which was promulgated on 29 September 2013 and effective on 1 October 2013, the Management Committee of the China (Shanghai) Pilot Free Trade Zone ("FTZ") shall be responsible for the record-filing management of foreign-invested enterprises within its scope of authority.

Pursuant to the Measures on the Administration of the China (Shanghai) Pilot Free Trade Zone (中國(上海)自由貿易試驗區管理辦法) which was promulgated on 29 September 2013 and effective on 1 October 2013, registration system for the subscription of registered capital shall be adopted in the FTZ, under which the shareholders (promoters) of a company shall independently agree with each other on their respective amount of the capital contribution subscribed, the method and period of capital contribution, etc., and record the same in the company's articles of association, unless otherwise prescribed by laws and administrative regulations on the registration of the registered capital of specific enterprises. The shareholders (promoters) of a company shall be responsible for the truthfulness and legality of the information on payment of capital contribution, and shall be liable to the company to the extent of their respective amount of the capital contribution subscribed or the number of shares subscribed.

Enterprises within the FTZ may engage in general production and operation activities as long as they have obtained the business licence. Those that intend to engage in production and operation

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activities subject to licensing may submit licensing applications to the competent departments after obtaining the business licence. Where the establishment of certain enterprises is subject to approval as prescribed by laws or administrative regulations, relevant parties shall go through the approval procedures in accordance with the law prior to applying for the business licence.

### THE TOYS MANUFACTURE AND EXPORT INDUSTRY

#### Regulations on toys production

Pursuant to the Administrative Regulations for Compulsory Product Certification (強制性產品認證管理規定) which was promulgated on 3 July 2009, effective on 1 September 2009, General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫總局) (the “AQSIQ”) shall be in charge of compulsory product certification nationwide, the Certification and Accreditation Administration of the PRC (中國國家認證認可監督管理委員會) (the “CNCA”) shall be responsible for the organization, implementation, supervision, management and coordination of compulsory product certification nationwide, local quality and technical supervision authorities at all levels and local entry-exit inspection and quarantine authorities are responsible for the supervision, management, enforcement and investigation of compulsory product certification activities in their respective jurisdictions according to their respective duties and pursuant to laws. Producers or sellers or importers of products included in the catalogue shall entrust certification authorities designated by CNCA to certify the products produced, sold or imported thereby. Upon completion of product type tests and factory inspection, in case of the compliance with certification requirements, generally CNCA shall issue certificates to the producers or sellers or importers of products within 90 days upon the accepting of certification entrustment. The certification mark shall be composed of basic pattern and label of certification category. The “CCC” in basic pattern is the English abbreviation of “China Compulsory Certification”. Certificates are valid for 5 years. If certificates expire and need to be renewed, certification clients shall apply for it within 90 days prior to the expiry of such certificates.

In addition, pursuant to the Catalogue for Quality Supervision of National Key Industrial Products (2014) (全國重點工業產品質量監督目錄(2014)) and Catalogue for Implementation of Toy Product Compulsory Certification (實施強制性產品認證的玩具產品目錄) which was promulgated on 30 December 2005, compulsory product certification shall be obtained by the producing enterprises of baby carriers, electric toys, ejection toys, metal toys, baby toys and plastic toys.

#### Regulations on toys export

Pursuant to the Law of the PRC on Import and Export Commodity Inspection (中華人民共和國進出口商品檢驗法) which was promulgated on 21 February 1989, effective on 1 August 1989 and amended on 28 April 2002 and 29 June 2013 by the Standing Committee and its implementation regulations, AQSIQ shall be in charge of the inspection of import and export commodities throughout the country. The local inspection and quarantine authorities set up by AQSIQ shall be responsible for the inspection of import and export commodities within areas under their jurisdiction. For export commodities which are subject to mandatory inspection by the inspection and quarantine authorities, the consignor shall apply to the inspection and quarantine authorities for inspection in the places and within the time limit specified by AQSIQ. No permission shall be

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granted for the export of export commodities subject to mandatory inspection by the inspection and quarantine authorities until they have been found to be up to standard through inspection.

Pursuant to Measures for the Inspection, Supervision and Administration of Import and Export Toys (進出口玩具檢驗監督管理辦法), which was promulgated by AQSIQ on 2 March 2009 and implemented on 15 September 2009, inspection and quarantine authorities enforce registrations of export toys, and such export toys are subject to mandatory inspection by the inspection and quarantine authorities. Export toys producing enterprises shall obtain export toys registration to carry on the production and export of export toys. Export toys producing enterprises shall apply for export toys registration to local inspection and quarantine authorities. The inspection and quarantine authorities will issue Export Toys Registration Certificate (出口玩具註冊登記證書) to the enterprises conformance to the requirements of export toys registration. The valid period of Export Toys Registration Certificate is 3 years. If the enterprise export toys without registration, the inspection and quarantine authorities will order the enterprise to stop exporting, confiscate its illegal earning and impose the enterprise a fine of more than 10% and less than 50% of the goods value. If the enterprise exports the uninspected export toys, the inspection and quarantine authorities will confiscate its illegal earning and impose the enterprise a fine of more than 5% and less than 20% of the goods value.

According to the Implementing Rules of Export Toys Quality Permits (Registration) (Trial) (出口玩具質量許可(註冊登記)實施細則(試行)) promulgated by the CNCA in August 2007 and other relevant regulations, the export toys quality permits (registration) system shall be carried out to the toy products subject to mandatory inspection by the inspection and quarantine authorities, and the applicable product categories of toy product subject to mandatory inspection by the inspection and quarantine authorities include cloth toys (soft fill-in toys), bamboo toys, plastic toys, riding toys (toys carrying children), baby carriers and electric toys, etc. Enterprises that engage in distribution or production of export toys shall apply for export quality permits (registration) to local inspection and quarantine authorities. The inspection and quarantine authorities will issue Export Toys Quality Permit (出口玩具質量許可證書) to the enterprises conformance to the relevant requirements. The valid period of the permits is 3 years, subject to supervision and inspection carried out at least once a year. The enterprise shall not export the products processed by other enterprises using its own permits numbers and illegally transfer and use the certificates. Otherwise, the inspection and quarantine authorities can revoke its toys quality permit (registration). The enterprise whose toys quality permit is revoked shall not apply export toys quality permits (registration) in one year from the revoked day.

In August 2007, the CNCA also promulgated the Examining Requirements of Quality License (Registration) of Production Enterprise of Export Toys (Trial) (出口玩具生產企業質量許可(註冊登記)審核要求(試行)) which applies to the inspection and quarantined authorities to implement the examination of the application for toys quality permits (registration) according to the Implementation Rules of Export Toys Quality Permits (Registration) (Trial).

### **CARTOON FILMS AND TELEVISION PLAY INDUSTRY**

#### **Regulations on foreign investment in cartoon film/television play-related business**

Pursuant to the Several Opinions of the Ministry of Culture, State Administration of Radio, Film and Television, General Administration of Press and Publication, NDRC and the MOFCOM on

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Canvassing Foreign Investment into the Cultural Sector (文化部、國家廣播電影電視總局、新聞出版署、國家發展和改革委員會、商務部關於文化領域引進外資的若干意見) which became effective on 6 July 2005 and the Foreign Investment Catalogue (Amended in 2011), It is prohibitive for a foreign investor to establish production enterprises of television programs and film production enterprises. Foreign investments in film production projects and television program production projects are restricted, and such investments may only take the form of Sino-foreign cooperation.

Under the Provision on the Administration of Chinese-foreign Cooperative Production of Films (中外合作攝製電影片管理規定), promulgated on 6 July 2004, no foreign organizations or individuals may independently make films within China. Only PRC producers with a Film Production Licence or a Film Production Licence (Single Film) may cooperate with foreign producers in the film production. Sino-foreign cooperation in film production include the following models: (a) Joint Production whereby PRC and foreign parties jointly invest in and produce films, and share profits and risks; (b) Collaborative production, whereby the investments are made by the foreign parties, the films are shot in China and the Chinese parties are responsible for providing equipment, services, facilities or other assistance for a fee; and (c) Entrusted production, whereby the PRC party is entrusted by a foreign party to shoot films in China. Approval by the State Administration of Press, Publication, Radio, Film and Television (the “SAPPRFT”) will be evidenced by a Licence for Sino-foreign Cooperative Production of Films or an approval certificate.

Under the Provision on the Administration of Sino-foreign Cooperation in the Production of TV Plays (中外合作製作電視劇管理規定), promulgated on 21 September 2004, Without approval, no one may undertake the activities of producing TV plays (including TV cartoons) through Sino-foreign cooperation. Without passing the examination, Sino-foreign cooperative TV play (including TV cartoon) after completion shall not be distributed or broadcasted. Sino-foreign cooperation in TV play production include the following models: (a) Joint production, which means that in the production of a TV play (TV cartoon) both the Chinese party and the foreign party jointly make investments, assign key production persons, share the benefits and the risks; (b) Collaborative production, which means that in the production of a TV play the foreign party make investments, offer key production persons and shoot all or part of the outdoor scenes; the Chinese party provides labour services or equipment, appliances and places; and (c) Entrusted production, which means that in the production of a TV play the foreign party makes investments and entrusts the Chinese party to produce it.

### **Regulations on cartoon films production**

Cartoon film producing enterprises are mainly regulated by the Regulations on the Administration of Films (電影管理條例) (the “**Films Regulations**”), effective on 1 February 2002, the Interim Provisions on Access Qualification for Film Enterprises (電影企業經營資格准入暫行規定) (the “**Film Enterprise Qualification Provisions**”), effective on 10 November 2004, and other rules and regulations issued based on the foregoing regulations. Pursuant to those regulations, cartoon films producing enterprises are subject to Film Production Licence (攝製電影許可證) or Film Production Licence (Single Film) (攝製電影許可證(單片)), as applicable, for production of films in PRC, issued by the SAPPRFT. The Film Production Licence (Single Film) is granted on a film-by-film basis and will expire after the exhibition of the film. A company will not be qualified for a Film Production Licence unless it has produced two or more films under Film Production Licences (Single Film). A Film Production Licence is subject to inspection by the SAPPRFT every

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two years. A duly approved film producer may produce film(s), make copies of, distribute within China and export film(s) produced by it subject to relevant laws and regulations.

In accordance with Films Regulations and The Regulations for Administration of the Records of Screenplay (Outline) and Films (電影劇本(梗概)備案、電影片管理規定), promulgated by the SAPPRFT on 22 May 2006, Screenplay and films are subject to filing requirement and censorship. Film producer shall make an application for examination to the Film Examination Commission of the SAPPRFT. To the film passing the examination, the Licence for Film Publication (電影片公映許可證) shall be given.

Pursuant to the Interim Administrative Measures for Special Films (特種電影管理暫行辦法) which was promulgated by SAPPRFT on 4 November 2002, special films shall mean cinematographic works produced by an unconventional process of cinematography, and applying unconventional projection system and viewing pattern (for example, circular screen, IMAX, Fulldome, dynamic and three-dimensional film, etc.). Whoever engages in the shooting, production, import, export, distribution, projection or any other activity of special films within the territory of the People's Republic of China shall be subject to the Regulations on Administration of Films and these Measures. The SAPPRFT shall take charge of the national special film related work and be responsible for formulating the development planning and technical standards of special films.

Like other types of domestic films, domestic special films are also subject to the film production licensing administration, they shall be produced by the entities holding the Licence for Film Production (攝製電影許可證) or the Licence for Film Production (Single Film) (攝製電影許可證(單片)) issued by the Film Division of the SAPPRFT (the “**SAPPRFT Film Division**”); and the films produced in cooperation with foreign film producers shall be produced by the entities holding the Licence for Sino-foreign Film Co-production (中外合作攝製電影片許可證) issued by the SAPPRFT Film Division after completion of relevant formalities with China Film Co-production Corporation (中國電影合作製片公司). Domestic special films shall be censored in accordance with the Regulations on Administration of Films (電影管理條例), and the film script and finished films shall be reported to the SAPPRFT Film Division and the Film Censorship Board respectively for censoring. Special films shall be imported in accordance with relevant provisions of the Regulations on Administration of Films.

### **Regulations on cartoon television play production**

Cartoon television plays producing enterprises are mainly regulated by the Regulations on Broadcasting and Television Administration (廣播電視管理條例), effective on 1 September 1997 and amended on 7 December 2013, and the Order of the State Administration of Radio, Film and Television on Promulgation of the Provisions for the Administration of the Production and Distribution of Radio and Television Programmes (國家廣播電影電視總局關於發佈《廣播電視節目製作經營管理規定》), effective on 20 August 2004. Pursuant to those regulations, cartoon television plays can only be produced by television stations at the municipal level or above and entities with either a Film Production Licence or a Permit to Produce and Distribute Radio or Television Programmes (廣播電視節目製作經營許可證). Permit to Produce and Distribute Radio or Television Programmes shall be issued to entities which meet requirements set forth in Provisions for the Administration of the Production and Distribution of Radio and Television Programmes and pass the examination of the SAPPRFT or its provincial counterparts.



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In addition to the Film Production Licence or the Permit to Produce and Distribute Radio or Television Programmes, the television play producers must obtain either a Television Drama Production Permit (Type A) (電視劇製作許可證(甲種)) or a Television Drama Production Permit (Type B) (電視劇製作許可證(乙種)) for the shooting and production of television plays. The Television Drama Production Permit (Type A) has an effective term of two years and may apply to all television plays produced by the holder during the effective term. The Television Drama Production Permit (Type B) only applies to a single television play and the producer must apply for another Television Drama Production Permit for the shooting and production of another television play as indicated in such licence.

In addition, pursuant to the Provisions on the Administration of Contents of TV Plays (電視劇內容管理規定), effective on 1 July 2010, and Provisional Provisions on the Record of the Public System of Domestic Cartoon Television Play (國產電視動畫片製作備案公示管理制度暫行規定), effective on 1 August 2006, a domestic cartoon television play, including Sino-foreign cooperation cartoon television play, must be filed with and announced to the public by the SAPPRFT or its provincial counterparts before it is shot or produced. Television plays are subject to censorship by the SAPPRFT or its provincial counterparts, which will issue Cartoon Television Play Distribution Licences (動畫片發行許可證) for cartoon television plays passing their censorships. No cartoon television play may be distributed or broadcasted without the Cartoon Television Play Distribution Licence. However, the SAPPRFT may, under certain circumstances, based on the public interest, terminate distribution and exhibition of cartoon television plays which have received Cartoon Television Play Distribution Licences or require editing of such cartoon television plays.

### **Regulations on cartoon film & TV play import and export**

Pursuant to the Films Regulations, import of foreign films can only be conducted by entities designated by the SAPPRFT. Currently, China Film Group Film Import & Export Corporation (中國電影集團公司電影進出口分公司) is the only entity designated to import foreign films into China. Imported foreign films can only be distributed in China by the entities designated by the SAPPRFT and currently China Film Group Film Distribution & Exhibition Corporation (中國電影集團公司電影發行放映分公司) and Huaxia Film Distribution Co., Ltd. (華夏電影發行有限責任公司) are the only two entities allowed to distribute imported foreign films. As advised by our PRC Legal Adviser, the procedures for the importation and distribution of a foreign film in China are as following: (1) the film shall be imported by going through temporary film import formalities cooperating with China Film Group Film Import & Export Corporation; (2) after completing the temporary import formalities for the film, the film shall be submitted to SAPPRFT for censorship, after which the "License for Public Projection of Films" will be issued; (3) with the License for Public Projection of Films, the imported film can be distributed nationwide through cooperation with approved film distribution entities that are allowed to distribute imported foreign films nationwide.

Pursuant to the Provisions on Administration of the Import and Broadcasting of Overseas TV Programs (境外電視節目引進、播出管理規定), promulgated on 23 September 2004, Without examination and approval of the SAPPRFT or of the radio and television administrative department authorised by the SAPPRFT, no one may import or broadcast any overseas TV program. If the SAPPRFT approves the import, it shall issue the TV Play (TV Cartoon) Distribution Licence to the importer.

### ENTERTAINMENT VENUES INDUSTRY

#### Regulations on entertainment venues

Pursuant to the Regulation on the Administration of Entertainment Venues (娛樂場所管理條例), issued on 29 January 2006 and the Measures for the Administration of Entertainment Venues (娛樂場所管理辦法), issued on 4 February 2013, entertainment venues refers to for-profit singing, dancing and amusement places open to the general public for the self-entertainment of consumers. Singing and dancing places refer to business premises where accompaniment and songs on-demand services are provided or business premises where dancing music and dancing floors are provided. Amusement places refer to business premises where game and amusement services are provided through game and amusement devices. Foreign investors may establish Sino-foreign equity or cooperative joint venture entertainment venues together with Chinese investors, but shall not establish exclusively foreign-funded entertainment venues.

Pursuant to the Regulations of Shanghai Municipality on the Administration of the Cultural and Entertainment Market (上海市文化娛樂市場管理條例), which was promulgated on 6 November 1995, effective on 1 January 1996, amended on 15 July 1997, 10 November 1998, 13 July 2000, 26 June 2003, 17 September 2010, by the Standing Committee of Shanghai Municipal People's Congress (上海市人民代表大會常務委員會) and its implementation regulations, which was promulgated on 16 August 1996 and effective on 1 September 1996, amended on 19 December 1997, 20 December 2010, by the Shanghai Municipal Government. The Shanghai Municipal Administration of Culture, Radio, Film & TV is the regulatory authority of the cultural and entertainment market in Shanghai. To establish cultural and entertainment venues or to engage in cultural and entertainment business, one shall apply to the cultural administration and obtain the Licence on Operating Cultural Business (文化經營許可證).

Pursuant to the Regulations on the Administration of Sanitation at Public Places (公共場所衛生管理條例) promulgated by the State Council on 1 April 1987, public places in the regulations refer to:

1. Hotel, restaurant, inn, rest house, travelling hub, coffee bar, pub, tea house;
2. Public bath room, barbershop, beauty salon;
3. Theater, video room, entertainment hall, ballroom, music hall;
4. Stadium, swimming pool, park;
5. Exhibition hall, museum, gallery, library;
6. Shopping mall (store), book store;
7. Waiting room (hospital, bus station, port), mass transit vehicles.

The public places shall satisfy relevant national health standards and requirements concerning the following items: 1. air, microclimate (humidity, temperature, wind speed); 2. water quality; 3.

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light and illumination; 4. noise; 5. utensil and sanitary fixture. The sanitary standards and requirements for public places are to be enacted by the Ministry of Health.

Proprietors shall hold the Sanitary Licence (衛生許可證) before filing registration application with the AIC and applying for the business licence.

According to the Detailed Rules for the Implementation of the Regulations on the Administration of Sanitation at Public Places (公共場所衛生管理條例實施細則) which was promulgated on 10 March 2011 and effective on 1 May 2011 by the Ministry of Health, the Ministry of health shall take charge of the supervision and administration of the sanitation of public places nationwide. Health administration above county level takes charge of the supervision and administration of the public places in its administrative area. China adopts licence administration for the sanity of public places. Proprietors of public places shall apply for Sanitary Licence to health administration above county level, and those without a Sanitary Licence shall refrain from operation. The term of the Sanitary Licence is 4 years, and the Sanitary Licence shall be reviewed every two years. The Sanitary Licence shall be displayed in put to visible places to the public.

### **Regulations on commercial performances**

Pursuant to the Regulation on the Administration of Commercial Performances (營業性演出管理條例) (the “**Regulation on Commercial Performances**”) promulgated by the State Council on 11 August 1997 and amended on 7 July 2005, 22 July 2008 and 18 July 2013, the “commercial performances” as mentioned in the Regulation refer to the live art performances geared towards the general public for commercial purposes. The Detailed Rules for the Implementation of the Regulation on the Administration of Commercial Performance (營業性演出管理條例實施細則) (the “**detailed rules on Commercial Performances**”) which was promulgated by the Ministry of Culture on 28 August 2009 further provides that the term “commercial performances” as mentioned in the Regulation on the Administration of Commercial Performances refers to the public performance activities as held by the following ways for the purpose of making profits:

1. Selling tickets or being sponsored;
2. Paying or remunerating the performance entities or individuals;
3. Using the performance as a medium for advertising publicity or sales promotion of products; and
4. Organizing performance in any other profit-making form.

When hosting commercial performances, the applicant shall file an application with the cultural administration of the people’s government at the county level of the place where the performances are hosted. The cultural administration of the people’s government at the county level shall make a decision within 3 days after it accepts the application. If the application meets the requirements as prescribed in Article 26 of Regulation on the Administration of Commercial Performances, it shall grant the applicant an approval document; if the application does not, it shall make a decision of disapproval and shall notify the applicant in writing and make an explanation.

Pursuant to the Circular of the Ministry of Culture on Strengthening the Administration of Commercial Performances Involving Foreign, Hong Kong, Macao or Taiwan Parties (文化部關於加

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強涉外及涉港澳台營業性演出管理工作的通知) which was promulgated and effective on 14 July 2008, proprietors to hold commercial performances involving foreign, Hong Kong, Macao or Taiwan parties shall meet the requirements as prescribed in the Regulation on Commercial Performances. A performance brokerage institution, which has obtained a Commercial Performance Licence for two or more years but has not any actual experience in holding commercial performances, shall not hold commercial performances involving foreign, Hong Kong, Macao or Taiwan parties. Where a performance brokerage institution has records for violation of the Regulation on Commercial Performances, it shall not hold any commercial performances involving foreign, Hong Kong, Macao or Taiwan parties within 2 years from the date of effectiveness of the administrative punishment decision.

### **Regulations on game and amusement equipment**

Pursuant to the Notice of Ministry of Culture on Improving the Use and Administration of Guiding Categories of Access Model Type in the Game and Amusement Equipment Market (文化部關於改進和完善《遊戲遊藝機市場准入機型機種指導目錄》使用管理工作的通知) which was promulgated on 27 April 2010 and the 7 batches of Guiding Categories of Access Model Type in the Game and Amusement Equipment Market (《遊戲遊藝機市場准入機型機種指導目錄》) (“**Guiding Categories**”) promulgated by the Ministry of Culture from 9 April 2009 to 13 March 2013, game and amusement equipment that are manufactured in China and sold in the domestic market could be listed in the Guiding Categories upon application if the following conditions are met: 1. Whereas it is beneficial to the healthy development of adolescent; 2. Whereas it is of legitimate intellectual property rights; 3. Whereas it does not violate the prohibitive provisions of laws and regulations; 4. Whereas it does not have gambling functions; 5. Whereas the relevant instructions of which are put in Chinese; 6. Whereas it conforms to the relevant quality standard.

To apply for listing in the Guiding Categories, game and amusement equipment manufacturing enterprises registered in China could apply to the administration of culture at the provincial level and submit the following documents: 1. Application letter; 2. Business licence of the enterprise; 3. Material that evidences the game’s Intellectual property rights; 4. Video or DEMO file that shows the entire process of the equipment; 5. Electronic photograph that reflect the overall appearance of the product; 6. Audio file, list of audio file and lyrics; 7. Electronic text of all dialogue, narration and instructions; 8. Other relevant materials.

The cultural administration shall make decision within 20 days upon receiving the application. The manufacturers shall re-apply whenever the type and version of the model in the Guiding Categories materially changes.

Pursuant to the Notice of the Ministry of Culture on the Application of Cultural Market Administration Policies in the China (Shanghai) Pilot Free Trade Zone (文化部關於實施中國(上海)自由貿易試驗區文化市場管理政策的通知) which was promulgated and effective on 29 September 2013, foreign-invested enterprises are allowed to engage in the production and sales of gaming and recreational equipment within the FTZ, and may sell gaming and recreational equipment whose contents have passed the review of competent cultural departments on the domestic market.

1. A foreign-invested enterprise registered within the FTZ shall apply to the competent cultural department of Shanghai Municipality for content review if it intends to sell the

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gaming and recreational equipment produced thereby on the domestic market. The said department shall make a decision within 20 days upon acceptance of the application, and report the gaming and recreational equipment that has passed the content review to the Ministry of Culture for record-filing and announcement.

2. Gaming and recreational equipment sold on the domestic market shall not contain contents prohibited by Article 13 of the Regulations on the Administration of Entertainment Venues, and its outer appearances, contents and gaming instructions shall use languages generally-accepted in China.
3. Information submitted to the Ministry of Culture for record-filing and announcement shall include: approval documents on the content review of gaming and recreational equipment, name of the production enterprise, name, basic functions and gaming rules of the said equipment, pictures reflecting the outer appearance of the said equipment, and other basic information.

Pursuant to Notice of the General Office of Shanghai Municipal People's Government on Printing and Distributing the "Implementing Rules for Open-up Projects on Culture Market in the China (Shanghai) Pilot Free Trade Zone" Formulated by Shanghai Municipal Administration of Culture, Radio, Film & TV and Other Four Departments (上海市人民政府辦公廳關於印發市文廣影視局等五部門制訂的《中國(上海)自由貿易試驗區文化市場開放項目實施細則》的通知) which was promulgated and effective on 10 April 2014, foreign-invested enterprises are allowed to engage in the production and sale of gaming and recreational equipment, and may sell gaming and recreational equipment whose contents have passed the review of competent cultural departments on the domestic market.

1. A foreign-invested enterprise shall be responsible for the product quality of the gaming and recreational equipment produced and sold thereby and the products shall comply with relevant national and municipal standards and provisions. The products sold on the domestic market and the packages thereof shall contain the product names as well as the names and addresses of manufacturers in Chinese.
2. When going through the procedures for domestic sale of its gaming and recreational equipment, a foreign-invested enterprises selling its gaming and recreational equipment on domestic market shall, in addition to handling the customs formalities according to the normal administrative provisions, submit to the customs the Content Review Confirmation for Gaming and Recreational Equipment issued by the SACRFT at the same time.
3. An enterprise that provides gaming content online for gaming and recreational equipment shall comply with the Interim Provisions on the Administration of Internet Culture and the Interim Measures for the Administration of Online Games and obtain the Internet Culture Business Licence. Approval documents issued by the Ministry of Culture shall be obtained for the gaming products. If content is provided for gaming and recreational equipment through any other channels, relevant provisions of the State shall apply.
4. The department for industry and commerce, the department for quality and technology supervision and the customs shall perform relevant administration duties according to

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their respective functions. The Management Committee of FTZ (hereinafter referred to as (the “**FTZ Management Committee**”)) shall be responsible for daily supervision and administration over foreign-invested enterprises.

### **Regulations on special equipment**

Pursuant to the Special Equipment Safety Law of the People’s Republic of China (中華人民共和國特種設備安全法), promulgated on 29 June 2013 and effected on 1 January 2014, and the Special Equipment Catalogue (特種設備目錄), promulgated on 19 January 2004 and amended on 24 January 2010, “special equipment” means boilers, pressure vessels (including gas cylinders), pressure pipelines, elevators, lifting machinery, passenger ropeways, large-scale amusement devices, and non-road motor vehicles, which pose a greater threat to personal and property safety, as well as other special equipment to which this Law is applicable as provided for by laws and administrative regulations, and large-scale recreation facility means the large facility carrying passengers for recreation utilized for the purpose of business operation, the scope of which is stipulated as that the maximum designed linear speed equals to or faster than 2m/s, or that the operating height over the ground equals to or higher than 2m, under the Regulations on Safety Supervision of Special Equipment (特種設備安全監察條例), effective on 1 June 2003 and amended on 24 January 2009.

Entities using special equipment shall establish safety technology files for special equipment. Where any special equipment is involved in a serious hidden risk of accident, has no value for reform or maintenance, or meets other conditions for scrapping as provided for by the safety technical norms, the entity using the special equipment shall perform its obligation of scrapping according to the law, take necessary measures to eliminate the use function of the equipment, and go through the procedures to cancel the use registration certificate with the department in charge of the supervision and administration of special equipment safety that registered such equipment.

For any special equipment that does not meet the conditions for scrapping as provided above and that can be used continuously when the designed useful life expires, it may be put into use again only when it has passed the inspection or safety assessment and the change in use registration certificate has been made. When the special equipment is allowed for continuous use, its safety in use shall be ensured through taking measures such as strengthening the inspection, testing and maintenance.

Proprietors using special equipment shall, before or within 30 days after such special equipment is put into use, handle registration with the department in charge of the supervision and administration of special equipment safety, and obtain the Registration Licence of Operating Special Equipment. The Registration Licence shall be placed in a marked position of special equipment.

In addition, pursuant the Regulations on Safety Supervision of Special Equipment and the Measures for the Supervision and Management of Personnel Operating Special Equipment (特種設備作業人員監督管理辦法), effective on 1 July 2005 and amended on 3 May 2011, Operators and the relevant managerial staff of large amusement devices may not engage in corresponding operations or management until they, in accordance with the relevant provisions of the State, pass the examination organized by the departments for safety supervision and administration of special equipment and acquire the certificates of special operators (特種設備作業人員證) in a nationwide uniform format. The certificates of special operators is subject to review by competent authorities every 4 years.

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In accordance with the Regulations on Special Equipment Quality and Safety Supervision (特種設備質量監督與安全監察規定), promulgated on 27 June 2000 and effective on 1 October 2000, and the Rules on Utilization and Management Registration of Special Equipment (特種設備註冊登記與使用管理規則), promulgated on 9 April 2001, before putting new special equipment into use, the relevant proprietor shall register with the local safety supervision institutions for special equipment at the level of municipal above, supported by the acceptance inspection report and the safety inspection qualified mark (安全檢驗合格標誌) issued by the supervision and inspection institutions. The new special equipment could be put into use once the safety inspection qualified mark has been fixed on the prominent position of the special equipment.

Operator of special equipment (including installation, reparation, maintenance, operation of special equipment) shall acquire the certificates of special operators issued by departments for safety supervision and administration of special equipment. Special equipment is subject to regular inspection system, the proprietor shall apply to the local supervision and inspection institutions for periodical inspection on time and renew the relevant part of the safety inspection qualified mark.

Pursuant to Regulation on Safety Supervision of Large-scale Recreation Facilities (大型遊樂設施安全監察規定) promulgated on 15 August 2013 and effective on 1 January 2014, the AQSIIQ is responsible for the safety supervision of nation-wide large-scale recreation facilities, administration of quality supervision and inspection and quarantine at the county level or above is responsible for the safety supervision of large-scale recreation facilities in its administration area. In order to improve the ability to respond to accidents as well as compensatory capabilities, liability insurance mechanism regarding large-scale recreation facilities is encouraged. Before the installation of large-scale recreation facilities, installer shall inform local AQSIIQ with installation condition. The installation of large-scale recreation facilities shall comply with the safety and technical specifications. Within 30 days before or after the operation of large-scale recreation facilities, the proprietor and the large-scale recreation facilities shall be registered by local AQSIIQ, the register mark shall be displayed on entrance or exit of large-scale recreation facilities or other significant position. The large-scale recreation facilities shall set up a safety department which is staffing with safety personnel or shall have full-time work safety personnel, and shall ensure at least one safety personnel on duty during large-scale recreation facilities is operating.

Pursuant to the Reform Measures of Shanghai Municipal Bureau of Quality and Technical Supervision on Quality and Technology Supervision in Pilot Free Trade Zone (上海市質量技術監督局自由貿易試驗區質量技監工作改革措施) which was promulgated and effective on 24 December 2013, the FTZ Sub-bureau of Quality and Technical Supervision is granted the authority to approve certain matters regarding special equipment, including the licence for manufacture (which include design, produce, install, remould, repair) of special equipment, register of special equipment, and notice of installation, remoulding and reparation.

### **Regulations on planning, construction, and fire protection acceptance check of construction projects**

#### ***Regulations on construction project planning***

Pursuant to the Law of the People's Republic of China on Urban and Rural Planning (中華人民共和國城鄉規劃法) which was promulgated on 28 October 2007 and effective on 1 January 2008, If

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buildings, structures, roads, pipelines and other engineering structures are to be constructed within a city or town planning area, construction entities or individuals shall apply to the competent department of urban and rural planning under the people's government of the city or county or the people's government of the town specified by the people's government of the relevant province, autonomous region or municipality directly under the Central Government for the Construction Project Planning Permit (建設工程規劃許可證).

When a construction project planning permit is being applied for, the relevant certification documents for land use, the construction design scheme and other related documents shall be submitted. For construction project which requires detailed constructive plans compiled by the construction entity, the detailed constructive plans shall also be submitted. With respect to those in compliance with the detailed controlling plans and planning conditions, the competent urban and rural planning authorities under the people's government of the city or county or the people's government of the town specified by the people's government of the relevant province, autonomous region or municipality directly under the Central Government shall approve and issue the Construction Project Planning Permit.

The competent urban and rural planning authorities under the people's government of the city or county or the people's government of the town specified by the people's government of the relevant province, autonomous region or municipality directly under the Central Government shall, in accordance with the relevant laws and regulations, promulgate the detailed constructive plans and the general layout plan of the construction design scheme which have been examined and approved.

Pursuant to the Rule of Shanghai on Urban and Rural Planning (上海市城鄉規劃條例) which was promulgated 11 November 2010 and effective on 1 January 2011, construction entities or individuals shall apply for Construction Project Planning Permit (建設工程規劃許可證) or Rural Construction Planning Permit (鄉村建設規劃許可證) as regards the following construction projects:

1. the building of new constructions, structures, roads or pipeline projects; changing, enlarging of constructions, structures, roads or pipeline projects.
2. overhauling project which requires to change the bearing structure of constructions or structures.
3. building facade renovation in the areas specified by the people's government.

### *Regulations on construction of construction project*

Pursuant to the Administrative Measures for Construction Permits of Construction Projects (Revised in 2001) (建築工程施工許可管理辦法(2001年修正)) (the “**Construction Permit Measures**”), which is promulgated on 15 October 1999, amended in accordance with the Decision of the Ministry of Construction on Revision of the Administrative Measures for Construction Permits of Construction Projects, and effective on 4 July 2001, In the construction and decoration of all kinds of buildings and annexes thereto, the installation of supporting lines, pipes and equipment, and the construction of infrastructure projects in cities and towns within the territory of the People's Republic of China, the construction entity shall, prior to starting construction, apply to the



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administrative authorities in charge of construction of the people's government at the county level or above (the “**permit issuing authorities**”) where the construction project is located for a construction permit in accordance with the provisions set forth in these Measures.

The construction entity for a construction project with a total cost of less than RMB300,000 or for which the floor area is less than 300 sq.m. shall not be required to apply for a construction permit. The administrative departments responsible for construction of the people's governments of the various provinces, autonomous regions and municipalities directly under the Central Government may, in accordance with the specific circumstances prevailing in their respective regions, readjust these limits and notify the department under the State Council responsible for construction for its records.

For any construction project for which the report on the start of construction has been approved in accordance with the powers and procedures specified by the State Council, the construction entity concerned shall not be required to apply for a construction permit. Pursuant to the Construction Permit Measures, any construction entity that applies for a construction permit shall satisfy certain conditions and submit the relevant supporting documents.

### *Regulations on fire protection acceptance check of construction projects*

Pursuant to Fire Protection Law of the People's Republic of China (中華人民共和國消防法), which was promulgated on 28 October 2008 and effective on 1 May 2009, with respect to construction projects which require fire protection design according to national fire protection technical standards for construction work, an acceptance check and record-filing for fire protection shall be conducted in accordance with the following provisions upon completion of such construction projects:

1. With respect to construction projects specified under Article 11 of this Law, the construction entities shall file an application for fire protection acceptance check with the fire protection departments of public security authorities; and
2. With respect to other construction projects, the project owners shall, after an acceptance check, report its results to the fire protection departments of public security authorities for their records and such departments shall conduct a random inspection thereof. With respect to construction projects that are subject to fire protection acceptance check in accordance with the law, such projects shall not be put into use without completing or passing the acceptance check. In respect of other construction projects, those that fail the legal random inspection shall be suspended from using.

Pursuant to the Interim Measures on Assessment of Fire Protection Acceptance Check of Construction Projects (建築工程消防驗收評定暫行辦法) (the “**Acceptance Check Measures**”), which was promulgated and effective on 1 January 2010, upon the completion of construction projects such as the building of new constructions, changing, enlarging and interior decorating of constructions, a fire protection acceptance check shall be conducted by the fire protection departments of public security authorities. The assessment result is classified as qualified and unqualified.

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### *Regulations on house leasing*

Pursuant to the Administrative Measures for Commodity House Leasing (商品房屋租賃管理辦法) which was promulgated on 1 December 2010, The housing and urban-rural development administrative authority of the State Council shall be responsible for guiding and supervising house leasing across the country. The construction (real estate) administrative authority of the local people's government at or above the county level shall be responsible for supervising and administering house leasing within its administrative region.

The parties to house leasing shall sign a leasing contract according to law. The parties to house leasing shall, within 30 days after the conclusion of the house leasing contract, file for record regarding the house leasing at the construction (real estate) administrative authority of the people's government of the municipality directly under the Central Government, city or county at the place where the leased house is located.

## ADVERTISING SERVICES INDUSTRY

### **Regulations on advertising**

Pursuant to Advertising Law of the PRC (中華人民共和國廣告法) adopted in the 10th meeting of the Standing Committee of the 8th National People's Congress of the People's Republic of China on 27 October 1994 and became effective on 1 February 1995, the term "advertisers" refers to any legal persons, economic organizations or individuals that, directly or through certain agents, design, produce and publish advertisements for the purpose of promoting products or providing services. The term "advertisement operators" refers to those legal persons, economic organizations or individuals that are being consigned to provide advertisement content design, production and agency services. The term "advertisement publishers" refers to any legal person or other economic organization which publishes advertisements for advertisers or advertisement operators consigned by advertisers. Advertisements shall not contain any false contents or deceive or mislead the consumers. An advertisement should present distinct and clear specifications on the product's function, place of origin, uses, quality, price, manufacturer, validity period, promises or the contents, forms, quality, price or promises of the services offered. The contents of advertisements for food, wine and cosmetics should comply with the requirements set by the sanitary licence and the use of medical terms or terms that are confusingly similar with medications is prohibited. The contents of advertisements for medications should be based on the instructions approved by the State Council or provincial public health administrative department. It is prohibited to advertise tobacco through media broadcast, films, television, newspaper or periodicals and no advertising is allowed for special drugs such as anaesthetics, psychotropic drugs, toxic drugs or radioactive drugs.

According to the Advertising Law of the PRC, data, statistics, survey results, excerpts or quotations addressed in an advertisement should be true and accurate, with the sources clearly indicated. For acts of publishing false advertisements to deceive or mislead consumers, thus causing damages to the lawful rights and interests of consumers who have bought the commodities or accepted the services, the advertisers shall bear civil responsibility and advertising operators and publishers who knew or should have known the falseness of the advertisements shall bear joint and several responsibility if they have participated in designing, producing or publishing the advertisements. According to the Advertising Law of the PRC, it is prohibited to advertise with any

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patent application that has not been granted, or with any patent that has been terminated, cancelled or invalidated. Advertisers, advertising operator or advertisement publishers shall bear civil responsibility if they infringe on and use other's patent rights, or use the names or images of others without prior consent.

Pursuant to Regulation on the Administration of Advertising (廣告管理條例) promulgated by the State Council on 26 October 1987 and became effective on 1 December 1987 and the Implementing Rules of the Regulation on the Administration of Advertising (廣告管理條例施行細則) promulgated and amended by State Administration for Industry and Commerce (中華人民共和國國家工商行政管理總局) (the "SAIC") which took effect on 1 January 2005, advertisement operators shall handle the registration according to the relevant procedures for enterprises engaging in the operation of advertising business, application for registration shall be made at the competent administration for industry and commerce and obtain the business licence.

Pursuant to Notice Concerning the Certain Matters Regarding the Renewal of Advertising Business Licence (關於換發《廣告經營許可證》有關問題的通知) promulgated by the SAIC on 10 December 2004 and took effect on the same date, according to the provisions under Clause 2 of the Measures for the Administration of Advertising Business Licences (廣告經營許可證管理辦法), radio stations, television stations, periodicals publishing entities, and other entities that are required to apply for the examination and approval in registering the operation of advertising business pursuant to other laws and administrative regulations shall renew their Advertising Business Licences (廣告經營許可證). Other entities engaging in advertising operation business shall not renew their Advertising Business Licences.

### **Policies governing the investment in the businesses of advertising by foreign investors**

Pursuant to the Provisions on the Administration of Foreign-Funded Advertising Enterprises (外商投資廣告企業管理規定) jointly promulgated by the SAIC and the MOFCOM on 22 August 2008 which took effect on 1 October 2008, the establishment of advertising enterprises by investors from Hong Kong, Macau and Taiwan in the Mainland shall follow the relevant provisions accordingly. A foreign-invested advertising enterprise that meets the prescribed conditions may engage in designing, making, issuing, or acting as an agency of various advertisements businesses both home and abroad. The specific business scope shall be subject to the approval of the SAIC and its authorised administrations for industry and commerce at provincial level according to law.

Pursuant to the Several Opinions on Further Improving the services provided for the Development of Foreign Invested Enterprises by Fully Carrying out the Functions of Administration of Industry and Commerce (關於充分發揮工商行政管理職能作用進一步做好服務外商投資企業發展工作的若干意見) issued by the SAIC on 7 May 2010, which took effect on the same date, any provincial administration for industry and commerce shall be authorised to examine and approve projects on foreign-funded advertising enterprises, improve approval requirement, set up filing system, and implement formatted examination and approval. Pursuant to the Notice of Authorizing the Administrations for Industry and Commerce of Provinces, Municipalities directly under the Central Government and Autonomous Regions to Conduct the Examination and Approval of Foreign-funded Advertising Enterprises (關於授權省、自治區、直轄市工商行政管理局進行外商投資廣告企業項目審批工作的通知), the SAIC authorises the administrations of each provinces, municipalities directly under the Central Government and autonomous regions to conduct the

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examination and approval of the applications for the projects of foreign-funded advertising enterprises. The MOFCOM issued the Notice of the MOFCOM on Decentralizing the Examination and Approval Power for Foreign Investment (關於下放外商投資審批權限有關問題的通知) on 10 June 2010, which requires that in addition to those matters to be approved by the MOFCOM which has been set forth under relevant laws and regulations, the establishment of foreign-funded enterprises related to the service sector and its changes (including the above of limit amount and the capital increase) should be approved and managed by the local approving authority. It also reaffirms and further clarifies the scope of approval applicable to the competent provincial commerce department for foreign funded enterprises.

### REGULATIONS ON INTELLECTUAL PROPERTIES

#### Copyright law

Copyright in the PRC is protected Under the Copyright Law of the People's Republic of China (中華人民共和國著作權法), promulgated on 7 September 1990 and amended on 27 October 2001 and 26 February 2010, and its related Implementing Regulations promulgated on 30 May 1991 and amended on 2 August 2002 and 30 January 2013, creators of protected works enjoy personal and property rights. A copyright shall subsist on the date when a work is created and the term of a copyright, other than the rights of authorship, alteration and integrity of an author which shall be unlimited in time, is life plus 50 years for individual authors and 50 years for corporations. In addition, pursuant to the Provisional Measures on Voluntary Registration of Works (作品自願登記試行辦法), promulgated on 31 December 1994, a voluntary registration system is adopted in PRC and administered by the China Copyright Protection Centre.

#### Trademark law

Registered trademarks in the PRC are protected under the PRC Trademark Law (中華人民共和國商標法) promulgated on 23 August 1982 and amended on 22 February 1993, 27 October 2001, 30 August 2013, and its related Implementing Regulations which was promulgated on 3 August 2002 and amended on 29 April 2014. The PRC Trademark Office of SAIC is responsible for the registration and administration of trademarks throughout the PRC. The Trademark Law has adopted a "first-to-file" principle with respect to trademark registration. Where a trademark for which a registration has been made is identical or similar to another trademark that has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such trademark may be rejected. Any person applying for the registration of a trademark shall not prejudice the existing right of others obtained by priority, nor shall any person register in advance a trademark that has already been used by another person and has already gained "sufficient degree of reputation" through that person's use. After receiving an application, the PRC Trademark Office will make a public announcement if the relevant trademark passes the preliminary examination. Within three months after such public announcement, any person may file an opposition against a trademark that has passed a preliminary examination. The PRC Trademark Office's decisions on rejection, opposition or cancellation of an application may be appealed to the PRC Trademark Review and Adjudication Board, whose decision may be further appealed through judicial proceedings. If no opposition is filed within three months after the public announcement period or if the opposition has been overruled, the PRC Trademark Office will approve the registration and issue a registration certificate, upon which the trademark is registered and will be effective for a renewable ten-year period, unless otherwise revoked.

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### EMPLOYMENT LAWS

#### The employment contract law

The Employment Contract Law (中華人民共和國勞動合同法) was promulgated by the Standing Committee of the National People's Congress on 29 June 2007, came into effect on 1 January 2008 and was amended on 28 December 2012. The Employment Contract Law is primarily aimed at the regulation of employee and employer rights and obligations, including matters with respect to the establishment, performance and termination of labour contracts.

Under the Employment Contract Law, (a) employers must pay employees double income in circumstances where an employer fails to enter in to an employment contract within one year with an employee who works for the employer for a period exceeding one month. Where such period exceeds one year, the parties are deemed to have entered into a labour contract with an “unfixed term”; (b) employees who fulfil certain criteria, including having worked for the same employer for ten years or more, may demand that the employer execute a labour contract with an unfixed term; (c) employees must adhere to regulations concerning commercial confidentiality and non-competition; (d) the range of situations in which employers must lawfully compensate employees has increased; (e) an upper limit has been set on the amount of compensation an employer may seek for an employee's breach of the agreed service term. The upper limit may not exceed the cost of training supplied to the employee; (f) employees in respect of whom employers have not in accordance with law made social insurance contributions may terminate their employment contracts; (g) employers who demand money or property from employees by way of guarantee or whatsoever may be fined a maximum of RMB2,000 for each employee; and (h) employers who intentionally deprive employees of any part of their salary must, in addition to their full salary, pay employees compensation in the order of 50% to 100% of the amount of salary so deprived.

#### Regulations on social insurance and housing fund

The PRC regulatory authorities have passed a variety of laws and regulations regarding social insurance and housing funds from time to time, such as the PRC Social Insurance Law (中華人民共和國社會保險法), the Regulations of Insurance for Labour Injury (工傷保險條例), the Regulations of Insurance for Unemployment (失業保險條例), the Provisional Measures on Maternal Insurance for the Enterprise Employees (企業職工生育保險試行辦法), the Interim Regulations on the Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例), the Interim Provisions on Registration of Social Insurance (社會保險登記管理暫行辦法), the Regulations on Management of Housing Fund (住房公積金管理條例) and other related laws and regulations. Pursuant to these laws and regulations, PRC enterprises must make sufficient contributions to the relevant local social insurance and housing fund regulatory authorities for their employees' pension plans, medical insurance plans, unemployment insurance plans, work-related injury insurance plans, maternity insurance plans and housing funds. Failure to comply with such laws and regulations may result in various fines and legal sanctions and supplemental contributions to the local social insurance and housing fund regulatory authorities.

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### RULES ON FOREIGN EXCHANGE AND DIVIDEND DISTRIBUTION

#### The Foreign Currency Administration Rules

The principal regulation governing foreign currency exchange in the PRC is the Foreign Currency Administration Rules (外匯管理條例) which was issued by the State Council in 29 January 1996, became effective on 1 April 1996 and was amended in 14 January 1997 and 5 August 2008. Under these rules, RMB is freely convertible only for payments of current account items, including trade and service related foreign exchange transactions and dividend payments, but not for capital account expenses, including direct investment, loan or investment in securities outside the PRC. RMB may only be converted for capital account expenses once the prior approval of SAFE or the prior registration with SAFE has been obtained. Under the Foreign Currency Administration Rules and Administrative Regulations on Settlements, Sales and Payments in Foreign Exchange (結匯、售匯及付匯管理規定), foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE for trade and service-related foreign exchange transactions by providing commercial documents evidencing such transactions. They may also retain foreign exchange (subject to a cap approved by SAFE) to satisfy foreign exchange liabilities or to pay dividends. However, the relevant PRC government authorities, which have significant administrative discretion in implementing the laws, may restrict or eliminate the ability of foreign invested enterprises to purchase and retain foreign currencies in the future. In addition, foreign exchange transactions involving direct investment, loans and investment in securities outside the PRC are subject to limitations and require approvals from SAFE.

Pursuant to the Administrative Measures on Pilot Foreign Exchange Purchase for Non-trade Purpose by Enterprises in the Logistics Park of Shanghai Waigaoqiao Free Trade Zone (上海外高橋保稅區物流園企業非貿易項下購匯試點管理辦法), which was promulgated by the General Affairs Department of the State Administration of Foreign Exchange on 3 September 2004 and effective on the same date, when an Enterprise in the Shanghai Waigaoqiao Bonded Logistics Park is making a non-trade external payment, the required foreign exchange shall be paid directly from the foreign currency account held by such enterprise or after purchase of foreign exchange from a designated foreign exchange bank.

#### Capital contribution in foreign currencies

On 29 August 2008, SAFE issued the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency-denominated Capital of Foreign-Invested Enterprises, (關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知) or “**Circular No. 142**”. Pursuant to Circular No. 142, the RMB converted from foreign-denominated currencies of a foreign-invested enterprise may only be used within the business scope of the foreign-invested enterprise as approved by the applicable government authority and may not be used for domestic equity investment unless otherwise stipulated by law or regulation. In addition, SAFE strengthened its oversight of the flow and use of the RMB capital of a foreign-invested enterprise converted from foreign currencies. The use of such RMB may not be changed without SAFE’s approval, and may not in any case be used to repay RMB loans if the proceeds of such loans have not been used within the approved business scope. Violations of Circular No. 142 will result in severe penalties, such as heavy fines.

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In addition, SAFE promulgated the Notice on Relevant Issues Concerning Strengthening the Administration of Foreign Exchange Businesses (關於加強外匯業務管理有關問題的通知) on 9 November 2010, which requires the authenticity of settlement of net proceeds from overseas offerings to be closely examined and the net proceeds to be settled and used in the manner described in the offering documents. On 18 July 2011, SAFE issued the Supplemental Notice on the Relevant Operation Issues Concerning Improving the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-invested Enterprises (關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的補充通知), which became effective on 1 August 2011. According to such notice, enterprises that apply for capital settlements need to submit to the banks designated by SAFE relevant original copies of evidence to prove due payment of proceeds from previous settlements and related invoices in addition to the documents required under Circular No. 142. Banks are also required to file reports of all capital settlements processed by them on a daily basis with the local branches of SAFE.

### SAFE registration

The Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents through Overseas Special Purpose Vehicles (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (the “**Circular No. 37**”), which was promulgated by SAFE and became effective on 14 July 2014, requires a PRC individual resident (the “**PRC Resident**”) to register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (the “**Offshore SPV**”) that is directly established or controlled by the PRC Resident for the purpose of conducting investment or financing. Following the initial registration, the PRC Resident is also required to register with the local SAFE branch for any major change in respect of the Offshore SPV, including, among other things, any major change of a PRC Resident shareholder, name or term of operation of the Offshore SPV, or any increase or reduction of the Offshore SPV’s registered capital, share transfer or swap, merger or division. Failure to comply with the registration procedures of Circular No. 37 may result in penalties and sanctions, including the imposition of restrictions on the ability of the Offshore SPV’s PRC subsidiary to distribute dividends to its overseas parent.

On 19 November 2012, SAFE issued the Notice of the State Administration of Foreign Exchange on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment (國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知), or “**Circular No. 59**”, and on May 2013, SAFE further promulgated Circular of the State Administration of Foreign Exchange on Printing and Distributing the Administration of Foreign Exchange in Foreign Direct Investments of Foreign Investors and Relevant Supporting Documents (國家外匯管理局關於印發《外國投資者境內直接投資外匯管理規定》及配套文件的通知), or “**Circular No. 21**”. Circular No.59 and Circular No. 21 strengthen the supervision of registrations pursuant to the Circular No.37 and impose obligations on onshore subsidiaries of the overseas SPVs to coordinate and supervise the relevant PRC residents to complete registration.

As advised by our PRC Legal Adviser, given that Mr. ZHUANG (being our Controlling Shareholder) is a PRC Resident, Mr. ZHUANG shall register with Shenzhen SAFE for the purpose of the Listing and Global Offering. Mr. ZHUANG confirm that as of the Latest Practicable Date, Mr. ZHUANG has already submitted the documents with Shenzhen SAFE for the aforesaid registration. Based on the communication with Shenzhen SAFE, which as confirmed by our PRC Legal Adviser is the competent authority for such registration, the representatives of Shenzhen SAFE are of the view that there would be no legal impediment to complete the aforesaid registration. Pursuant to the Deed

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of Indemnity, Mr. ZHUANG shall indemnify us against, among other things, any penalty that may be imposed on us in relation to the aforesaid registration. As further advised by our PRC Legal Adviser, our Company is not required to obtain approval, permission or consent from the China Securities Regulatory Commission (中國證券監督管理委員會) or any other PRC governmental authorities for the Listing and Global Offering.

### **Regulations on dividend distribution**

The principal laws and regulations governing distribution of dividends paid by PRC wholly foreign-owned enterprises include (a) the Company Law; (b) the WFOE Law; and (c) the WFOE Law Implementation Regulation. Under the above laws and regulations, domestic companies and wholly foreign-owned enterprises in the PRC may pay dividends only from accumulated after-tax profits, if any, determined in accordance with the PRC accounting standards and regulations. In addition, such enterprises are required to set aside at least 10% of their after-tax profits each year, if any, to fund certain reserve funds. Until such time as the accumulated reserve funds reach and remain above 50% of the enterprise's registered capital amount, these reserves are not distributable as cash dividends. Under the relevant PRC law, no net assets other than the accumulated after-tax profits can be distributed in the form of dividends.

## **LAWS AND REGULATIONS RELATING TO TAX**

### **Enterprise income tax**

According to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the “**EIT Law**”) promulgated by National People's Congress on 16 March 2007, and the Implementation Rules of the PRC Law of Enterprise Income Tax (中華人民共和國企業所得稅法實施條例) (the “**EIT Implementation Rules**”), both of which came into effect on 1 January 2008, enterprises are classified as resident enterprises and non-resident enterprises. PRC resident enterprises typically pay enterprise income tax at the rate of 25% while non-PRC resident enterprises without any branches in PRC should pay enterprise income tax in connection with their income from PRC calculated at a deemed profit rate of approximately 30% to 50% in general. In addition, an enterprise established outside of the PRC with its “de facto management bodies” located within the PRC is considered a “resident enterprise”, meaning that it can be treated in a manner similar to a PRC domestic enterprise for enterprise income tax purposes. The Implementation Rules of the EIT Law define de facto management body as a managing body that in practice exercises “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise.

### **The heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on our business operations, our restructuring strategy or the value of your investment in us**

Pursuant to the EIT Law, the Ministry of Finance and the State Administration of Taxation (the “**SAT**”) jointly issued the Notice on Issues Concerning Process of Enterprise Income Tax in Enterprise Restructuring Business (關於企業重組業務企業所得稅處理若干問題的通知) (the “**Circular 59**”) on 30 April 2009. On 10 December 2009, SAT issued the Notice on Strengthening the Management on the Enterprise Income Tax for Non-resident Enterprises Equity Transfer (關於加強非居民企業股權轉讓所得企業所得稅管理的通知) (the “**Circular 698**”). Both Circular 59 and Circular 698 became effective retrospectively on 1 January 2008. By promulgating and



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implementing these circulars, the PRC tax authorities have strengthened their scrutiny over the direct or indirect transfer of equity interest in a PRC resident enterprise by a non-PRC resident enterprise. For example, pursuant to Circular 698, if a non-resident enterprise indirectly transfers the equity interests of a PRC resident enterprise by transferring the equity interests of an overseas holding company (the “**Indirect Transfer**”), and such overseas holding company is located in a tax jurisdiction that: (i) has an effective tax rate of less than 12.5% or (ii) does not impose income tax on foreign income of its residents, the transferring nonresident enterprise must report this Indirect Transfer to the competent PRC tax authority at the location where the PRC resident enterprise incorporated. The PRC tax authority will apply the “Economic Substance Doctrine”, and as a result may disregard the existence of the overseas holding company if such overseas holding company lacks a reasonable commercial substance and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such an Indirect Transfer may be subject to PRC withholding tax at a rate of up to 10%. SAT Circular No. 698 also provides that where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the relevant tax authority has the power to make a reasonable adjustment to the taxable income of the transaction. In addition, SAT released the SAT Public Notice (2011) No. 24, (the “**SAT Public Notice 24**”), which took effect on 1 April 2011, to clarify several issues related to SAT Circular No. 698. Under SAT Public Notice 24, the term “effective tax” refers to the effective tax on the gain derived from a disposition of any equity interests of an overseas holding company. There is uncertainty as to the application of SAT Circular No. 698. While the term “Indirect Transfer” is not clearly defined, it is understood that the relevant PRC tax authorities have broad jurisdiction over requests for information regarding foreign companies having remote contact with the PRC. Moreover, the relevant authority has not yet promulgated any formal provisions or made any formal interpretation as to the procedures or format for reporting an Indirect Transfer. In addition, there have not been any formal declarations concerning how to determine whether a foreign investor has adopted an arrangement for the purpose of reducing, avoiding or deferring PRC tax. We have conducted and may conduct restructuring involving corporate structures, and we cannot assure you that the PRC tax authorities will not, at their discretion, adjust any capital gains and impose tax return filing obligations on us or require us to provide assistance for the investigation of PRC tax authorities with respect thereto. Any PRC tax imposed on transfer of our shares or any adjustment of such gains would cause us to incur additional costs.

Although it appears that SAT Circular No. 698 was not intended to apply to purchase and sale of shares of publicly traded companies in the open market, the PRC tax authorities may determine that SAT Circular No. 698 is applicable to our non-resident shareholders who acquired our shares outside of the open market and subsequently sell our shares in our private financing transactions or in the open market if any of such transactions were determined by the tax authorities to lack reasonable commercial purpose. As a result, we and our non-resident investors or non-resident enterprise shareholders may be at risk of being taxed under SAT Circular No. 698 and may be required to expend valuable resources to comply with SAT Circular No. 698 or to establish that we and our non-resident enterprise investors or non-resident enterprise shareholders should not be taxed under SAT Circular No. 698, which may have a material adverse effect on our financial condition and results of operations or such non-resident investors’ or such non-resident enterprise shareholders’ investments in us.

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### Value-added tax and business tax

Pursuant to the Provisional Regulations of the PRC on Value-Added Tax (中華人民共和國增值稅暫行條例), which was promulgated by the Stated Council on 13 December 1993 and subsequently amended on 10 November 2008 and its Implementation Rules (中華人民共和國增值稅暫行條例實施細則) which was promulgated by the MOF on 18 December 2008 and subsequently amended by the MOF and the SAT on 28 October 2011, unless stated otherwise, the tax rate for value-added tax payers who are selling or importing goods, and providing processing repairs and replacement services in China shall be 17%.

Prior to 1 January 2012, pursuant to The Provisional Regulations of the PRC on Business Tax (中華人民共和國營業稅暫行條例), which became effective on 1 January 1994 and were subsequently amended on 10 November 2008 and became effective on 1 January 2009, and its implementation rules, all institutions and individuals providing taxable services, transferring intangible assets or selling real estate within the PRC must pay business tax. The scope of services which constitute taxable services and the rates of business tax are prescribed in the List of Items and Rates of Business Tax (營業稅稅目稅率表) attached to the regulation.

Since 1 January 2012, the MOF and the SAT have been implementing the Pilot Plan for Imposition of Value Added Tax to Replace Business Tax (營業稅改徵增值稅試點方案) (the “**Pilot Plan**”). As approved by the State Council on 25 July 2012, this Pilot Plan was first launched in Shanghai, and since 1 August 2012, such Pilot Plan has been expanded to other regions. Value-added tax is or will be applicable at a rate of 6% in lieu of business tax for the online games services rendered by WFOE and the PRC Operational Entities. Value-added tax payable on goods sold or taxable services provided by a general value-added tax taxpayer for a taxable period is the net balance of the output value-added tax for the period after crediting the input value-added tax for the period.

Pursuant to the Opinions of the State Council on Accelerating the Development of Foreign Trade in Culture (國務院關於加快發展對外文化貿易的意見), which was promulgated by the Stated Council and became effective on 3 March 2014, the export of cultural products encouraged by the State on a priority basis shall be eligible for zero-rated value-added tax, while the export of cultural services encouraged by the State on a priority basis shall be exempted from business tax. In light of the pilot reform of replacing business tax with value-added tax, cultural service industries shall be gradually included under the scope of the pilot reform to apply zero-rated value-added tax to, or exempt from value-added tax on, the export of cultural services included in the scope of value-added tax levy. The specific scope of cultural products and services encouraged by the State on a priority basis that enjoy preferential taxation policies shall be determined by the Ministry of Finance and the State Administration of Taxation in conjunction with other relevant departments. As long as it meets relevant criteria on technologically-advanced service enterprises prescribed by prevailing preferential taxation policies, a cultural enterprise that engages in service outsourcing business in any of the service outsourcing model cities approved by the State Council may, upon being recognised, enjoy enterprise income tax at the reduced rate of 15%, and its employee education expenses may be eligible for pre-tax deduction, subject to a maximum of 8% of its total salary.

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## APPLICABLE LAWS AND REGULATIONS

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### Customs duties

Pursuant to the Regulations of the People's Republic of China on Import and Export Duties (中華人民共和國進出口關稅條例) which was promulgated by the State Council on 23 November 2003 and took effect on 1 January 2004, all goods permitted to be imported into or exported out of and all articles allowed to enter into the People's Republic of China shall, unless otherwise provided for by the State Council, be subject to payment of customs duties on imports or exports according to the Regulations of the People's Republic of China on Import and Export Duties. The tariff items, tariff heading numbers and tariff rates as prescribed in the Customs Import and Export Tariffs of the People's Republic of China (中華人民共和國進出口稅則) and the Import Tariff Rates of the People's Republic of China for Entry Articles (中華人民共和國進境物品進口稅稅率表) which are formulated by the State Council, shall form an integral part of the Regulations of the People's Republic of China on Import and Export Duties.

Pursuant to the Measures on Customs Supervision and Control over Bonded Zones (保稅區海關監管辦法) which was promulgated by the General Administration of Customs (海關總署) on 1 August 1997 and became effective on the same date, bonded zones (保稅區) are specific areas under Customs supervision and control. The Customs shall carry out supervision and control over goods, means of transport and articles carried by individuals entering or leaving the bonded zones. Equipment for production and management, articles for office use in reasonable quantity and spare parts for maintenance, fuels for production, materials and equipment needed for the construction of production and storage facilities to be used by enterprises in the bonded zones, shall be exempt from duties and taxes.

Pursuant to the Several Opinions of Shanghai Comprehensive Free Trade Zone Administration Committee on Financial Support to Economic Development during the "12th Five-Year Plan" period (上海綜合保稅區管理委員會“十二五”期間財政扶持經濟發展若干意見) which was promulgated by Shanghai Free Trade Zone Administration Committee on 7 May 2010 and effective on 1 January 2011, for the purpose of further facilitating the functional development of Yangshan Free Trade Port Area, Waigaoqiao Free Trade Zone (including the Logistics Park) and Pudong Airport Comprehensive Free Trade Zone (collectively, the "**New Area**"), financial support policy is hereby formulated for promoting the sustained and stable development of regional economy, optimising the allocation of resources, improving the industrial competence, and improving industrial coordination. Newly-introduced cultural enterprises shall be given a subsidy, in the first two years, equal to 100% of the part of the local financial resources of the New Area that are formed by the added value, business income and total profits realised by such enterprises and, thereafter, equal to 50% thereof.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### OVERVIEW

#### **Business activities carried out by Sino Action**

Our business can be traced back to the 1990s. In July 1996, for the purpose of developing the toy sales business, Mr. ZHUANG, together with Mr. LAM Siu Leung (“**Mr. LAM**”), an Independent Third Party, acquired all issued share capital of Sino Action as a shelf company. Sino Action is a Hong Kong company and has no production facilities in the PRC. In June 1997, Sino Action entered into a “three-plus-one” (三來一補) agreement with Wah Shing pursuant to which Wah Shing provided manufacturing support to the toy products designated by Sino Action. During the period between July 1996 and March 2008, Mr. ZHUANG was a shareholder of Sino Action holding 5,000 shares, representing 50.0% of its shares in issue. The business relationship between Sino Action and us continued throughout the Track Record Period. As of the Latest Practicable Date, Sino Action was one of our major suppliers of the animation derivative products.

With the stable manufacturing support from Sino Action, following the establishment of China Animation BVI in September 2007, Mr. ZHUANG has been focusing on the expansion of our customer base to toy companies in Japan. In March 2008, Mr. ZHUANG sold all his equity interest in Sino Action to Mr. LAM Siu Leung for HK\$5,000 in order to focus on the business development of China Animation BVI. The amount of consideration was equivalent to the par value of the shares sold by Mr. ZHUANG. Mr. ZHUANG resigned as a director of Sino Action in November 2010. Sino Action and Wah Shing have never been members of our Group.

#### **Business activities carried out by Shenzhen Huaxia**

In June 2007, Shenzhen Huaxia was established for the purpose of developing proprietary animation characters in the PRC. In August 2009, Shenzhen Huaxia acquired from Shenzhen Tangren the intellectual property rights of “*Han Ba Gui*” (憨八龜) and the related assets with the employment of the supporting teams by Shenzhen Huaxia for RMB8.0 million. As confirmed by Mr. ZHUANG, the amount of consideration was agreed between the parties following negotiations on an arm’s length basis. Shenzhen Huaxia subsequently used its own financial resources to establish its own product research and development team in the PRC. Shenzhen Huaxia developed a number of proprietary animation characters in the PRC, i.e. “*Amazing UU*” (神奇的優悠) and “*Animal Conference on the Environment*” (動物環境會議).

With the establishment of Shenzhen Wald, a wholly-owned subsidiary of China Animation BVI, certain employees previously employed by Shenzhen Huaxia for the development of the proprietary animation characters in the PRC has become employees of Shenzhen Wald. Following the transfer of the employees, the 32 copyrights and trademarks of “*Han Ba Gui*” (憨八龜), “*Amazing UU*” (神奇的優悠) and “*Animal Conference on the Environment*” (動物環境會議) were transferred from Shenzhen Huaxia and Shenzhen Tangren to China Animation BVI in October 2011 for RMB3.7 million. The amount of consideration was determined with reference to a valuation of the trademarks prepared by an independent valuer engaged by the sellers. The amount of the transfer price was settled by way of cash by China Animation BVI. Our Directors confirm that all the trademarks owned by Shenzhen Huaxia and Shenzhen Tangren have been transferred to China Animation BVI or China Animation IP and that all the key employees relevant to our business have been re-employed by Shenzhen Wald.

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Shenzhen Huaxia is not a member of our Group and it was wholly-owned by Mr. LI Haiyun (李海雲), an Independent Third Party, as of the Latest Practicable Date. Our Directors confirm that the reason for not including Shenzhen Huaxia as a member of our Group is that Shenzhen Huaxia is granted the television programme production licence (廣播電視節目製作經營許可證) in the PRC which, as advised by our PRC Legal Adviser, is not permitted to be held by a company with foreign investment. According to our PRC Legal Adviser, pursuant to the “Catalogue of Industries for the Guidance of Foreign Investment” (外商投資產業指導目錄), radio and television programme production and operating companies (廣播電視節目製作經營公司) fall into the prohibited category (禁止類) and foreign investment of any kind is prohibited. We paid consultancy fee and multimedia production fee to Shenzhen Huaxia during the Track Record Period. We also reimbursed Shenzhen Huaxia during the Track Record Period certain costs and expenses incurred by Shenzhen Huaxia in assisting our participation in China (Shenzhen) International Cultural Industry Fair in the previous years. Further information on these transactions is set forth in the section headed “Financial information — Related party transactions” in this prospectus.

During the three years ended 31 March 2014 and the five months ended 31 August 2014, the transactions entered into between Shenzhen Huaxia and us amounted to HK\$8.4 million, HK\$9.6 million, HK\$2.5 million and HK\$202,000, respectively.

Shenzhen Huaxia currently provides us with certain miscellaneous ancillary services in computer graphic design on an *ad hoc* basis. Our Directors do not consider that we rely on Shenzhen Huaxia in any aspect because of our own capability in the design and development of animation characters. We will continue to source ancillary services from Shenzhen Huaxia following the Listing.

We have entered into an agreement with Shenzhen Huaxia that Shenzhen Huaxia would change its name by removing the words of “华夏动漫” within six months from 12 February 2015. Shenzhen Huaxia has agreed to allow us to use the “华夏动漫” trademarks registered in the PRC at no cost and such trademarks shall be transferred to us within the six-month period. The transfer price will be determined on an arm’s length basis with reference to the appraised value of the trademarks as agreed by the parties. All PRC tax payable on the trademark transfers will be borne by Shenzhen Huaxia.

### **Business activities carried out by China Animation BVI**

China Animation BVI was established on 27 September 2007 and was acquired by Mr. ZHUANG as a shelf company on 28 September 2007 out of his own financial resources and the subsequent investments by the Initial Investors. China Animation BVI has then become our principal operating entity until completion of the Reorganisation. Our trading business of animation derivative products was carried out by China Animation BVI. One of the major suppliers of the animation derivative products of our Group is Sino Action. Pursuant to the Integrated Supply Agreement, Sino Action is responsible for coordinating the purchase orders and production and shipment of the finished products by Wah Shing to our overseas customers. Wah Shing is the processing plant for Sino Action in the PRC. Further information on the arrangements between China Animation BVI and Sino Action is set forth in the paragraphs under “Our trading business of animation derivative products” below.

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### Multimedia entertainment and indoor animation amusement park businesses

With the success in our trading business of animation derivative products and acquisition and further development of our proprietary animated characters, i.e. “*Han Ba Gui*” (憨八龜), “*Amazing UU*” (神奇的優悠) and “*Animal Conference on the Environment*” (動物環境會議), we have developed our virtual artist “*Violet*” (紫嫣) for our diverse but animated-related multimedia entertainment business. Our Directors believe that the multimedia entertainment business with our own proprietary animation characters will provide us with ample business opportunities in the animation industry in the PRC.

We entered into the SEGA Licence Agreement in March 2014 for the establishment and operation of Shanghai Joypolis. The phase 1 of Shanghai Joypolis was open on 30 December 2014 and the grand opening of Shanghai Joypolis is expected to take place in the first quarter of 2016.

As of the Latest Practicable Date, with the solid foundation of our trading business of animation derivative products, we have developed our multimedia entertainment business and our indoor animation amusement park business embellished with our own proprietary animation characters. All of these business activities are part of our business model and are closely related to supporting our continuous business growth in the future.

### OUR BUSINESS MILESTONES

The following table sets forth our major business milestones since the date of commencement of our business:–

<u>Month/Year</u>	<u>Business milestones</u>
September 2007	China Animation BVI was established for the trading business of animation derivative products.
April 2008 – February 2009	The Initial Investors invested an aggregate amount of HK\$1.0 million to China Animation BVI pursuant to the Initial Investment Agreements. The amount of investment was based on the par value of the number of shares of China Animation BVI agreed to be allotted and issued to them.
August 2009	Shenzhen Huaxia acquired from Shenzhen Tangren the trademarks of “ <i>Han Ba Gui</i> ” (憨八龜) and the related assets and supporting teams for RMB8.0 million.
May 2010	“ <i>Han Ba Gui</i> ” (憨八龜) received the King Bonn Award (金鵬獎) under “China Top 10 Cartoon Image” (中國十大卡通) nominated by the China Animations Society (中國動畫學會).

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## HISTORY, DEVELOPMENT AND REORGANISATION

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Month/Year	Business milestones
August 2011	The “ <i>Amazing UU</i> ” (神奇的優悠) received “The Second Batch of the Excellent Animation Film” (第二批優秀國產動畫片) nominated by 國家新聞出版廣電總局 (State Administration of Press, Publication, Radio, Film and Television of the PRC).
October 2011	China Animation BVI acquired from Shenzhen Huaxia and Shenzhen Tangren the trademarks of “ <i>Han Ba Gui</i> ” (憨八龜), “ <i>Amazing UU</i> ” (神奇的優悠) and “ <i>Animal Conference on the Environment</i> ” (動物環境會議) for RMB3.7 million based on a valuation of the trademarks prepared by an independent valuer engaged by the sellers.
April 2012	We commenced our multimedia entertainment business by making investment of HK\$1.75 million in the production of a movie tentatively known as “七號公館” (House No. 7*) in Chinese, which our Directors expect to be on show in China in or around the third quarter of 2015.
May 2013	We launched a virtual artist “ <i>Violet</i> ” (紫嫣) at the Ninth China (Shenzhen) International Cultural Industry Fair (“ <b>ICIF</b> ”) in Shenzhen, the PRC.
November 2013	We entered into the CUTV Agreements for the provision of animation contents to the children channel.
March 2014	We entered into the SEGA Licence Agreement for the establishment and operation of Joypolis in Shanghai, China.
July 2014	<p>The first song of the virtual artist “<i>Violet</i>” (紫嫣), namely “時光的翅膀”, was ranked first in the HeyPop International Music Ranking.</p> <p>We participated in “The Sixth Shenzhen Cartoon &amp; Animation Fair” (第六屆深圳動漫節), at which we launched the musical programmes using our virtual artist “<i>Violet</i>” (紫嫣) through augmented reality technology and selected arcade games that may be installed at Shanghai Joypolis.</p> <p>The virtual artist “<i>Violet</i>” (紫嫣) was awarded “The Special Image Promotion Award” (特別形象獎) in 第四屆十大卡通形象 (The “Fourth Top Ten Cartoon Image”*) organised by 中國動畫學會 (China Animation Society*).</p>

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Month/Year	Business milestones
December 2014	Phase 1 opening of Shanghai Joypolis with selected arcade games at Shanghai Global Harbour (上海環球港).
February 2015	The first music animation concert featuring our virtual artist “Violet” (紫嫣) was performed in Shenzhen.

### OUR TRADING BUSINESS OF ANIMATION DERIVATIVE PRODUCTS

#### Background information

We carried out our trading business of animation derivative products through China Animation BVI. Prior to completion of the Reorganisation, China Animation BVI was our principal operating company. During the period between April 2008 and February 2009, the Initial Investment Agreements were entered into pursuant to which the Initial Investors agreed to invest in China Animation BVI in the aggregate amount of HK\$1.0 million. The total amount of investment of HK\$1.0 million was received by Mr. ZHUANG which was subsequently used for the allotment and issue of shares of China Animation BVI on 30 August 2013.

At the time of entering into the Initial Investment Agreements, none of the Initial Investors received any shares of China Animation BVI but they (or their nominees) would be allotted and issued shares of China Animation BVI in the agreed percentages within seven years from the respective dates of the Initial Investment Agreements. Further information on the investment by the Initial Investors is set forth in the paragraphs under “Corporate and shareholding structure of our Group prior to the Reorganisation Date — Allotment of shares by China Animation BVI pursuant to the Initial Investment Agreements” below.

Following the establishment of China Animation BVI, Mr. ZHUANG has been working with Mr. IKEDA to expand the customer base in Japan. Mr. IKEDA is a renowned leader in the capsule toy machine business in Japan. The customer base of China Animation BVI has been expanded to companies in Japan sourcing animation-related toys and consumer products for their own customers in Japan. As the sole director and shareholder of China Animation BVI, Mr. ZHUANG carried out the trading business of animation derivative products by himself through frequent visits to Japan for conclusion of the product sales contracts. Mr. ZHUANG was also responsible for all matters on the business and strategic development and financial matters of our Group with professional advices obtained from time to time.

The principal business activities of China Animation BVI were therefore conducted by Mr. ZHUANG himself through frequent visits to Japan and the collaboration with Sino Action in Hong Kong and Wah Shing in China. Hence, during the period between September 2007 and June 2012, China Animation BVI had no employees in Hong Kong. China Animation BVI had no business establishment in Hong Kong until May 2008. Sino Action was engaged by China Animation BVI, as recorded in the previous agreements, to provide services in completing the export procedures for animation derivative products from Hong Kong to Japan if they were shipped to customers from Hong Kong. Such administrative tasks included production coordination, quality control, customs clearance, delivery and logistics services.



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In addition to the provision of the above services, Sino Action was also responsible for collecting payments from the customers of China Animation BVI in Japan. As confirmed by Mr. ZHUANG, after collecting payments from the customers in Japan, Sino Action deducted its fee entitlement and remitted the remaining balance to the bank account in the joint name of Mr. ZHUANG and Ms. LI. This bank account was solely used for the business transactions engaged by China Animation BVI. No banking facilities were obtained by China Animation BVI in Hong Kong and elsewhere. During the three years ended 31 March 2014, the fee recognised by us to Sino Action amounted to HK\$2.6 million, HK\$1.8 million and HK\$1.3 million, respectively. During the five months ended 31 August 2014, the fee recognised by us to Sino Action amounted to HK\$0.44 million. Sino Action has ceased collecting payments for us since around April 2012 as China Animation BVI has opened its own bank account in Hong Kong. The reasons for not including Sino Action as part of the business of our Group is set forth in the paragraphs under “Reasons for not including Sino Action and Shenzhen Huaxia as part of our business — Sino Action” below.

Since 15 April 2011, Wah Shing has leased from Mr. ZHUANG certain buildings comprising the China Animation Creative Industry Park (華夏動漫創意產業園) with gross floor area of 10,921 sq.m. as its production plant. On 1 August 2014, Wah Shing and Mr. ZHUANG entered into a lease agreement pursuant to which Mr. ZHUANG has agreed to lease the premises to Wah Shing at the monthly rental of RMB131,052 for a period of 18 months. An independent property valuer engaged by us has confirmed to our Directors that the amount of rental was fair and reasonable based on the rental level of comparable premises in the region as of the end of August 2014.

On 12 November 2014, China Animation BVI and Sino Action entered into the Integrated Supply Agreement for the purpose of recording all the relevant arrangements in one document. Hence, the arrangements under the Integrated Supply Agreement are not new. The Integrated Supply Agreement is for a term of approximately three years and supersedes all the previous agreements between Sino Action and us. A summary of the terms and conditions of the Integrated Supply Agreement is set forth in the paragraphs under “Business — Our core businesses during the Track Record Period — Trading of animation derivative products with the provision of value-added services — Summary of the terms of the master supply agreements” in this prospectus. Our Directors believe that the Integrated Supply Agreement provides us with a general framework for the manufacturing and logistics functions to be provided by Sino Action for our trading business of animation derivative products.

### **Control of our trading business of animation derivative products since its establishment**

Our Directors confirm that we are in control of the entire process which our Directors believe to be the most essential part in the trading business. Sino Action is our largest supplier and is responsible for (a) the manufacturing of the toy products (through Wah Shing) required by us and (b) the provision of export logistics services for the products to be shipped to Japan. Our Directors confirm that we are in control of our trading business of animated derivative products in the following aspects:

- (a) We have direct contractual relationship with our customers, and none of Sino Action and Wah Shing is involved in the negotiations and implementation of the sales contracts. Nor are they aware of the detailed terms and conditions of the sales contracts. Under the relevant sales contracts, China Animation BVI is solely responsible for the liability arising from any defect of the products shipped to its customers.

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- (b) If required by our customers, we assist them starting from the product design and product mould design improvements, selection of raw materials, monitoring the production process, quality control, and product testing and certification. These value-added services, even though they are not separately charged by us, enable us to establish strong business relationship with our customers in Japan, which cannot be replaced lightly by the services provided by an export logistics company and a manufacturing plant in China.
- (c) We have been engaging in the trading business of animation derivative products for a number of years with strong business relationship with our customers in Japan through Mr. ZHUANG and Mr. IKEDA. We have established continuous and undisrupted business relationships with our key customers since the establishment of the trading business.
- (d) Our trading business of the animation derivative products continued to grow during the Track Record Period both in terms of the amount of the revenue and the number of new customers.

Our Directors confirm that Sino Action is solely engaged for the provision of export logistics services for us and the production of the required products by Wah Shing through the “three-plus-one” (三來一補) arrangement. Our Directors further confirm that Sino Action has never had the capability to provide the services currently provided by us to our customers. On this basis and in light of the direct contractual relationship between our customers and us, our Directors do not consider that our customers would bypass us and source the toy products from Sino Action direct. Our Directors therefore believe that our trading business of animation derivative products is sustainable and will continue to develop even though part of the manufacturing and the export logistics functions are currently outsourced and undertaken by Sino Action and other suppliers.

### **Books and records of our trading business**

Our Directors confirm that since the inception of our business, China Animation BVI has engaged a consultant to provide accounting records keeping services, which included trading records prepared by Sino Action for and on behalf of the China Animation BVI. From the joining of Mr. LUK Sik Tat, Patrick, our finance manager and our company secretary, on 21 June 2012, Mr. LUK has gradually taken up the responsibility of keeping our accounting records.

Before our first bank account was opened, we used a bank account jointly operated by Mr. ZHUANG and Ms. LI to receive payments from the customers collected by Sino Action for and on behalf of China Animation BVI. Our Directors confirm that from February 2011 to around April 2012, we were in the process of informing our customers to settle their payment by depositing into our bank account instead of the joint account, and since around April 2012, we have ceased using the joint account. In October 2012, Mr. ZHUANG, Ms. LI and China Animation BVI agreed to cease the use of the joint bank account and to remit all our funds in the joint bank account to our own bank account.

We have engaged an internal control consultant to conduct a review and reconciliation of the transactions of the joint bank account of Mr. ZHUANG and Ms. LI against the sales orders provided by the customers for the period during which we did not have our bank account. According to a

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review conducted by the internal control consultant, all of the sales and remittance transaction records that it has reviewed are matched. Our Directors confirm that we have established internal control systems and internal accounting functions. The internal control consultant has noted that all of the previously identified control weaknesses have been remediated.

### OUR PROPRIETARY ANIMATION CHARACTERS AND MULTIMEDIA ENTERTAINMENT BUSINESS

With the success in our trading business of animation derivative products, we commenced the commercialisation of our own proprietary animated characters and explored the multimedia entertainment business embellished with these proprietary animated characters.

Whilst China Animation BVI is focusing on the trading business of animation derivative products with most of its customers in Japan, Shenzhen Huaxia was established in the PRC for the purpose of providing technical supports and exploring the business opportunities in the animation industry. The principal business of Shenzhen Huaxia, among others, was the development of animation derivative products. With the acquisition of the ownership of a total of copyrights and trademarks of “*Han Ba Gui*” (憨八龜), “*Amazing UU*” (神奇的優悠) and “*Animal Conference on the Environment*” (動物環境會議), Shenzhen Huaxia had established a team of design professionals for different animated characters and related products in the PRC.

In May 2011, Shenzhen Wald was established as a wholly-foreign owned enterprise in the PRC for the purpose of further developing our animation business in the PRC. One of the main reasons for establishing Shenzhen Wald was to take over certain business activities conducted by Shenzhen Huaxia. In March 2012, Mr. ZHUANG sold his 61.8% equity interest in Shenzhen Huaxia to Mr. LI Haiyun, an Independent Third Party, for RMB23.9 million. As confirmed by Mr. ZHUANG, the amount of consideration was based on the original amount of the registered capital on a pro rata basis as Mr. ZHUANG only intended to realise his investment in Shenzhen Huaxia.

The 32 copyrights and trademarks of “*Han Ba Gui*” (憨八龜), “*Amazing UU*” (神奇的優悠) and “*Animal Conference on the Environment*” (動物環境會議) were transferred from Shenzhen Huaxia and Shenzhen Tangren to China Animation BVI in October 2011 for RMB3.7 million. The amount of the purchase price was determined with reference to a valuation prepared by an independent valuer engaged by the sellers. The consideration was fully settled by way of cash by China Animation BVI. During the period between June 2012 and January 2014, Shenzhen Wald started to employ certain product designers and staff in product research and development who previously worked for Shenzhen Huaxia and certain quality control staff who previously worked for Wah Shing for the development of its own business. Since then, we have our own teams to support the product development and coordination functions in collaboration with Sino Action and Wah Shing. Our Directors understand that Shenzhen Huaxia only maintains the design business to be provided to its own customers.

In March 2012, the development of the virtual artist “*Violet*” (紫嫣) principally led by Mr. LIANG Jianjun was commenced, and we continue to develop and modify the design of “*Violet*” (紫嫣) and the other virtual artist characters. In this connection, we entered into a cooperative agreement with Shenzhen Huaxia on 12 July 2012 for the supporting services in computer graphic design of the virtual artists for RMB300,000. The agreement was terminated in March 2013. We no

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longer require these services from Shenzhen Huaxia for the development of “*Violet*” (紫嫣) because of our own capability in the design and development of animation characters.

In May 2013, we launched “*Violet*” (紫嫣) at the Ninth China (Shenzhen) International Cultural Industry Fair in Shenzhen, the PRC.

On 23 December 2014, we entered into a legally binding agreement with Someno Films, Studio Comet and Zing for the production of an animated movie showing our animation characters “*Violet*” (紫嫣) and “*Han Ba Gui*” (憨八龜). Someno Films, Studio Comet and Zing are Independent Third Parties. Pursuant to the agreement, a committee will be established for the preparation and coordination in the production of the movie. We will contribute the rights to use “*Han Ba Gui*” (憨八龜) and “*Violet*” (紫嫣) as the animation characters in the movie and will be responsible for the computer graphic design of the two animation characters. The total production cost for the movie is expected to be JPY200.0 million, of which we would contribute JPY50.0 million by way of cash and JPY100.0 million in kind, representing 75.0% of the expected total production cost of the movie. Someno Films and Studio Comet will be responsible for the preparation work for the movie, such as the writing of the screenplay and the actual production of the movie.

Under the agreement, Zing is granted a non-exclusive right to sell and distribute merchandise and derivative products of the film in Japan bearing the animation character of “*Han Ba Gui*” (憨八龜). Further information on this is set forth in the section headed “Business — Extension of our core businesses in the animation-related industry — Multimedia animation entertainment — Movie investment and production” in this prospectus.

In July 2014, we launched the musical episode using the virtual artist “*Violet*” (紫嫣), and awarded “The Special Image Promotion Award” (特別形象獎) in 第四屆十大卡通形象 (The “Fourth Top Ten Cartoon Image”\*) organised by 中國動畫學會 (China Animation Society\*). On 18 November 2014, we entered into a contract with an Independent Third Party using the virtual artist “*Violet*” (紫嫣) and others in a music animation concert performed on 1 February 2015 in Shenzhen, the PRC. Further information on the music animation concert is set forth in the section headed “Business — Extension of our core businesses in the animation-related industry — Multimedia animation entertainment — Music animation concert” in this prospectus.

### OUR LICENSING BUSINESS

With our proprietary animation characters developed and recognised with several awards in the PRC, we took the initiative of commercialisation by entering into the Trademark Licence Agreement. Pursuant to the Trademark Licence Agreement, Zing was allowed to use, among others, “*Han Ba Gui*” (憨八龜) trademarks in the PRC, Hong Kong, Macau and Japan. Further information on our licensing business is set forth in the section headed “Business — Our core businesses during the Track Record Period — Commercialisation of our proprietary animation characters — Licensing of animation characters” in this prospectus.

Our Directors understand that, subsequent to the signing of the Trademark Licence Agreement, Zing made efforts in marketing toy products bearing “*Han Ba Gui*” (憨八龜). However, as advised by Zing, because of its unfamiliarity of the PRC market and the unsuccessful marketing efforts in Japan, the then product business of Zing was not successful. As a result, Zing terminated the Trademark Licence Agreement on 31 March 2014.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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Zing was an Independent Third Party as of the Latest Practicable Date. Our Directors understand that Zing has been owned beneficially by Mr. Atsushi HIRAMATSU since the date of establishment. Mr. ZHUANG and Mr. TING were the directors of Zing, together with Mr. Atsushi HIRAMATSU, during the period between 12 January 2010 and 29 June 2011, for the reason of assisting Zing in promoting its business. Mr. ZHUANG and Mr. TING confirm that they were not involved in the daily business operations of Zing during the period and were not involved in the business operations and decisions of Zing. Mr. IKEDA was the corporate auditor (or *kansayaku* in Japanese) of Zing during the period from the date of establishment to 26 May 2014.

In November 2014, we entered into three licence agreements. Pursuant to the licence agreements, we have granted licence to Independent Third Parties to sell toy products featuring our own proprietary animation characters and sell the toy products at Shanghai Joypolis and the music animation concerts organised by us. Further information on these licence agreements is set forth in the section headed “Business — Our core businesses during the Track Record Period — Commercialisation of our proprietary animation characters by licensing — Licensing of animation characters” in this prospectus.

### OUR INDOOR ANIMATION AMUSEMENT PARK BUSINESS

On 31 March 2014, we entered into the SEGA Licence Agreement. Pursuant to the SEGA Licence Agreement, we have been granted by SEGA a right to establish and operate Joypolis in Shanghai. Phase 1 opening of Shanghai Joypolis took place on 30 December 2014 and the grand opening of Shanghai Joypolis is scheduled to take place in the first quarter of 2016.

### REASONS FOR NOT INCLUDING SINO ACTION AND SHENZHEN HUAXIA AS PART OF OUR BUSINESS

#### Sino Action

##### *Background information*

Sino Action has been wholly-owned by Mr. LAM an Independent Third Party, since March 2008. By way of background information, Sino Action was incorporated in Hong Kong in March 1996 and subsequently acquired by Mr. ZHUANG and Mr. LAM in July 1996 for the purpose of providing support to the toy sales business then carried out by Mr. ZHUANG in China. At that time, Mr. ZHUANG was a PRC resident. Most of the daily business operations of Sino Action, i.e. the arrangements on the supply of the designated raw materials to Wah Shing (its manufacturing plant in China under the “three-plus-one” (三來一補) agreement) and the provision of the export logistics services of the toy products to the designated customers of Mr. ZHUANG, were primarily undertaken by Mr. LAM in Hong Kong. Our Directors understand that Mr. LAM is an experienced businessman in Hong Kong/China trading business and the provision of export logistics services. In addition, Sino Action assisted Mr. ZHUANG in collecting payments from his customers in Japan. Our Directors confirm that this business cooperation, save for the collection of the payments from the customers of Mr. ZHUANG and subsequently, China Animation BVI, has not changed since the establishment of Sino Action and has been set forth in various agreements preceding the Integrated Supply Agreement.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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In 2007, in anticipation of the continuous economic development in China, Mr. ZHUANG intended to further develop the animation business in China beyond the toy sales business. With the establishment of China Animation BVI in September 2007, Mr. ZHUANG's aspiration was to establish an integrated business carrying out not only the toy trading business, but also a wide range of animated-related business activities, such as the development and commercialisation of self-developed animation characters with the use of multi-media technology and arcade game amusement parks. However, as confirmed by Mr. ZHUANG, because of the experience and background of Mr. LAM, Mr. LAM wanted to stay in the export logistics business. Following discussions with Mr. LAM, Mr. ZHUANG sold his shareholding in Sino Action to Mr. LAM in March 2008 for the amount of consideration equivalent to the amount of paid-up capital, so that Mr. ZHUANG could focus on the business development of China Animation BVI. Mr. ZHUANG believed that with the support from Sino Action (and Wah Shing through the “three-plus-one” (三來一補) agreement with Sino Action), he could continue to cooperate with Sino Action in the toy trading business with streamlined corporate structure. Our Directors also understand that Mr. LAM has developed his business into an export business of different consumer products for the US market. Based on the information provided by Sino Action to us on a confidential basis, our Directors confirm that Sino Action had profit after taxation during the Track Record Period.

Our Directors further confirm that the transactions between Sino Action and us are conducted on an arm's length basis and on normal commercial terms. Sino Action and Wah Shing are (a) Independent Third Parties and (b) to the best of our Directors' information, knowledge and belief, independent of each other. Based on the publicly available information and the information provided by us, our Controlling Shareholders, Sino Action and Wah Shing and the due diligence conducted by the Sole Sponsor, nothing has come to the Sole Sponsor's attention that could lead it to cast doubts on our Directors' confirmation above.

### *Relationship between Sino Action and Wah Shing*

According to the PRC Legal Adviser, Wah Shing is a collectively-owned enterprise established in China. Based on the information provided by Sino Action to our Directors on a confidential basis, our Directors confirm that there is no common shareholder or equity interest holder between Sino Action and Wah Shing and Sino Action and Wah Shing are independent from each other except for the “three-plus-one” (三來一補) agreement entered into between Sino Action and Wah Shing in the PRC. Our Directors confirm that none of the Controlling Shareholders has any equity interest in Wah Shing. In light of the above, Wah Shing is an Independent Third Party.

According to the PRC Legal Adviser, “three-plus-one” (三來一補) represents a trading model whereby PRC enterprises process raw materials, manufacture products and assemble imported parts based on the requirements as specified by overseas enterprises, to whom the finished products are supplied in return for the introduction of advanced equipment or technologies, as well as processing fees.

Hence, the relationship between Sino Action and Wah Shing is a trading relationship based on the “three-plus-one” (三來一補) agreement (Shen Bao Yi Xie Zi (1992) NO. 296) (深寶藝協字(1992)第296號) which, as advised by the PRC Legal Adviser, has been filed with the competent governmental authorities for record.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### *Purpose of entering into the Integrated Supply Agreement*

As mentioned above, the business cooperation between Sino Action and Mr. ZHUANG (and subsequently China Animation BVI) commenced in July 1996. Since then there were various agreements prepared and entered into for the purpose of the business cooperation. For the purpose of Listing, our Directors consider that it would be in our interest to enter into the Integrated Supply Agreement which supersedes all the previous agreements and contains all the terms and conditions of the business transactions between the two companies. Hence, our Directors confirm that the arrangements under the Integrated Supply Agreement are not new.

### *Other suppliers of our Group*

Sino Action was not our only supplier during the Track Record Period. Because of the established business relationship and the understanding of the requirements and the specifications of its products, we prefer to continue to engage Sino Action (and its manufacturing plant in China under the “three-plus-one” (三來一補) agreement, Wah Shing) as one of our major suppliers, particularly for the products produced for our existing customers in Japan.

We have engaged other suppliers, such as Best Toys and Shenzhen Jiezhimei, for the production of the products of our customers in Japan during the Track Record Period.

In light of the foregoing, our Directors consider that Sino Action is one of our business partners and that it has never been part of our business operations. As the manufacturing plant of Sino Action in China, Wah Shing is also an Independent Third Party.

### **Shenzhen Huaxia**

#### *Background information*

Shenzhen Huaxia is a limited company established in the PRC in June 2007 and had two equity holders, of whom Ms. LI was interested in 85%. Mr. ZHUANG subsequently owned as to 85% of Shenzhen Huaxia since March 2008. During the period between September 2009 and August 2012, Shenzhen Huaxia had seven equity holders, of whom Mr. ZHUANG was interested in 61.8%. In August 2012, Mr. ZHUANG disposed of his 61.8% equity interest to Mr. LI Haiyun. Shenzhen Huaxia was currently wholly-owned by Mr. LI Haiyun (李海雲), an Independent Third Party, as of the Latest Practicable Date. None of our Controlling Shareholders is interested in the equity interest in Shenzhen Huaxia. Our Directors understand that Shenzhen Huaxia is currently engaged in the business of provision of computer graphic design services.

With the establishment of Shenzhen Wald, certain employees previously employed by Shenzhen Huaxia for the development of the proprietary animation characters in the PRC has become employees of Shenzhen Wald.

Following the transfer of the employees, the 32 copyrights and trademarks of “*Han Ba Gui*” (憨八龜), “*Amazing UU*” (神奇的優悠) and “*Animal Conference on the Environment*” (動物環境會議) were transferred from Shenzhen Huaxia and Shenzhen Tangren to China Animation BVI in October 2011 for RMB3.7 million. The amount of the transfer price was determined with reference to a

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## HISTORY, DEVELOPMENT AND REORGANISATION

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valuation of the trademarks prepared by an independent valuer engaged by the sellers. The consideration was settled by way of cash by China Animation BVI. Our Directors confirm that all the trademarks owned by Shenzhen Huaxia and Shenzhen Tangren have been transferred to us and all the key employees relevant to our business have been re-employed by Shenzhen Wald.

### *Relationship between Shenzhen Huaxia and us*

Shenzhen Huaxia provides us with certain miscellaneous ancillary services in computer graphic design on an *ad hoc* basis. Our Directors do not consider that we rely on Shenzhen Huaxia in any aspect because of our own capability in the design and development of animation characters. We will continue to source the ancillary services from Shenzhen Huaxia following the Listing.

### *Reasons for not including Shenzhen Huaxia as part of the business of our Group*

Our Directors confirm that one of the reasons for not including Shenzhen Huaxia as a member of our Group is that Shenzhen Huaxia is granted the television programme production licence (廣播電視節目製作經營許可證) in the PRC which, as advised by our PRC Legal Adviser, is not permitted to be held by a company with foreign investment. According to our PRC Legal Adviser, pursuant to the “Catalogue of Industries for the Guidance of Foreign Investment” (外商投資產業指導目錄), radio and television programme production and operating companies (廣播電視節目製作經營公司) fall into the prohibited category (禁止類) and foreign investment of any kind is prohibited. With the establishment of Shenzhen Wald, our Directors do not consider that we rely on Shenzhen Huaxia.

We have entered into an agreement with Shenzhen Huaxia that Shenzhen Huaxia would change its name by removing the words of “华夏动漫” within six months from 12 February 2015. Shenzhen Huaxia has agreed to allow us to use the “华夏动漫” trademarks registered in the PRC at no cost and such trademarks shall be transferred to us within the six-month period. The transfer price will be determined on an arm’s length basis with reference to the appraised value of the trademarks as agreed by the parties. All PRC tax payable on the trademark transfers will be borne by Shenzhen Huaxia.

### *Profitability of Shenzhen Huaxia based on the available information*

Based on the information obtained by Mr. ZHUANG at the time of transfer of his equity interest to Mr. LI Haiyun in August 2012, Shenzhen Huaxia had operating profit for the year ended 31 December 2011. Hence, our Directors believe that it would have no material impact on our Group as a whole through not including Shenzhen Huaxia as part of our Group.

## CORPORATE DEVELOPMENT

Our Company has a number of subsidiaries incorporated or established in the BVI, Hong Kong, the PRC. Further information of our major subsidiaries and their respective corporate history is set forth below. We underwent the Reorganisation for the purpose of the Global Offering, further information of which is set forth in the paragraphs under “Reorganisation” below.



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## HISTORY, DEVELOPMENT AND REORGANISATION

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### **Our Company**

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability, further information on changes in its shareholding is set forth in the paragraphs under “Further information about our Company — 2. Changes in share capital of our Company” in Appendix IV to this prospectus.

### **China Animation Holding**

China Animation Holding is a company incorporated in the BVI on 24 June 2014 with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each and an intermediate holding company. China Animation Holding does not carry on any business activities.

### **Operating entities for our trading business**

#### *China Animation BVI*

China Animation BVI is incorporated in the BVI on 27 September 2007 with an authorised share capital of 50,000 shares of no par value. On 28 September 2007, the initial subscriber transferred one ordinary share of China Animation BVI, representing the entire issued share capital of China Animation BVI, to Mr. ZHUANG for a consideration of US\$1.0. Pursuant to a declaration of trust dated 1 April 2008, Mr. ZHUANG confirmed that his one share in China Animation BVI was held on trust for Bright Rise. Bright Rise has been wholly-owned by Mr. ZHUANG since its date of incorporation. On 28 August 2013, the par value of each share has been changed from nil to HK\$1.00 each and the authorised share capital of China Animation BVI was increased from 50,000 shares to 1,000,000 shares by the creation of 950,000 shares. On 30 August 2013, the one ordinary share was repurchased by China Animation BVI for cancellation and immediately thereafter, China Animation BVI allotted and issued 1,000,000 shares to Bright Rise and the Initial Investors.

China Animation BVI was our principal operating company prior to the Reorganisation Date. As of the date of this prospectus, China Animation BVI is the holding company of our trading business and a wholly-owned subsidiary of China Animation Holding.

#### *China Animation HK*

China Animation HK is a limited company incorporated in Hong Kong on 15 November 2010 with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. On 15 November 2010, one ordinary share was issued and allotted to the founder member, which was subsequently transferred to China Animation BVI for a consideration of HK\$1.00. China Animation HK is an investment holding company and the sole equity holder of Shenzhen Wald.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### *Shenzhen Wald*

Shenzhen Wald is a wholly-foreign owned enterprise established in the PRC on 19 May 2011 with an initial registered capital of RMB500,000. The current registered capital of Shenzhen Wald is RMB500,000. Since its establishment, Shenzhen Wald has been wholly-owned by China Animation HK. Shenzhen Wald is primarily engaged in the product design and support of the animation derivative products manufactured in China. Shenzhen Wald is also our principal operating entity in China and has 2.0% equity interest in Huajiatai PRC.

### **Operating entities for our indoor animation amusement park business**

#### *China Theme Park BVI*

China Theme Park BVI is a limited liability company incorporated in the BVI on 21 September 2012 with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. During the period between 21 September 2012 and 5 August 2014, China Theme Park BVI was wholly-owned by China Animation BVI. China Theme Park BVI is an investment holding company. Following completion of the Reorganisation, China Theme Park BVI has become a wholly-owned subsidiary of China Animation Holding.

#### *China Theme Park HK*

China Theme Park HK is a limited company incorporated in Hong Kong on 16 October 2012 with an authorised share capital of HK\$1,000,000 divided into 1,000,000 shares of HK\$1.00 each. Since its incorporation, China Theme Park HK has been wholly-owned by China Theme Park BVI. China Theme Park HK is an investment holding company.

#### *Huajiatai PRC*

Huajiatai PRC is a sino-foreign joint venture established in the PRC on 26 September 2014 with the business scope of providing indoor amusement facilities for children (other than amusement rides). The initial registered capital of Huajiatai PRC is RMB11.0 million, of which China Theme Park HK would contribute RMB5.39 million, Shenzhen Wald would contribute RMB0.22 million, and Pingan Taisheng would contribute RMB5.39 million. Huajiatai PRC is our non-wholly owned subsidiary and 51.0% of its equity interest is held by us. Huajiatai PRC is the operating company of Shanghai Joypolis.

### **Operating entities for our multimedia entertainment businesses**

#### *Animate BVI*

Animate BVI is a limited liability company incorporated under the laws of the BVI on 20 June 2014 with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. Since its incorporation, Animate BVI has been wholly-owned by China Animation Holding. On 22 July 2014, one ordinary share was issued and allotted to China Animation Holding.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### *Animate HK*

Animate HK is a limited company incorporated under the laws of Hong Kong on 1 August 2014 with an issued share capital of HK\$1.00. Since its incorporation, Animate HK has been wholly-owned by Animate BVI. On 1 August 2014, Animate BVI became the founding member of Animate HK.

### *Network China BVI*

Network China BVI is a limited liability company incorporated under the laws of the BVI on 20 June 2014 with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. Network China BVI is an investment holding company. On 22 July 2014, one ordinary share was issued and allotted to China Animation Holding.

### *Network China HK*

Network China HK is a limited liability company incorporated under the laws of Hong Kong on 15 November 2010 with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. On 15 November 2010, one ordinary share was issued and allotted to the initial subscriber. On 21 December 2010, the one ordinary share was transferred by the initial subscriber to China Animation BVI, which was subsequently transferred to Network China BVI on 16 September 2014 for a consideration of HK\$1.00.

### **Holding company of certain trademark applications**

China Animation IP is a limited liability company incorporated under the laws of the BVI on 20 June 2014 with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. Since its incorporation, China Animation IP has been wholly-owned by China Animation Holding. On 22 July 2014, one ordinary share was issued and allotted to China Animation Holding. China Animation IP is an investment holding company.

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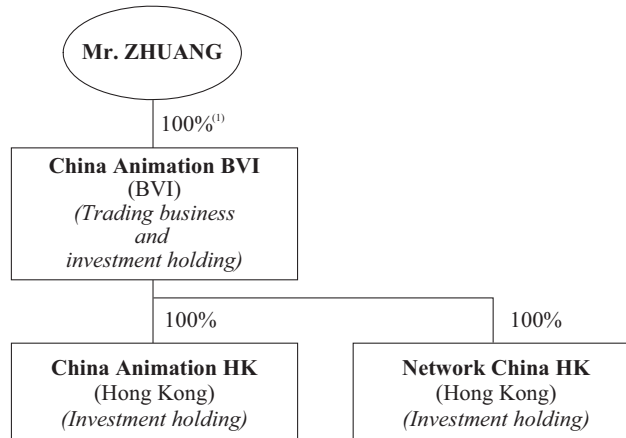
## HISTORY, DEVELOPMENT AND REORGANISATION

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### CORPORATE AND SHAREHOLDING STRUCTURE OF OUR GROUP PRIOR TO THE REORGANISATION DATE

#### Corporate and shareholding structure of our Group as of the date of commencement of the Track Record Period

The following diagram sets forth our corporate and shareholding structure of our Group as of 1 April 2011, being the date of commencement of the Track Record Period:



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*Note:*

- (1) Subject to the provisions of the Initial Investment Agreements, further information on which is set forth in the paragraphs under “Allotment of shares by China Animation BVI pursuant to the Initial Investment Agreements” below.

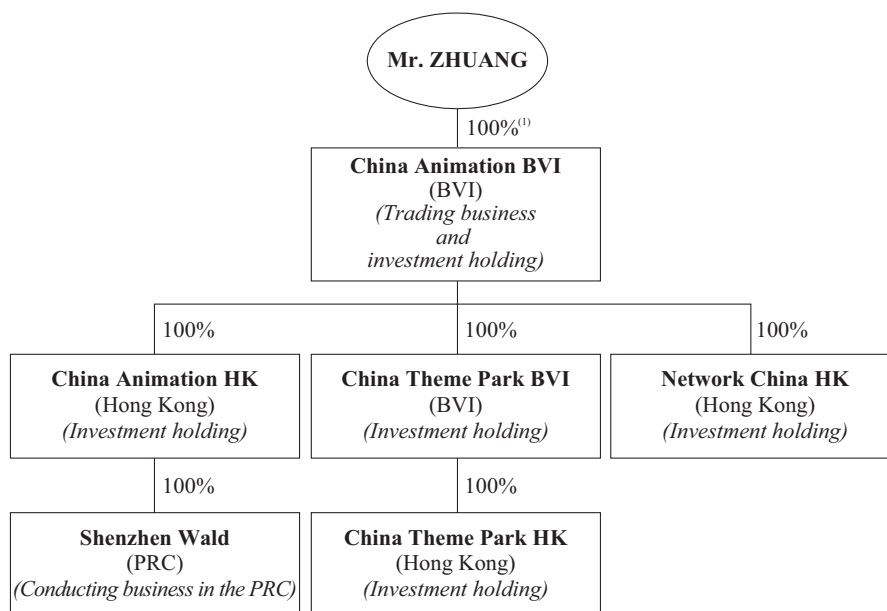
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## HISTORY, DEVELOPMENT AND REORGANISATION

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### Corporate and shareholding structure of our Group as of 31 March 2012 and 2013

There were no significant changes in the corporate and shareholding structure of our Group during the two years ended 31 March 2013 except for establishment of Shenzhen Wald, China Theme Park BVI and China Theme Park HK. The following diagram sets forth our corporate and shareholding structure of our Group as of 31 March 2013:



Note:

- (1) Subject to the provisions of the Initial Investment Agreements, further information on which is set forth in the paragraphs under “Allotment of shares by China Animation BVI pursuant to the Initial Investment Agreements” below.

### Allotment of shares by China Animation BVI pursuant to the Initial Investment Agreements

As set forth above, the Initial Investment Agreements were entered into during the period between April 2008 and February 2009 for the purpose of providing the initial funding to China Animation BVI. No shares of China Animation BVI were allotted and issued upon the signing of the Initial Investment Agreements. At the time of making their investments, the Initial Investors agreed that they would receive the shares of China Animation BVI at a later stage and that they would not be entitled to any dividend declared and paid by China Animation BVI until 6 August 2014, as confirmed in the Deed of Termination.

## HISTORY, DEVELOPMENT AND REORGANISATION

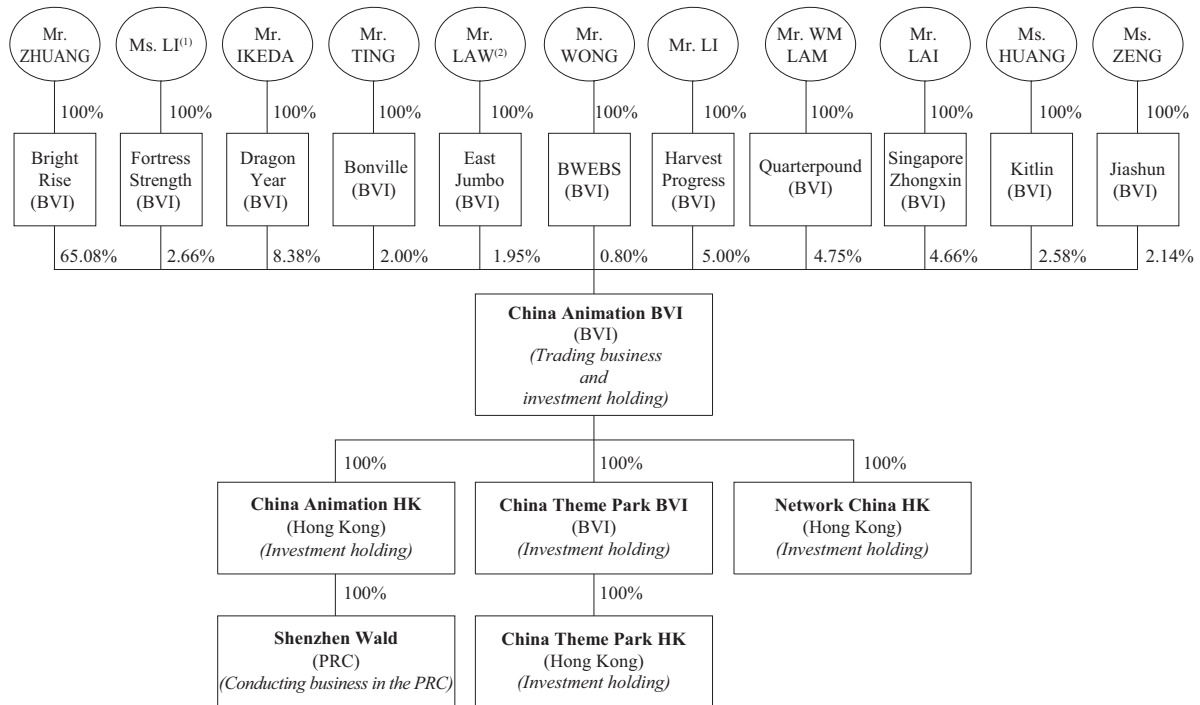
On 30 August 2013, the Initial Investors or their nominee companies were allotted the shares of China Animation BVI in accordance with the arrangements set forth in the Initial Investments Agreements, and the following table sets forth further information on the allotment and issue of the shares of China Animation BVI:

Date of the Initial Investment Agreements	Name of Initial Investors	Name of the allottees designated by Initial Investors	Background of the Initial Investors	Shares in China Animation BVI allotted and issued	Consideration paid upon the signing of the Initial Investment Agreements (HK\$)	Agreed shareholding percentage in China Animation BVI (%)
1 April 2008	Ms. LI	Fortress Strength	Ms. LI is the spouse of Mr. ZHUANG	26,600	26,600	2.66
1 April 2008	Mr. IKEDA	Dragon Year	Mr. IKEDA is our Honourable Chairman	83,800	83,800	8.38
1 April 2008	Mr. TING	Bonville	Mr. TING is our chief operating officer and an executive Director	20,000	20,000	2.00
28 February 2009	Ms. OR	East Jumbo	Merchant	19,500	19,500	1.95
1 April 2008	Mr. WONG	BWEBS	Mr. WONG is our chief financial officer	8,000	8,000	0.80
28 February 2009	Mr. LI	Harvest Progress	Merchant	50,000	50,000	5.00
1 April 2008	Mr. WM LAM	Quarterpound	Merchant with marketing experience in China	47,500	47,500	4.75
1 April 2008	Singapore Zhongxin	Singapore Zhongxin	Investor	46,600	46,600	4.66
1 April 2008	Ms. HUANG	Kitlin	Investor	25,800	25,800	2.58
1 April 2008	Ms. ZENG	Jiashun	Investor	21,400	21,400	2.14
<b>Total</b>				<b>349,200</b>	<b>349,200</b>	<b>34.92</b>

On 30 August 2013, China Animation BVI allotted and issued 650,800 shares to Bright Rise at par value. Following the above allotments of new shares, China Animation BVI had 1,000,000 shares in issue with par value of HK\$1.00 each.

## HISTORY, DEVELOPMENT AND REORGANISATION

The Deed of Termination was entered into confirming that all rights and obligations under the Initial Investment Agreements have been terminated and released. Following the allotment and issue of the shares of China Animation BVI, Bright Rise and the Initial Investors (or their nominee companies) were the shareholders of China Animation BVI. China Animation BVI was the holding company of our Group prior to completion of the Reorganisation. The following diagram illustrates the corporate and shareholding structure of our Group as of 31 March 2014:



Notes:

- (1) Ms. LI is the spouse of Mr. ZHUANG.
- (2) Mr. LAW is the son of Ms. OR. Mr. LAW was the sole shareholder of East Jumbo as of the date of incorporation. On 10 September 2014 Mr. LAW transferred the one issued share of East Jumbo, representing the entire issued share capital of East Jumbo, to Ms. OR for US\$1.00. The share transfer was made because of Ms. OR's family arrangements.

### REORGANISATION

In order to rationalise our corporate structure and shareholding structure for the purpose of Listing, our Group underwent the Reorganisation which involves the following steps:

#### Incorporation of our Company

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on 25 September 2013 with an authorised share capital of HK\$380,000.00 divided into 38,000,000 shares with HK\$0.01 par value each. On 25 September 2013, one (1) nil-paid share of par value of HK\$0.01 was allotted and issued to the initial subscriber of our Company, which was

## HISTORY, DEVELOPMENT AND REORGANISATION

transferred to Mr. ZHUANG on the same date. The one (1) nil-paid share was subsequently paid up as described in the paragraphs under “Our Company becoming the holding company of our Group” below.

On 31 July 2014, our Company allotted and issued nine (9) nil-paid shares with HK\$0.01 par value each to Mr. ZHUANG. Following the allotment and on the same date, every 10 issued and unissued shares of our Company with par value of HK\$0.01 each have been combined into one Share with par value of HK\$0.1 each. Hence, the authorised share capital of our Company consists of 3,800,000 Shares with par value of HK\$0.10 each. Subsequent changes in the share capital of our Company are set forth in the paragraphs under “Further information about our Company — 2. Changes in share capital of our Company” in Appendix IV to this prospectus.

### Our Company becoming the holding company of our Group

On 31 July 2014, Mr. ZHUANG transferred to Bright Rise at par value one nil-paid Share, representing all the then shares in issue of our Company.

On 6 August 2014, pursuant to the Share Exchange Agreement, Bright Rise, Dragon Year, Quarterpound, Singapore Zhongxin, Kitlin, Jiashun, BWEBS, Bonville, Fortress Strength, Harvest Progress, East Jumbo, and our Company entered into the Share Exchange Agreement pursuant to which Bright Rise, Fortress Strength, Dragon Year, Bonville, East Jumbo, BWEBS, Harvest Progress, Quarterpound, Singapore Zhongxin, Kitlin and Jiashun have agreed to transfer their shareholding in China Animation BVI to our Company in consideration of our Company (a) issuing and allotting to them the number of our Shares set forth below, credited as fully paid and (b) crediting as fully paid at par the one nil-paid share which was then registered in the name of Bright Rise.

The following table sets forth the number of our Shares allotted and issued to Bright Rise and the Initial Investors:

<u>Name of the allottees</u>	<u>Beneficial owners</u>	<u>Shares allotted and issued by our Company</u>	<u>Shareholding percentage</u>
Bright Rise	Mr. ZHUANG	650,799	65.08
Fortress Strength	Ms. LI	26,600	2.66
Dragon Year	Mr. IKEDA	83,800	8.38
Bonville	Mr. TING	20,000	2.00
East Jumbo	Ms. OR <sup>(1)</sup>	19,500	1.95
BWEBS	Mr. WONG	8,000	0.80
Harvest Progress	Mr. LI	50,000	5.00
Quarterpound	Mr. WM LAM	47,500	4.75
Singapore Zhongxin	Mr. LAI	46,600	4.66
Kitlin	Ms. HUANG	25,800	2.58
Jiashun	Ms. ZENG	21,400	2.14
<b>Total</b>		<b>999,999</b>	<b>100.00</b>



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## HISTORY, DEVELOPMENT AND REORGANISATION

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*Note:*

- (1) Mr. LAW is the son of Ms. OR. Mr. LAW was the sole shareholder of East Jumbo as of the date of incorporation. On 10 September 2014 Mr. LAW transferred the one issued share of East Jumbo, representing the entire issued share capital of East Jumbo, to Ms. OR for US\$1.00. The share transfer was made because of Ms. OR's family arrangements.

Following completion of the above steps, our Company has become the holding company of our Group.

### **Incorporation of China Animation Holding, China Animation IP, Animate BVI, Animate HK and Network China BVI as our wholly-owned subsidiaries and transfer of the issued share of Network China HK**

On 24 June 2014, China Animation Holding was incorporated under the laws of the BVI as a BVI business company. On 22 July 2014, one share with the par value of US\$1.00 was allotted and issued to our Company. Hence, China Animation Holding is a wholly-owned subsidiary of our Company.

On 20 June 2014, China Animation IP was incorporated under the laws of the BVI as a BVI business company and a wholly-owned subsidiary of the China Animation Holding. As of the date of incorporation, one share with the par value of US\$1.00 was issued and allotted to China Animation Holding on 22 July 2014. China Animation IP is an investment holding company holding certain trademark applications. Further information on our trademark applications is set forth in the paragraphs under "Further information about our business — 2. Intellectual property rights of our Group" in Appendix IV to this prospectus.

On 20 June 2014, Animate BVI was incorporated under the laws of the BVI as a BVI business company and a wholly-owned subsidiary of China Animation Holding. As of the date of incorporation, one share with the par value of US\$1.00 was issued and allotted to China Animation Holding on 22 July 2014.

On 1 August 2014, Animate HK was incorporated under the laws of Hong Kong and a wholly-owned subsidiary of Animate BVI with issued share capital of HK\$1.00. The one share in issue was allotted and issued to Animate BVI on 1 August 2014.

On 20 June 2014, Network China BVI was incorporated under the laws of the BVI as a BVI business company with China Animation Holding as its sole shareholder. On 22 July 2014, one share with the par value of US\$1.00 was allotted and issued to China Animation Holding.

On 15 November 2010, Network China HK was incorporated under the laws of Hong Kong. On 15 November 2010, one ordinary share was issued and allotted to the initial subscriber. On 21 December 2010, the one ordinary share was transferred by the initial subscriber to China Animation BVI, which was subsequently transferred to Network China BVI on 16 September 2014 for consideration of HK\$1.00.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### Entering into the Reorganisation Agreement

On 6 August 2014, the Reorganisation Agreement was entered into whereby China Animation Holding becomes the intermediate holding company of China Animation BVI and China Theme Park BVI following the share transfers contemplated in the Reorganisation Agreement. The following table sets forth details of the relevant share transfers:

<u>Transferor(s)</u>	<u>Transferee(s)</u>	<u>Subject matter of transfers</u>
China Animation BVI	China Animation Holding	One share of China Theme Park BVI
Our Company	China Animation Holding	1,000,000 shares of China Animation BVI

Following completion of the transfers under the Reorganisation Agreement, China Animation Holding has become the intermediate holding company of our Group.

### Equity investment by the Pre-IPO Investors

In connection with their equity investment, the Phillip Sale and Purchase Agreement was entered into on 6 August 2014, pursuant to which Bright Rise transferred to Phillip Ventures 31,140 Shares on 7 August 2014, representing 3.11% of the then number of Shares in issue, for cash consideration of S\$4.8 million (equivalent to HK\$29.67 million). The amount of consideration for the equity investment by Phillip Ventures was agreed by the parties following arm's length negotiations based on the estimated valuation of our Group of HK\$1.0 billion and the then exchange rate between Hong Kong dollars and Singapore dollars. Bright Rise applied the amount of consideration to subscribe for 31,140 Shares on 14 August 2014. The amount of the subscription money has been used by us for our general working capital. As a result of the allotment, the Shareholding percentage of Phillip Ventures was diluted from 3.11% to 3.02%. As of the date of this prospectus, the Shareholding percentage of Phillip Ventures is 2.90% before completion of the Global Offering and the Capitalisation Issue.

On 29 August 2014, Sun Smart and our Company entered into the Subscription Agreement, pursuant to which our Company allotted and issued to Sun Smart 41,620 Shares, representing 3.9% of the then number of Shares in issue, for cash consideration of US\$5.0 million (equivalent to HK\$38.75 million). The amount of consideration for the equity investment by Sun Smart was agreed by the parties following arm's length negotiations based on the estimated valuation of our Group of HK\$1.0 billion. The amount of consideration has been used by us for our general working capital. As of the date of this prospectus, the Shareholding percentage of Sun Smart is 3.88% before completion of the Global Offering and the Capitalisation Issue.

### Share transfers by Bright Rise to certain existing Shareholders

On 17 September 2014, Bright Rise effected the following transfers of our Shares:

- (a) 20,000 Shares to Mr. IKEDA for HK\$1.58 million. Mr. IKEDA is the sole beneficial owner of Dragon Year;

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## HISTORY, DEVELOPMENT AND REORGANISATION

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- (b) 1,500 Shares to Bonville for HK\$118,000. Mr. TING is the sole beneficial owner of Bonville;
- (c) 540 Shares to BWEBS for HK\$43,000. Mr. WONG is the sole beneficial owner of BWEBS; and
- (d) 30,150 Shares to Fortress Strength for HK\$2.38 million. Fortress Strength is wholly-owned by Ms. LI.

The amount of consideration for each of the above transfers is based on the audited net asset value of our Group as of 31 March 2014 of HK\$84.7 million without taking into consideration the valuation of our Group by our Pre-IPO Investors. The transfers set forth in (a), (b) and (c) above were previously agreed between Mr. ZHUANG and each of transferees in respect of their shareholding percentages of our Company. The transfer set forth in (d) above was part of the family arrangement of Mr. ZHUANG.

On 17 September 2014, Fortress Strength transferred 29,930 Shares to East Jumbo for HK\$27,864,830 with reference to the valuation of our Group of HK\$1.0 billion based on the investment of Sun Smart. East Jumbo intended to increase in the equity investment in our Company because of the anticipated future growth of our Group.

### **Entering into the Concert Party Agreement**

For the purpose of the Listing, Mr. ZHUANG, Ms. LI, Mr. TING, Mr. IKEDA, Ms. OR and their respective holding companies, i.e. Bright Rise, Fortress Strength, Dragon Year, Bonville and East Jumbo, have agreed to enter into the Concert Party Agreement for the purpose of confirming their agreement that they will constitute a group of Shareholders acting in concert (as such term is defined under the Takeovers Code). The purpose of entering into the Concert Party Agreement is to confirm that the Concert Parties will be acting together in the control of our Company at meetings of our Board (to the extent that they are Directors) and at general meetings (to the extent that they are Shareholders). Further information on the terms and conditions of the Concert Party Agreement is set forth in the section headed “Controlling Shareholders and Substantial Shareholders — Summary of the Concert Party Agreement” in this prospectus. All Concert Parties are our Controlling Shareholders.

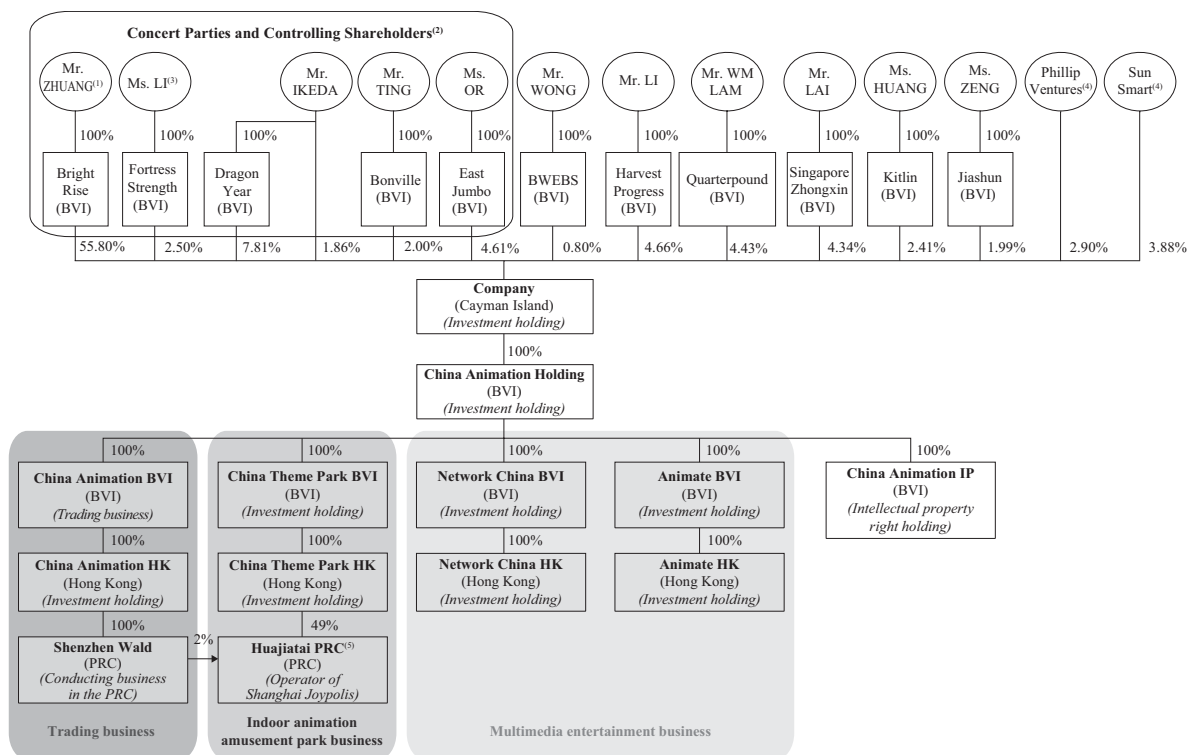
### **Trust established by Mr. ZHUANG**

On 18 November 2014, Mr. ZHUANG established a trust, namely The Fortune Trust, with all the shares of Bright Rise as the trust assets. Pursuant to the trust documents, the beneficiaries of The Fortune Trust currently include Mr. ZHUANG and his family members. Newgate (PTC) Limited is the trustee of The Fortune Trust.

## HISTORY, DEVELOPMENT AND REORGANISATION

### CORPORATE AND SHAREHOLDING STRUCTURE OF OUR GROUP AFTER COMPLETION OF THE REORGANISATION AND THE PRE-IPO INVESTMENT

The corporate and shareholding structure of our Group immediately after completion of the Reorganisation and the Pre-IPO Investment is set forth in the diagram below:



#### Notes:

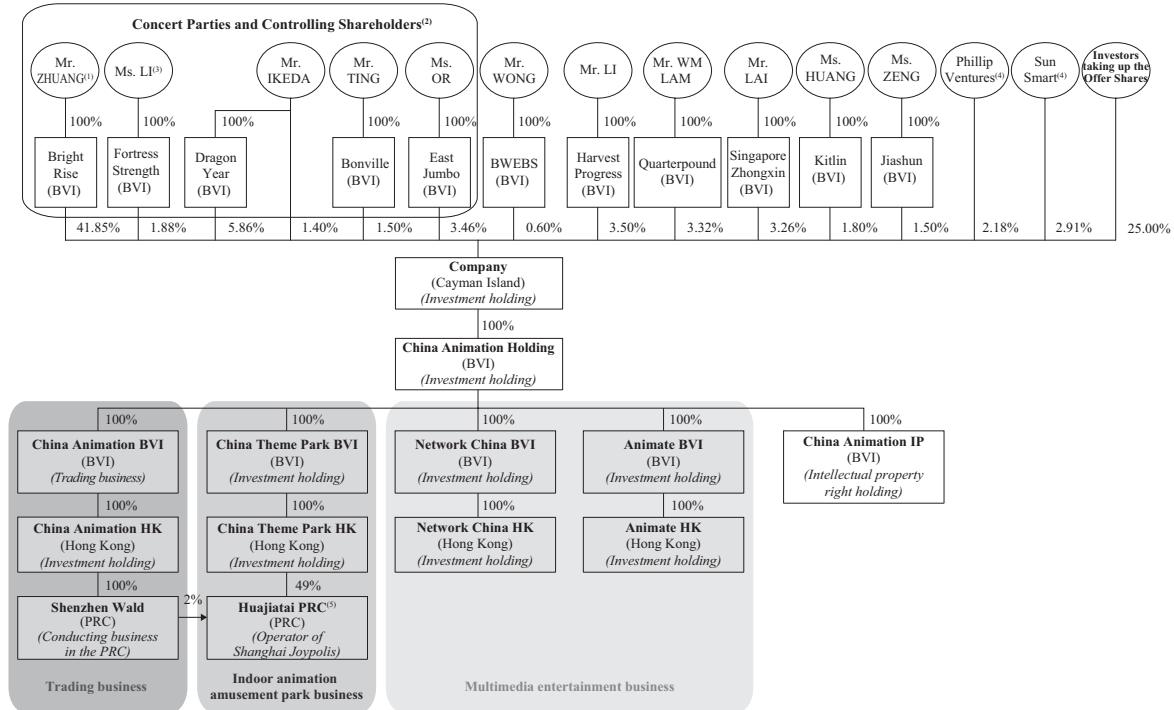
- On 18 November 2014, Mr. ZHUANG established a trust, namely The Fortune Trust, with all shares of Bright Rise as the trust assets. Newgate (PTC) Limited is a company incorporated in the BVI on 12 September 2014 and acts as the trustee of The Fortune Trust. The beneficiaries of The Fortune Trust can be determined by Mr. ZHUANG from time to time and currently include Mr. ZHUANG and his family members.
- Further information on the Concert Party Agreement is set forth in the section headed “Controlling Shareholders and Substantial Shareholders — Summary of the Concert Party Agreement” in this prospectus.
- Ms. LI is the spouse of Mr. ZHUANG.
- Phillip Ventures is a company incorporated in the Republic of Singapore. Phillip Ventures is a private equity investment fund managed by Phillip Private Equity Pte Ltd., or PPE, on a fully discretionary basis. PPE holds the only issued ordinary share of Phillip Ventures and the preference shares in the capital of Phillip Ventures are held by institutional and high net worth investors. The ultimate holding company of PPE is Phillip Investment Corporation Pte. Ltd., which is majority-owned by Mr. LIM Hua Min. Sun Smart is an investment holding company and wholly-owned by Chow Tai Fook Nominee Limited, a company incorporated in Hong Kong and is owned and controlled by Dato’ Dr. CHENG Yu Tung. Further information on the terms of the investment by the Pre-IPO Investors is set forth in the section headed “Pre-IPO Investment” in this prospectus.
- The remaining 49% equity interest is held by Pingan Taisheng.

The aggregate Shareholding percentage of the Concert Parties was 74.58%.

## HISTORY, DEVELOPMENT AND REORGANISATION

### CORPORATE AND SHAREHOLDING STRUCTURE IMMEDIATELY AFTER COMPLETION OF THE REORGANISATION, THE PRE-IPO INVESTMENT AND THE GLOBAL OFFERING AND THE CAPITALISATION ISSUE

The corporate and shareholding structure of our Group immediately after completion of the Reorganisation and the Pre-IPO Investment and the Global Offering and the Capitalisation Issue (without taking into account the Shares to be allotted and issued pursuant to the exercise of the Over-allotment Option and any option that may be granted under the Share Option Scheme) is set forth below:



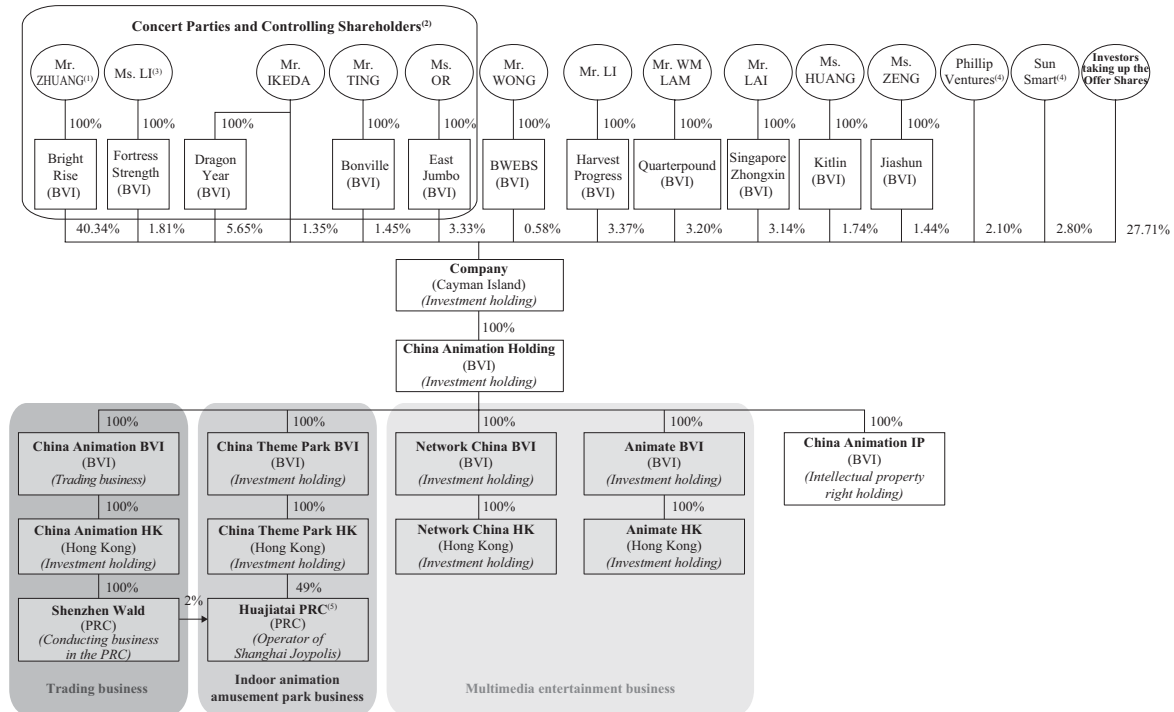
**Notes:**

- (1) On 18 November 2014, Mr. ZHUANG established a trust, namely The Fortune Trust, with all shares of Bright Rise as the trust assets. Newgate (PTC) Limited is a company incorporated in the BVI on 12 September 2014 and acts as the trustee of The Fortune Trust. The beneficiaries of The Fortune Trust can be determined by Mr. ZHUANG from time to time and currently include Mr. ZHUANG and his family members.
- (2) Further information on the Concert Party Agreement is set forth in the section headed “Controlling Shareholders and Substantial Shareholders — Summary of the Concert Party Agreement” in this prospectus.
- (3) Ms. LI is the spouse of Mr. ZHUANG.
- (4) Phillip Ventures is a company incorporated in the Republic of Singapore. Phillip Ventures is a private equity investment fund managed by Phillip Private Equity Pte Ltd., or PPE, on a fully discretionary basis. PPE holds the only issued ordinary share of Phillip Ventures and the preference shares in the capital of Phillip Ventures are held by institutional and high net worth investors. The ultimate holding company of PPE is Phillip Investment Corporation Pte. Ltd., which is majority-owned by Mr. LIM Hua Min. Sun Smart is an investment holding company and wholly-owned by Chow Tai Fook Nominee Limited, a company incorporated in Hong Kong and is owned and controlled by Dato’ Dr. CHENG Yu Tung. Further information on the terms of the investment by the Pre-IPO Investors is set forth in the section headed “Pre-IPO Investment” in this prospectus.
- (5) The remaining 49% equity interest is held by Pingan Taisheng.

The aggregate Shareholding percentage of the Concert Parties will be 55.95%.

## HISTORY, DEVELOPMENT AND REORGANISATION

If the Over-allotment Option is exercised in full, the Shareholding percentage held by the investors subscribing for our Offer Shares will increase to 27.71% and the aggregate shareholding percentage of the Concert Parties will decrease to 53.91%. The following diagram illustrates the corporate and shareholding structure of our Group immediately after completion of the Reorganisation and the Pre-IPO Investment and the Global Offering and the Capitalisation Issue assuming that the Over-allotment Option is exercised in full:



### Notes:

- (1) On 18 November 2014, Mr. ZHUANG established a trust, namely The Fortune Trust, with all shares of Bright Rise as the trust assets. Newgate (PTC) Limited is a company incorporated in the BVI on 12 September 2014 and acts as the trustee of The Fortune Trust. The beneficiaries of The Fortune Trust can be determined by Mr. ZHUANG from time to time and currently include Mr. ZHUANG and his family members.
- (2) Further information on the Concert Party Agreement is set forth in the section headed “Controlling Shareholders and Substantial Shareholders — Summary of the Concert Party Agreement” in this prospectus.
- (3) Ms. LI is the spouse of Mr. ZHUANG.
- (4) Phillip Ventures is a company incorporated in the Republic of Singapore. Phillip Ventures is a private equity investment fund managed by Phillip Private Equity Pte Ltd., or PPE, on a fully discretionary basis. PPE holds the only issued ordinary share of Phillip Ventures and the preference shares in the capital of Phillip Ventures are held by institutional and high net worth investors. The ultimate holding company of PPE is Phillip Investment Corporation Pte. Ltd., which is majority-owned by Mr. LIM Hua Min. Sun Smart is an investment holding company and wholly-owned by Chow Tai Fook Nominee Limited, a company incorporated in Hong Kong and is owned and controlled by Dato’ Dr. CHENG Yu Tung. Further information on the terms of the investment by the Pre-IPO Investors is set forth in the section headed “Pre-IPO Investment” in this prospectus.
- (5) The remaining 49% equity interest is held by Pingan Taisheng.

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## PRE-IPO INVESTMENT

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### INTRODUCTION

The Pre-IPO Investors are Phillip Ventures and Sun Smart which hold 31,140 Shares and 41,620 Shares as of the date of this prospectus, respectively, representing 2.90% and 3.88% of our Shares in issue (without taking into consideration our Shares that may be issued pursuant to the Global Offering and the Capitalisation Issue and our Shares that may be issued pursuant to the exercise of the Over-allotment Option and any option that may be granted under the Share Option Scheme). Immediately after completion of the Global Offering and the Capitalisation Issue and assuming that the Over-allotment Option is not exercised, Phillip Ventures and Sun Smart will hold 9,342,000 Shares and 12,486,000 Shares, respectively, representing 2.18% and 2.91% of our Shares in issue. If the Over-allotment Option is exercised in full, the Shareholding percentages of Phillip Ventures and Sun Smart will be 2.1% and 2.8%, respectively.

### EQUITY INVESTMENT BY THE PRE-IPO INVESTORS

#### Overview

In connection with their equity investment, the Phillip Sale and Purchase Agreement was entered into on 6 August 2014, pursuant to which Bright Rise transferred to Phillip Ventures 31,140 Shares on 7 August 2014, representing 3.11% of the then number of Shares in issue, for cash consideration of S\$4.8 million. The amount of consideration for the equity investment by Phillip Ventures was agreed by the parties following arm's length negotiations with reference to the estimated valuation of our Group of HK\$1.0 billion and the then exchange rate between Hong Kong dollars and Singapore dollars. Bright Rise applied the amount of consideration to subscribe for 31,140 Shares on 14 August 2014. The amount of the subscription money has been used by us for our general working capital. As a result, the Shareholding percentage of Phillip Ventures is diluted from 3.11% to 3.02%. As of the date of this prospectus, the Shareholding percentage of Phillip Ventures is 2.90% before completion of the Global Offering and the Capitalisation Issue.

On 29 August 2014, Sun Smart and our Company entered into the Subscription Agreement, pursuant to which our Company allotted and issued to Sun Smart 41,620 Shares, representing 3.88% of the then number of Shares in issue, for cash consideration of US\$5.0 million. The amount of consideration for the equity investment by Sun Smart was agreed by the parties following arm's length negotiations based on the estimated valuation of our Group of HK\$1.0 billion excluding the equity investment of Phillip Ventures. The amount of consideration has been used by us for our general working capital. As of the date of this prospectus, the Shareholding percentage of Sun Smart is 3.88% before completion of the Global Offering and the Capitalisation Issue.

## PRE-IPO INVESTMENT

The following table sets forth the key information of the equity investment by Phillip Ventures and Sun Smart:

Name of the Pre-IPO Investors	Date of the definitive agreements	Date of transfer/ allotment and issue of our Shares	Number of our Shares held and the Shareholding percentages immediately after completion of the Global Offering and the Capitalisation Issue <sup>(1)</sup>	Investment amount settled by way of cash	Cost per Share <sup>(2)</sup>	Discount to the Offer Price <sup>(3)</sup>
Phillip Ventures	6 August 2014	7 August 2014	9,342,000 Shares (2.18%)	S\$4.8 million (HK\$29,667,840)	HK\$3.1757	22.544%
Sun Smart	29 August 2014	29 August 2014	12,486,000 Shares (2.91%)	US\$5.0 million (HK\$38,750,000)	HK\$3.1035	24.305%

*Notes:*

- (1) The Shareholding percentages are based on the number of Shares in issue immediately after completion of the Global Offering and the Capitalisation Issue without taking into account our Shares that may be allotted and issued pursuant to the exercise of the Over-allotment Option and any option that may be granted under the Share Option Scheme.
- (2) The cost per Share held by Phillip Ventures is based on the exchange rate of S\$1.0 = HK\$6.181. The cost per share held by Sun Smart is based on the exchange rate of US\$1.0 = HK\$7.75.
- (3) Based on the Offer Price of HK\$4.10, being the mid-point of the indicative range of the Offer Price between HK\$3.65 and HK\$4.56.

### Principal terms of the equity investment by the Pre-IPO Investors

The following table sets forth a summary of the principal terms of the equity investment by Phillip Ventures and Sun Smart:

Number of Shares transferred/issued:	(1) Phillip Ventures: (2) Sun Smart:	31,140 Shares 41,620 Shares
Date of the definitive agreements:	(1) Phillip Ventures: (2) Sun Smart:	6 August 2014 29 August 2014
Amount of cash consideration paid:	(1) Phillip Ventures: (2) Sun Smart:	S\$4,800,000 US\$5,000,000
Payment date of the cash consideration:	(1) Phillip Ventures: (2) Sun Smart:	7 August 2014 29 August 2014



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## PRE-IPO INVESTMENT

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Use of proceeds from the equity investments from Phillip Ventures and Sun Smart:

The investment amount received from Phillip Ventures was S\$4.8 million which has been used by Bright Rise to subscribe for 31,140 new Shares within five business days immediately after the completion date of the Phillip Sale and Purchase Agreement. The amount has been used by us for the development of our indoor amusement park business and general working capital purpose.

The investment amount received from Sun Smart was US\$5.0 million which has been used by us for the development of our indoor amusement park business and general working capital purpose.

As of the date of this prospectus, the net proceeds from the equity investment of Phillip Ventures and Sun Smart have been fully utilised.

Strategic benefits to us:

Our Directors confirm that the equity investment of Phillip Ventures and Sun Smart provided us with additional financial resources to continue to expand our business.

Shareholding percentages in our Company immediately after completion of the Global Offering and the Capitalisation Issue (without taking into account our Shares to be issued pursuant to the exercise of the Over-allotment Option and any option that may be granted under the Share Option Scheme):	(1) Phillip Ventures:	2.18%
	(2) Sun Smart:	2.91%

### **Additional rights of the Pre-IPO Investors before the Listing**

#### *Phillip Ventures*

The following sets forth below the additional rights to Phillip Ventures as Shareholder, which will be terminated upon Listing and that the Articles of Association do not contain any provisions that provide any special rights to Phillip Ventures and any of the Pre-IPO Investors.

Transfer restriction:

Prior to the Listing, without the prior approval of Phillip Ventures, Bright Rise shall not beneficially and/or legally own less than 50% of our Shares in issue.

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## PRE-IPO INVESTMENT

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- No change in business: Prior to the Listing, Mr. ZHUANG and Bright Rise shall procure that our Company to be principally engaged in the types of business as then conducted by each member of our Group unless otherwise approved by Phillip Ventures.
- Tag along right: Prior to the Listing, Bright Rise agrees not to sell for value any Shares owned by it without permitting Phillip Ventures to participate as sellers in such transaction (the “**Tag Along Right**”) such that Phillip Ventures shall be entitled to sell, on the same terms as Bright Rise, the number of Shares equal to the number of Shares which the purchaser is willing to acquire in such transaction multiplied by a fraction, the numerator of which is the number of Shares owned by Phillip Ventures and the denominator of which is the total number of Shares held by Bright Rise and Phillip Ventures.
- Put right:
- (a) If:
- (i) our Company does not meet the profit requirement set forth in Rule 8.05 of the Listing Rules for the Listing expected to be completed before the Put Date (as defined below);
  - (ii) the Listing is not completed before the Put Date;
  - (iii) we withdraw the application for Listing or our application for Listing is otherwise rejected by the Stock Exchange,
- then beginning on the Put Date, Phillip Ventures shall have the right (the “**Scheduled Put Right**”) to require Bright Rise and Mr. ZHUANG to purchase from Phillip Ventures, and Bright Rise and Mr. ZHUANG shall purchase from Phillip Ventures if so required by it, all of the Shares at the applicable Put Price.

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## PRE-IPO INVESTMENT

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- (b) If an approval for the Listing has been obtained from the Stock Exchange but our Directors have decided not to proceed with the Listing before the Put Date for any reason, then beginning on the first Business Day following the decision of our Board, Phillip Ventures shall have the right (the “**Immediate Put Right**”) to require Bright Rise and Mr. ZHUANG to purchase from Phillip Ventures, and Bright Rise and Mr. ZHUANG shall purchase from Phillip Ventures if so required by it, all of the Shares held by Phillip Ventures at the applicable Put Price.

The “Put Date” means 31 March 2015, or, if an application for Listing is submitted before 31 March 2015, the earlier of (i) 30 September 2015 or (ii) the first date on which any of the events described in (a) or (b) above occurs.

The “Put Price” means:

- (i) in the case of the exercise of the Scheduled Put Right, an amount equal to the amount of consideration, i.e. S\$4.8 million plus (i) a premium of twelve per cent. (12%) per annum (based on 360 days per year, consisting of 12 months of 30 days each) on the amount of consideration calculated by reference to the exact number of days during the period commencing from the completion date of the Phillip Sale and Purchase Agreement (inclusive) up to the date of payment of Put Price by Bright Rise and/or Mr. ZHUANG and (ii) any and all Default Interest (as defined below) in respect thereof (if any); and
- (ii) in the case of the exercise of the Immediate Put Right, an amount equal to the amount of consideration plus (i) a premium of twenty per cent. (20%) per annum (based on 360 days per year, consisting of 12 months of 30 days each) on the amount of consideration calculated by reference to the exact number of days during the period commencing from the completion date of the Phillip Sale and Purchase Agreement (inclusive) up to the date of payment of Put Price by Bright Rise and/or Mr. ZHUANG and (ii) any and all Default Interest (as defined below) in respect thereof (if any).

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## PRE-IPO INVESTMENT

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Interest on any overdue amount herein mentioned (whether principal or otherwise and whether the same has been demanded by Phillip Ventures or not) is payable at a rate of 1.67% per month, compounded monthly, to be calculated on the basis of 30 days per month (the “**Default Interest**”). Such Default Interest shall accumulate from and include the date of such default up to and including the date of actual payment by Bright Rise and/or Mr. ZHUANG (as well as before any judgment) and shall be compounded monthly. Payments in respect of the Default Interest will be made to Phillip Ventures by wire transfer to a bank account designated by Phillip Ventures, as agreed between the parties and subject in all cases to any fiscal or other laws and regulations applicable thereto.

The obligations of Bright Rise and Mr. ZHUANG are joint and several.

The Put Right shall automatically lapse upon completion of the Listing.

On 3 February 2015, Phillip Ventures issued a waiver undertaking to Bright Rise and Mr. ZHUANG that it would not exercise the Put Right upon the occurrence of the event under (a)(ii) above, namely the Listing is not completed before 30 September 2015. This undertaking is given by Phillip Ventures to Bright Rise and Mr. ZHUANG unilaterally and unconditionally. Our Directors confirm, and our Hong Kong legal advisers are also of the view, that the waiver undertaking given by Phillip Ventures represents a waiver of certain rights of Phillip Ventures under the Phillip Sale and Purchase Agreement and does not constitute or otherwise fall within the meaning of a new investment agreement as contemplated in paragraph 7.2(a) of the Guidance Letter HKEx-GL43-12 issued by the Stock Exchange. There are no changes to the price or the number of Shares involved. The cost of Phillip Ventures’ investment in our Company remains unchanged. Phillip Ventures has not been provided with any additional rights pursuant to the waiver undertaking. Our Directors further confirm, and our Hong Kong legal advisers are also of the view, that there is no change to the terms of the Phillip Sale and Purchase Agreement pursuant to the waiver undertaking.

### *Sun Smart*

No special rights were granted to Sun Smart in connection with its Shareholding before and after the Listing. All of the rights of Sun Smart as a Shareholder are set forth in the Articles of Associations.

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## **PRE-IPO INVESTMENT**

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### **LOCK-UP ARRANGEMENTS**

Pursuant to the Phillip Sale and Purchase Agreement and the Subscription Agreement, each of Phillip Ventures and Sun Smart shall fully comply with such lock-up requirement immediately after Listing as required by the Sole Sponsor in respect of the Shares held by it, provided that the lock-up requirement shall not exceed six (6) months from the date of the Listing. Each of Phillip Ventures and Sun Smart has undertaken to each of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunner, the Joint Lead Managers and the Underwriters not to, among other things, sell or otherwise create any encumbrance over, any Shares or other securities of the Company during the period ending on, and including, the date that is six months after the Listing Date.

### **BACKGROUND OF THE PRE-IPO INVESTORS**

Phillip Ventures is a company incorporated in the Republic of Singapore and has its registered office at 250 North Bridge Road, Raffles City Tower #06-00 Singapore 179101. Phillip Ventures is a private equity investment fund managed by Phillip Private Equity Pte Ltd., or PPE, on a fully discretionary basis. PPE holds the only issued ordinary share of Phillip Ventures and the preference shares in the capital of Phillip Ventures are held by institutional and high net worth investors. The ultimate holding company of PPE is Phillip Investment Corporation Pte. Ltd., which is majority-owned by Mr. LIM Hua Min. Our Directors confirmed that, prior to making the equity investment in our Company, Phillip Ventures was an Independent Third Party.

Sun Smart is a company incorporated in the BVI with limited liability. Sun Smart is wholly-owned by Chow Tai Fook Nominee Limited, a company incorporated in Hong Kong and is owned and controlled by Dato' Dr. Cheng Yu Tung. Our Directors confirmed that, prior to making equity investment in our company, Sun Smart was an Independent Third Party.

As each of Phillip Ventures and Sun Smart will hold less than 10.0% of the total number of Shares in issue immediately after completion of the Global Offering and the Capitalisation Issue without taking into consideration our Shares that may be issued pursuant to the Global Offering and Capitalisation Issue and our Shares that may be issued pursuant to the exercise of the Over-Allotment Option and any option that may be granted under the Share Option Scheme, each of Phillip Ventures and Sun Smart will not be a Substantial Shareholder and each of their Shareholding will be treated as part of the public float of our Company following the Listing for the purpose of Rules 8.08 of the Listing Rules.



### **SOLE SPONSOR'S CONFIRMATION**

The Sole Sponsor has reviewed the relevant information and documentation in relation to the investments of the Pre-IPO Investors. On this basis, the Sole Sponsor is of the view that the above investments are in compliance with the Interim Guidance on Pre-IPO Investments issued in October 2010 (HKEx-GL29-12), Guidance on Pre-IPO Investments issued in October 2012 and updated in July 2013 (HKEx-GL43-12) and Guidance on Pre-IPO Investments in Convertible Instruments issued in October 2012 (HKEx-GL44-12) by the Stock Exchange and the investments by the Pre-IPO Investors have been completed at least 28 clear days before the date of the first submission of the first listing application form.

## **OVERVIEW**

We engage in multi-line businesses in the animation-related industry, with the primary focus on the trading of animation derivative products (mainly toys) featuring renowned third-party owned animation characters for the Japanese market with the provision of value-added services. This business represented our major revenue and profit driver during the Track Record Period. Most of our customers are Japanese companies which source these products for toy companies in Japan (such as Tomy and SEGA) and leading outdoor theme parks in Japan. Under the leadership and vision of Mr. ZHUANG, our founder, chief executive officer and executive Director, and with a view to enhancing and diversifying our core business, we are developing into the indoor animation amusement park business in China. Our first project in this business is the establishment and operation of Joypolis indoor animation amusement park exclusively in Shanghai. According to SEGA, we are the first licensed operator of Joypolis in China by SEGA. We are also equipped with in-house research and development capability in the creation and commercialisation of our proprietary animation characters. We have developed six proprietary animation characters, including “Violet” (紫媽). According to the Frost & Sullivan Report, “Violet” (紫媽) is the first virtual artist which performed bidialectal music animation concert in China by applying three dimensional mixed reality (MR) technologies. The first large-scale animation concert of “Violet” (紫媽) was performed on 1 February 2015 at China Resources Shenzhen Bay Sports Centre Spring Cocoon Stadium (華潤深圳灣體育中心春繭體育館), a stadium in Shenzhen.

Through acquisitions or self-development, we own a number of proprietary animations, including:

- “Violet” (紫媽) ( *MusicTails*), which was awarded, among other things, the “Special Image Promotion Award (特別形象推廣獎)” in the Fourth Top Ten Cartoon Image (第四屆十大卡通形象) by the Shenzhen Animation Industry Base of the China Animation Society (中國動畫學會深圳國家動漫畫產業基地) in 2014; and
- “Han Ba Gui” (憨八龜) () , which was awarded, among other things, the “Key Product for National Cultural Export (國家文化出口重點項目)” jointly by the Ministry of Commerce of the People’s Republic of China (中華人民共和國商務部), the Ministry of Culture of the People’s Republic of China (中華人民共和國文化部), the State Administration of Radio, Film and Television (國家廣播電影電視總局) and the State Administration of Press and Publication (中華人民共和國新聞出版總署) in 2009.

During the Track Record Period, we generated revenue from our proprietary animations primarily through licensing of the intellectual property rights of the animation characters to Zing. We entered into agreements (as amended and supplemented) with three licensees (which are also our consignors under our consignment sales business and as confirmed by our Directors, Independent Third Parties), pursuant to which we grant licence to the consignors to sell products within a defined category that contain our proprietary animation characters in China. In addition to the non-refundable consultancy fee from our licensees, we also charge an annual royalty fee in an amount that equals the higher of a minimum and a certain percentage of their revenue from sales of the relevant products. Upon the grand opening of Shanghai Joypolis within which we plan to serve as physical platforms for the consignment sale of our licensees’ products bearing our proprietary animation characters, we believe that we will be able to further expand our revenue streams generated from the licensing business.


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We are also expanding into the multimedia animation entertainment business in the areas of (i) movie investment and production; (ii) music animation concerts; and (iii) online entertainment and mobile applications. Our movie investment and production business has yet to provide any revenue contribution. Our music animation concerts and online entertainment and mobile applications businesses have provided insignificant amount of revenue contribution to our financial results during the Track Record Period. Nevertheless, our Directors believe that these new businesses form an extension of our core businesses and an integral part of our strategic progression in the animation-related industry with an aim to promoting and cross-selling our different lines of business and creating synergies among them.

Our core businesses and our major revenue and profit drivers during the Track Record Period are illustrated as follows:



**Trading with the provision of value-added services**

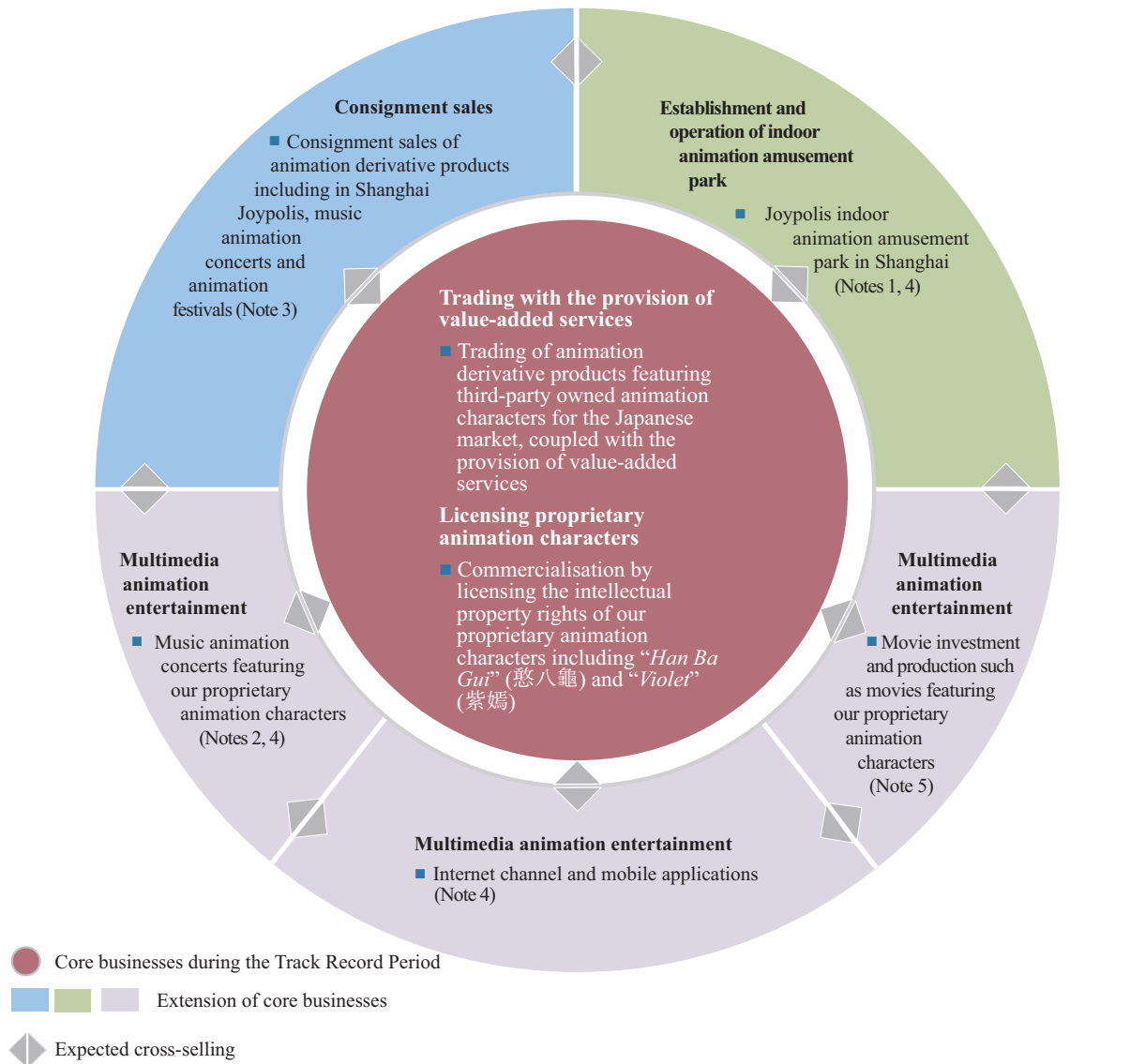
- Trading of animation derivative products featuring third-party owned animation characters for the Japanese market, coupled with the provision of value-added services

**Licensing proprietary animation characters**

- Commercialisation by licensing the intellectual property rights of our proprietary animation characters including “*Han Ba Gui*” (憨八龜), “*The Amazing UU*” (神奇的優悠) and “*Animal Conference on the Environment*” (動物環境會議)

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Currently, we are developing new business initiatives which are extensions of our core businesses, and our business model in the future is illustrated as follows:



**Notes:**

1. Phase 1 of Shanghai Joypolis was opened on 30 December 2014 and the grand opening is expected to take place in the first quarter of 2016.
2. We organised our first music animation concert featuring “*Violet*” (紫媽) on 1 February 2015 in Shenzhen where no consignment sales were conducted. We expect that there will be consignment sales in Shanghai Joypolis as well as our music animation concerts and animation festivals in the future.
3. China Animation IP entered into agreements with three consignors and Huajiatai PRC entered into a consignment agreement with a capsule toys vending machine operator. For details, please refer to the section headed “Business — Extension of our core businesses in the animation-related industry — Consignment Sales”.
4. These are our new businesses which have only provided insignificant amount of revenue contribution to our operating results up to the Latest Practicable Date.
5. These are our proposed business and/or business strategies, which have yet to provide any revenue contribution to our operating results up to the Latest Practicable Date.
6. This diagram is for reference only. The size and proportion of the business segments indicated in this diagram do not represent that actual or anticipated revenue and profit were or will be generated by the respective business segments according to such proportion or at all.



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Our founder, chief executive officer and executive Director, Mr. ZHUANG, is a native Chinese who is conversant in Japanese with an understanding of the Japanese business culture. Mr. ZHUANG has approximately 18 years of experience in the toy industry and is familiar with the product development and manufacturing process of plastic toys. Under the leadership and vision of Mr. ZHUANG, we have achieved a number of key milestones since the inception of our business, such as the establishment of the trading business of animation derivative products, the acquisition of the intellectual property rights of the animation character “*Han Ba Gui*” (憨八龜) in 2011, the development of our virtual artist “*Violet*” (紫媽) and the entering into of the SEGA Licence Agreement in 2014 for the exclusive right to establish and operate Shanghai Joypolis. Immediately upon completion of the Global Offering and the Capitalisation Issue (assuming the Over-allotment Option is not exercised), the aggregate Shareholding of our Controlling Shareholders, of which Mr. ZHUANG is a member, will be 55.95%. Mr. IKEDA, our Honorary Chairman, is involved in developing our business strategies and providing marketing insights for our Group and is also one of our Controlling Shareholders. Mr. IKEDA, a native Japanese, is the founder, chairman and chief executive officer of IMA Group (being a group of companies in Japan focusing on, among other things, capsule toy vending machine business) and has been in the Japanese toy and animation-related industry since the 1990s.

### **Our core business during the Track Record Period**

#### ***Trading of animation derivative products***

We supply animation derivative products to our customers and provide value-added services to some of them. The animation derivative products we supply are mainly toys featuring a variety of popular third-party owned animation characters as specified by our customers from time to time. Our product range includes general plastic toys, food-grade toys (namely toys that are intended to have direct contact with food and toys that are packaged with candy) and others (namely products moulds used for production of our animation derivative products).

We have a primary focus on the Japanese market as our customers are primarily Japanese companies which source animation derivative products for major toy companies (such as Tomy and SEGA) and leading outdoor theme parks in Japan. We believe that our established relationship with our customers demonstrate our ability to deliver consistently high quality products and services to their satisfaction, as well as to the satisfaction of the major toy companies and leading outdoor theme parks which purchase our products from our customers. This trading business has been our major contributor of revenue during the Track Record Period. For the three years ended 31 March 2014 and the five months ended 31 August 2014, we generated 95.5%, 88.7%, 72.4% and 99.3% of our revenue, respectively, from this business.

#### ***Commercialisation of our proprietary animation characters by licensing***

We pride ourselves in our research and development capabilities in the creation and development of animation characters. Through acquisitions or self-development, we own the intellectual property rights of a number of proprietary animations such as “*Han Ba Gui*” (憨八龜), “*Violet*” (紫媽), “*Animal Conference on the Environment*” (動物環境會議) and “*The Amazing UU*” (神奇的優悠).

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Historically, we engaged Shenzhen Huaxia for the services provided by their research and development personnel to us for the creation and development of self-proprietary animation characters. With the establishment of Shenzhen Wald in the PRC, a wholly-foreign owned enterprise and a wholly-owned subsidiary of our Company, certain personnel of Shenzhen Huaxia have become our employees and continue to work for us. As of the Latest Practicable Date, we had 10 employees in our design and production department, many of whom served us during the entire Track Record Period (through the team of personnel provided by Shenzhen Huaxia and subsequently as our employees directly). For details of our relationship with Shenzhen Huaxia, please refer to the section headed “History, development and Reorganisation — Reasons for not including Sino Action and Shenzhen Huaxia as part of our business — Shenzhen Huaxia” in this prospectus.

Our design and production department is led by Mr. LIANG Jianjun who has approximately 12 years of experience in animation-related sector and was the production director of Shenzhen Huaxia and Shenzhen Tangren. Mr. LIANG led the team which created “*Han Ba Gui*” (憨八龜), one of the award-winning animation characters acquired by us. In addition, we have commenced the promotion and marketing of “*Violet*” (紫媽) as a virtual artist by organising animation concerts featuring “*Violet*” (紫媽) using mixed reality (MR) technologies.

We license some of our proprietary animation characters for licensing fees. For the three years ended 31 March 2014 and the five months ended 31 August 2014, we generated 4.5%, 11.3%, 21.7% and nil of our revenue from the licensing of animation characters business.

### **Extension of our core businesses in the animation-related industry**

#### ***Indoor animation amusement park***

According to the Frost & Sullivan Report, with the development of technology in entertainment facilities, and the increase in the household income and urbanisation rate in the PRC, the indoor theme park market in the PRC would enjoy a rapid growth. We endeavour to operate top-notch indoor animation amusement parks that provide fashionable and exciting entertainment with high-quality facilities and services, and at the same time are affordable to the young population in China. In light of the potential in this sector and with a view to creating synergies to our core business and our in-house capability to create and develop proprietary animation characters, we entered into the SEGA Licence Agreement for Shanghai Joypolis. According to SEGA, we are the first licensed operator of Joypolis in China by SEGA. On 30 June 2013, China Theme Park HK and Harvest Progress, a company wholly-owned by Mr. LI, entered into a memorandum of undertaking, pursuant to which Harvest Progress, for and on behalf of Pingan Taisheng, paid us a non-refundable joining fee in the amount of HK\$20.0 million in consideration of our effort in securing the business opportunity from SEGA to establish and operate Shanghai Joypolis. The receipt of the non-refundable joining fee in the amount of HK\$20.0 million is not in breach of the terms and conditions of the SEGA Licence Agreement and is not subject to approval from SEGA. Following payment of such non-refundable joining fee, Harvest Progress then appointed Pingan Taisheng, a company owned as to 80.0% by Mr. LI Jian, the son of Mr. LI, to cooperate with us in Shanghai Joypolis project. This amount has been recognised as our revenue for the year ended 31 March 2014. Save as the agreement for the non-refundable joining fee and the joint venture agreement in respect of Huajiatai PRC, no member of our Group has entered into any separate agreement or such arrangements with Harvest Progress.

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Pursuant to the SEGA Licence Agreement, we have the right to operate Joypolis exclusively in Shanghai. We entered into a joint venture agreement with Pingan Taisheng on 25 August 2014 pursuant to which each of China Theme Park HK, Shenzhen Wald and Pingan Taisheng owns 49.0%, 2.0% and 49.0% equity interest, respectively, in Huajiatai PRC, the operating entity of Shanghai Joypolis. We therefore own more than 50.0% of the equity interest in Huajiatai PRC, which is a non-wholly owned subsidiary of our Company.

The Joypolis in Tokyo was opened in 1996 by SEGA and reopened in 2012 following a revamp with an emphasis on integrating digital experience and reality in its entertainment concept. In the 3-storey venue with a gross floor area of about 9,600 sq.m., the Joypolis in Tokyo offers more than 20 amusement facilities while the Joypolis indoor amusement park in Osaka occupies a gross floor area of about 4,000 sq.m.. The design and concept of Shanghai Joypolis are based on the Joypolis indoor animation amusement park operated by SEGA in Japan. Shanghai Joypolis will be located on the 3rd and 4th floors of Shanghai Global Harbour (上海環球港), a commercial complex situated on Zhongshan North Road, Putuo District, Shanghai (上海普陀區中山北路). A tenancy agreement dated 24 July 2014 was entered into between China Animation BVI (which we expect will be substituted by Huajiatai PRC) and Yue Xing. Pursuant to the Shanghai Joypolis Tenancy Agreement, the term of the tenancy will commence from 20 December 2014 in respect of a gross floor area of approximately 1,000 sq.m. and from 28 July 2015 in respect of an additional gross floor area of 7,239 sq.m., both up to 27 July 2025. It is our plan that our two-storey Shanghai Joypolis will be opened in two phases. Phase 1 of Shanghai Joypolis with a gross floor area of 1,000 sq.m. was opened on 30 December 2014, while the grand opening of Shanghai Joypolis of 8,239 sq.m. is scheduled to take place in the first quarter of 2016.

### ***Multimedia animation entertainment***

As another means to commercialise our proprietary animation characters, we have commenced the development of our animation-related businesses into the multimedia animation entertainment sector, namely in the areas of (i) movie investment and production; (ii) music animation concerts; and (iii) online entertainment and mobile applications.

### ***Consignment sales***

As part of our business plan, we intend to conduct consignment sales of animation derivative products via various channels, including at the booths in our music animation concerts and the stores in Shanghai Joypolis. Please refer to “— Extension of our core businesses in the animation-related industry — Consignment sales” below for a simplified chart illustrating the proposed business model of our consignment sales.

### **Our financial performance**

For the three financial years ended 31 March 2014 and the five months ended 31 August 2014, our total revenue was HK\$292.3 million, HK\$283.5 million, HK\$338.7 million and HK\$186.8 million, respectively. Our gross profit for the three financial years ended 31 March 2012, 2013 and 2014 and the five months ended 31 August 2014 was HK\$115.7 million, HK\$126.4 million, HK\$165.5 million and HK\$65.2 million, respectively, and our gross profit margin for the respective periods was 39.6%, 44.6%, 48.8% and 34.9%. Our net profit for the year for the three financial years

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ended 31 March 2014 and the five months ended 31 August 2014 was HK\$82.0 million, HK\$85.2 million, HK\$130.6 million and HK\$39.7 million, respectively.

The table below sets forth the revenue generated by various business segments of our Group for the three years ended 31 March 2014 and the five months ended 31 August 2014:

	Year ended 31 March						Five months ended 31 August	
	2012	% of Revenue	2013	% of Revenue	2014	% of Revenue	2014	% of Revenue
<i>(HK\$'000 except percentages)</i>								
Trading of animation derivative products	279,007	95.5%	251,593	88.7%	245,136	72.4%	185,541	99.3%
Licensing of proprietary animation characters	13,292	4.5%	31,900	11.3%	73,608	21.7%	–	–
<b>Subtotal</b>	<b>292,299</b>	<b>100%</b>	<b>283,493</b>	<b>100%</b>	<b>318,744</b>	<b>94.1%</b>	<b>185,541</b>	<b>99.3%</b>
Establishment and operation of indoor animation amusement park	–	–	–	–	20,000	5.9%	872	0.5%
Multimedia animation entertainment	–	–	–	–	–	–	411	0.2%
<b>Total</b>	<b>292,299</b>	<b>100%</b>	<b>283,493</b>	<b>100%</b>	<b>338,744</b>	<b>100%</b>	<b>186,824</b>	<b>100%</b>

While during the Track Record Period, we generated substantial amount of our revenue and profit from the trading of animation derivative products, we believe that our other businesses, notably the establishment and operation of indoor animation amusement park, will contribute significantly to the growth and development of our Group.

### OUR COMPETITIVE STRENGTHS

We believe the following strengths are the key factors contributing to our historical success and will continue to position us well in developing a variety of animation-related businesses:

#### **Established trading business of animation derivative products with stable Japanese customers**

We supply animation derivative products, primarily toys, featuring a variety of popular third-party owned animation characters as specified by our customers from time to time. Instead of a mere trader of animation derivative products, we provide value-added services to some customers. We have a primary focus on the Japanese market as our customers are primarily Japanese companies which source toy products for major toy companies (such as Tomy and SEGA) and leading outdoor

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theme parks. For the three financial years ended 31 March 2014 and the five months ended 31 August 2014, we generated 89.0%, 95.8%, 92.0% and 93.2% of our revenue, respectively, from this segment.

By consistently providing quality products and services to our customers' satisfaction, we have gained trusts from our Japanese customers and the major Japanese toy companies and leading outdoor theme parks which purchase our products through our customers. We believe that our stable relationships with our customers could be demonstrated by the fact that many of our major customers in this business sector have been our customers for over five years.

With our established track record in Japan in providing high quality products, we believe we are well positioned to become a preferred business partner for the Japanese customers in our industry. We also believe that this allows us to establish a brand recognition in the animation-related industry and provides us with a competitive advantage in capturing new business opportunities related to this industry.

### **Proprietary animations characters with in-house animation creative and development capabilities**

In addition to being a trader of animation derivative products, we also pride ourselves in our ownership of proprietary animations characters, through acquisitions or self-creation, and our in-house capabilities to create and develop our proprietary animations characters. As of the Latest Practicable Date, we had 10 employees in our design and production team and many of whom served us during the entire Track Record Period (through the team of personnel provided by Shenzhen Huaxia and subsequently as our employees directly). Our design and production department is led by Mr. LIANG Jianjun who has approximately 12 years of experience in the animation-related sector.

We believe that our ownership of proprietary animations characters and our time-to-market in-house capabilities to create and develop our proprietary animations characters have positioned us well to expand and develop various different businesses in the animation-related industry and to create synergies to the businesses. According to the Frost & Sullivan Report, our proprietary animation character, “*Violet*” (紫嫣), is the first virtual artist which performed bidialectal music animation concerts in China by applying three dimensional mixed reality (MR) technologies. The first large-scale music animation concert of “*Violet*” (紫嫣) was held on 1 February 2015 at China Resources Shenzhen Bay Sports Centre Spring Cocoon Stadium (華潤深圳灣體育中心春繭體育館), a stadium in Shenzhen. We believe that our ability to explore and capture different opportunities in the animation-related industry and to create synergies among our businesses is a key to our Group's sustainable growth in the long run.

### **Stable operating cash inflow from our trading business offering a solid foundation to capture opportunities in the animation-related industry**

During the Track Record Period, as our major revenue and profit driver, we primarily focused on the trading of animation derivative products featuring third-party owned animation characters for the Japanese market. We consider this a stable and asset-light business model. For the three years ended 31 March 2014 and the five months ended 31 August 2014, our revenue generated from the

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trading of animation derivative products amounted to HK\$279.0 million, HK\$251.6 million, HK\$245.1 million and HK\$185.5 million respectively, representing 95.5%, 88.7%, 72.4% and 99.3% of our total revenue respectively. During the Track Record Period, we did not incur any bank borrowings. While we endeavour to develop and expand strategically our businesses, we believe that our core business in the trading of animation derivative products will remain an important contributor of our revenue and profits in the future. In particular, we believe that this traditional business provides us with a stable cash flow to capture opportunities in the animation-related industry efficiently. Moreover, we believe that (1) the stable financial performance of our traditional trading business; (2) our stronger asset base upon the opening of Shanghai Joypolis; and (3) our existing unleveraged business model will facilitate us in obtaining external financing and, if required, for potential investment and acquisition opportunities notwithstanding market volatility.

### **Experienced, dedicated and entrepreneurial management team with the vision to expand our business strategically and create synergies among our businesses in the animation-related industry**

Our management team is led by Mr. ZHUANG, our founder, chief executive officer and executive Director, who has approximately 18 years of experience in the industry and is very familiar with the Japanese market and culture. Mr. ZHUANG has been responsible for the Group's strategic planning and overall management. Leverage on his familiarity with the Japanese culture, Mr. ZHUANG leads our Group in developing and expanding our business by focusing on collaborating with leading Japanese market players and establishing market connections. In particular, we believe that his network in the industry enables our Group in luring renowned brand names in the industry to partner with us in various businesses, such as the licence granted by SEGA to us to operate Joypolis indoor amusement park in Shanghai exclusively. We believe our experienced, dedicated and entrepreneurial management team led by Mr. ZHUANG will continue to lead us identifying industry trends and market opportunities, thereby enabling us to capture growth potential from our business strategies.

### **OUR STRATEGIES**

Following the foot-steps of the development and progression of internationally renowned leaders in the animation-related industry, we intend to enhance shareholder value by strategically developing and expanding into various animation-related businesses in the major areas of trading of animation derivative products and licensing of proprietary animation characters; indoor animation amusement park; and multimedia animation entertainment, with an aim to create synergies among our businesses and ultimately create an integrated animation kingdom. To achieve these goals, we are pursuing the following principal strategies:

#### **Strengthen our core business by fostering established business relationships and to diversify and complement our established business model**

With a view to strengthening our trading business which focuses on Japanese customers, we plan to foster our established business relationship with our established customers through collaboration in product development and quality control management. We believe that our close relationship with our Japanese customers which supply our products to the major toy companies and leading outdoor theme parks in Japan is critical to our success.

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While we endeavour to develop and expand strategically into various other animation-related businesses, we believe that our core business in the trading of animation derivative products will remain an important contributor of our revenue and net profits in the future.

### **Focus on the operation of Shanghai Joypolis in the short run and replicate this business model in the mid-to-long run**

We recognise the increasing demand for new leisure activities and recreational space in China and therefore the significant potentials in this sector.

In the short run, we will focus on the operation of Shanghai Joypolis through Huajiatai PRC, our non-wholly owned subsidiary. Phase 1 of Shanghai Joypolis with a gross floor area of 1,000 sq.m. was opened on 30 December 2014, while the grand opening of Shanghai Joypolis of 8,239 sq.m. is scheduled to take place in the first quarter of 2016. We envisage Shanghai Joypolis will be a significant driver of our Group's future growth and development.

In the mid-to-long run, we will explore and consider the opportunities and feasibilities in expanding our indoor amusement park business. In making any such expansion decisions, we will carefully and comprehensively consider and evaluate the possible risks and potentials involved in such expansion and will not make substantial capital commitment unless: (1) we are satisfied with the results of our feasibility studies and sensitivity analysis; (2) we are satisfied that we have the necessary financial capabilities to support such expansion; (3) the process of our preparation for Shanghai Joypolis is in line with our plan; (4) where applicable, we have identified suitable joint venture partner(s) and agreed on a mutually acceptable joint venture structure; and (5) we have entered into the necessary agreement(s) with SEGA and/or other partners in relation to such expansion.

We endeavour to replicate this business model or adopt appropriate business models by co-operating with SEGA and/or other partners for other amusement parks in China as and when the opportunities arise. In the future, it is our preference to cooperate with our joint venture partners in a way that they would contribute most or all capital expenditure in the establishment of the indoor amusement park, while we would retain the management right of the park, which we believe would allow us to generate a recurring income from management fees, reduce our risk and accelerate our expansion plan.

### **Further develop our capabilities in the creation and development of our proprietary animation characters and identifying different means of commercialising such characters to broaden our revenue source and create synergies with our other businesses**

We endeavour to further develop our capabilities in the creation and development of our proprietary animations and expand our ownership of proprietary animations. We believe that our ownership of proprietary animations and our in-house capabilities in the creation of proprietary animations will, on the one hand, broaden our revenue source by receiving royalty fees, and on the other hand, create synergies and cross-sell with various other animation-related businesses.

We will continue to seek different opportunities to commercialise our proprietary animation characters via various business means. For instance, we intend to sell our products featuring our

proprietary animation characters and incorporate our proprietary animation characters into certain attractions in Shanghai Joypolis indoor animation amusement park.

We will also continue to promote our virtual artist “*Violet*” (紫嫣), as well as other potential virtual artists, and endeavour to expand our revenue source via these virtual artists’ music, concerts and products. We entered into an agreement with Shenzhen Cultural Industry in respect of our first large scale music animation concert featuring “*Violet*” (紫嫣) held on 1 February 2015 at China Resources Shenzhen Bay Sports Centre Spring Cocoon Stadium (華潤深圳灣體育中心春繭體育館). We will also continue to explore opportunities to license our proprietary animation characters for animation movie production. For instance, we entered into a legally binding agreement on 23 December 2014 with Someno Films, Studio Comet and Zing in relation to the proposed production of an animated movie featuring our proprietary animation characters “*Han Ba Gui*” (憨八龜) and “*Violet*” (紫嫣). In the online area, we intend to continue supplying our proprietary animations to the online CUTV Huaxia Animation Channel (CUTV 華夏動漫頻道) with an aim to attract advertising income and promote our proprietary animations. In the area of mobile animation application, we are also keen to commercialise our proprietary animation characters via internet and mobile applications as we see this as another potential growth area in the long run by making use of our proprietary animation characters. We will continue to design and provide animation-related emotion icons for computer software and mobile applications.

We expect that there will be cross-selling effects arising from the above business segments. For example, we envisage that our music animation concerts and Shanghai Joypolis are excellent channels for us to promote our proprietary animation characters through the consignment sale of products featuring these characters, and that the online CUTV Huaxia Animation Channel (CUTV 華夏動漫頻道) will serve as a platform for us to promote our proprietary animations, music animation concerts and Shanghai Joypolis. With these cross-selling means, we will endeavour to explore other opportunities to commercialise our animation characters and to further create synergies with our other businesses.

### **Capture additional growth opportunities by mergers and acquisitions and forming strategic partnerships**

We plan to continue exploring opportunities to capture additional growth potential by mergers and acquisitions and collaboration with suitable business partners through alliances or selective investments. For instance, we will explore the opportunities to expand our trading business downstream by acquiring equity interests in the Japanese companies which purchase or may purchase animation derivative products from us for the major Japanese toy companies or leading outdoor theme parks. We believe that such acquisition will strengthen our position in the Japanese market and enhance our relationship with the major Japanese toy companies or leading outdoor theme parks.

We also intend to explore opportunities for other strategic partnerships which help enhance our relationship with business partners and allows us to further diversify our revenue streams and capture growth potential. We will also endeavour to look for other opportunities for mergers and acquisitions including any opportunities to acquire the intellectual property rights of other animation characters. As of the Latest Practicable Date, we had not identified any specific suitable target for merger or acquisition.



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### OUR CORE BUSINESSES DURING THE TRACK RECORD PERIOD

#### Trading of animation derivative products with the provision of value-added services

We supply animation derivative products, primarily toys, to our customers and provide value-added services to some of them. The products we supply feature a variety of popular third-party owned animation characters as specified by our customers from time to time. We have a primary focus on the Japanese market as our customers are primarily Japanese companies which source animation derivative products for major toy companies (such as Tomy and SEGA) and leading outdoor theme parks.

Our revenue generated from our trading of animation derivative products business for each of the three years ended 31 March 2014 and the five months ended 31 August 2014 amounted to HK\$279.0 million, HK\$251.6 million, HK\$245.1 million and HK\$185.5 million, respectively, which accounted for 95.5%, 88.7%, 72.4% and 99.3% of our total revenue for these periods, respectively.

#### *Products*

The animation derivative products that we supply can be generally divided into the following major categories:

<u>Major categories</u>	<u>General descriptions</u>
General plastic toys	Plastic toys featuring comic, cartoon or animation characters, including action figures
Food-grade toys	Food-grade toys are toys that are intended to have direct contact with food or are packaged with candy. Our major food-grade toys are pop-corn cases featuring popular third party owned animation characters for sale in leading outdoor theme parks in Japan
Others	Mainly product moulds that we source for customers for use in the production process

Generally, general plastic toys and food-grade toys are supplied for our Japanese customers targeted mainly for the Japanese market and partially for the United States market. We also sell product moulds sourced from our suppliers for the production of plastic toy products which require new product moulds. The product moulds are designed and manufactured by our suppliers and are then applied by our suppliers in the production process of plastic toy products.

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The following table sets forth our revenue from the trading of animation derivative products by product mix for the period indicated:

	Year ended 31 March						Five months ended 31 August	
	% of		% of		% of		% of	
	2012	Revenue	2013	Revenue	2014	Revenue	2014	Revenue
	<i>(HK\$'000 except percentages)</i>							
General plastic toys	161,308	57.8%	131,958	52.4%	159,139	64.9%	156,553	84.4%
Food-grade toys	91,590	32.8%	86,260	34.3%	62,745	25.6%	21,282	11.5%
Others	26,109	9.4%	33,375	13.3%	23,252	9.5%	7,706	4.1%
<b>Total</b>	<b>279,007</b>	<b>100%</b>	<b>251,593</b>	<b>100%</b>	<b>245,136</b>	<b>100%</b>	<b>185,541</b>	<b>100%</b>

The production lead time for our products from the initial purchase order to shipment of finished products varies as it depends on different factors such as, among other things, the complexity of the production process and the quality ordered by customers, and generally ranges from about 30 to 120 days. As an example, the production lead time for the supply of pop-corn cases from the initial purchase order to the shipment of finished products took approximately 45 days. For new products, depending on our level of involvement in the initial stage, additional time will be required for the design and development process which may involve, depending on the circumstances, both our suppliers, our customers and ourselves.

### ***Our trading customers***

For the three years ended 31 March 2014 and the five months ended 31 August 2014, we generated 89.0%, 95.8%, 92.0% and 93.2% of our total revenue, respectively, from our Japanese customers (which excludes sales to relevant Hong Kong entities of our Japanese customers). The products we supply according to orders from our customers were mainly delivered to Japan during the Track Record Period. Since around May 2013, we have started to obtain orders from President Japan Co. Ltd. to supply products targeted at end customers in the United States, which we in turn sourced from Best Toys, being one of our suppliers. Four out of our overall five largest customers during the Track Record Period are our major trading customers, namely President Japan Co. Ltd, Kuwugata, A.C. Promotion and Re-ment Co. Ltd.. The following table sets forth the background information of our major customers for our trading of animation derivative products, who in

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aggregate accounted for 64.8%, 81.5%, 87% and 89.4% of our sales generated from our trading of animation derivative products business for each of the three years ended 31 March 2014 and the five months ended 31 August 2014 respectively:

<u>Customers</u>	<u>Their corresponding customers</u>	<u>Commencement of business relationship</u>	<u>Location</u>	<u>Major products</u>
President Japan Co. Ltd.	Major toy companies including Tomy and SEGA	Since 2008	Japan	Products featuring third-party owned animation characters
Ku wagata	Major toy company	Since 2008	Japan	Products featuring renowned third-party owned animation characters
A.C. Promotion	Operator of major outdoor theme parks in Japan	Since 2008	Japan	Toys and popcorn cases for leading outdoor theme parks in Japan
Re-ment Co. Ltd.	N/A	Since 2008	Japan	Candy toys

Our Directors confirm that 11 of our major customers (including the customers set out in the table above) have commenced business relationship with us since 2008, and consider that we have established stable and long-term relationship with these customers. We maintain regular contacts with major customers by way of (1) tele-communications between members of our business development and trading departments and representatives of our major customers, primarily on matters relating to quotations and existing orders and (2) visits by our senior management team, including Mr. ZHUANG, to our major customers in Japan to discuss market updates and cooperation opportunities. We believe that our established relationship with our customers demonstrates our ability to deliver consistently high quality products and services to their satisfaction, as well as to the satisfaction of the major toy companies and leading outdoor theme parks which purchase our products from our customers. All of the above customers are Independent Third Parties as of the Latest Practicable Date. During the period between November 2007 and November 2012, Mr. ZHUANG was one of the directors of A.C. Promotion for the intended purpose of business promotion in Japan. Mr. ZHUANG confirms that he has never been a shareholder of A.C. Promotion, nor has he ever participated in the business management of A.C. Promotion.

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## BUSINESS

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We entered into legally binding master product purchase agreements with some of our major customers, the major terms and conditions of which are set forth as follow:

<u>Matters</u>	<u>Major terms and conditions</u>
Term	One year from signing and renewed automatically for another year unless termination notice is served at least three months before the expiration date.
Supply of raw material	Customer may, at its sole discretion, provide us with the raw materials and the partially completed products, either at our cost or free of charge, required for the production of products.
Intellectual property rights	<p>Customer authorises the use of its intellectual property rights by us and our suppliers for the production of the products.</p> <p>All copyrights, product designs, patents, trademarks or any other intellectual property rights associated with the products and all prototype, specification sheets and drawings prepared by us at customer's request shall belong to the customer.</p>
Quality control	We shall comply and procure our suppliers to comply with the quality control standards set forth by the customer. By giving advance written notice, customer may enter into our premises and the premises of our suppliers for review and inspection.
Delivery, receipt and inspection of products	<p>Date of delivery, delivery method and cost of delivery shall be included in individual purchase orders. Products are deemed to be delivered to and accepted by customer when they are delivered to and accepted by the forwarder or transportation company designated by the customer.</p> <p>Customers shall inspect the products before delivery and we shall recover defective products discovered following such inspection. Thereafter, customer shall not be entitled to return products or otherwise seek damages from us even though the products are found to be not consistent with prescribed specifications.</p> <p>We shall bear the risks of loss, damage or deterioration of products during delivery and such risks shall be borne by the customer after delivery.</p>

While we do not enter into long-term purchase agreements with our customers and the aforesaid master product purchase agreements do not constitute any commitment from our customers to purchase from us, we obtained from our major customers non-legally binding letters of intent indicating their expected purchase volume in the next financial year, which offer clarity in the demand outlook of our trading business and help us formulate business strategies accordingly.

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According to the Frost & Sullivan Report, offshore trading companies (e.g. our Group) and Japanese trading companies (e.g. our major customers) are both part of the typical value chain for Japan toys market, and it is a typical practice in Japan toy market that Japanese trading companies would engage offshore trading companies in the PRC to source products instead of directly source from PRC toy manufacturers. Our Directors believe that it is also a norm in the Japanese toy trading industry for Japanese trading companies and their offshore trading companies seeking to maintain a long-term business relationship and to develop mutual reliance. Our Directors also believe that our major Japanese customers share such Japanese business culture that enshrines long-term and stable business relationship with trusted business partners, and that the trust and loyalty of some of our major customers were built over years on our consistently satisfactory products and services. Our Directors believe that a mutual reliance has been established between ourselves and our major customers taking into account, as confirmed by our Directors, the long-term and stable relationship with 11 of our major customers since our inception of business. Even though our customers do not have long-term purchase commitment with us, we believe that the loyalty of our major customers would ensure recurring businesses which create a stable stream of revenue for our Group. Apart from our endeavour to maintain a stable relationship with our existing major customers, with a view to reducing the reliance we may have on them, we also seek to organically expand our customer base by obtaining purchase orders from new customers which are reputable and creditable in the market every year. For example, a new customer of our Group for the year ended 31 March 2014 has become one of our five largest customers for the five months ended 31 August 2014 and accounted for 2.3% of the sales generated from our total revenue for that period. In the event that any of our major customers ceases to place order with us, we intend to (1) negotiate with and procure to increase purchase orders from existing customers; and (2) reach out to potential customers to secure new purchase orders, with a view to minimising the decrease in sales which may be resulted. We categorise our customers into three classes. Class one customers are our premium customers which have cooperated with us for one year or more and satisfied us as creditable and financially sound. Most of our major customers during the Track Record Period were class one customers. Class three customers are sub-standard customers which are regarded by us as financially unsounded, such as the inability to honour payment obligations or terms of contracts. For new customers which do not fall into the other two categories will be categorised as class two customers. Our internal credit manual stipulates that, generally, our class one customers can be offered more credit allowance, whilst our class three customers shall not be given any. We are also inclined to avoid cooperation with class three customers. We generally do not accept any purchase order from any class three customers. We usually offer a 30-day payment term to our customers, and our customers usually settle our invoices by way of telegraphic transfer or by way of letter of credit.

According to the Frost & Sullivan Report, the Japan animation industry has in the past few years enjoyed and is expected in the coming few years to enjoy a continuous growth, while animation derivative products (including animation related toys, apparels, games and others) contributed approximately 65.7% of total revenue of Japan animation industry in 2013. Based on this trend, our Directors consider that, barring unforeseen circumstances, the sale of animation derivative products to Japan will maintain a steady growth and the Group's trading business will be benefited from this continuous positive prospect. Our Directors therefore believe that the Group would be able to continue expanding its trading customer base.

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### *Our trading suppliers*

We do not have our own manufacturing capabilities. During the Track Record Period, we sourced our products from three external suppliers. The following table sets forth our suppliers during the Track Record Period and their background information:

<u>Supplier</u>	<u>Commencement of business relationship</u>	<u>Location</u>	<u>Major products</u>
Sino Action ( <i>Note 1</i> )	Since the inception of our business in 2008	Hong Kong	Primarily general toys, food-grade toys and product moulds
Best Toys	Since around May 2013	Yingde city, Guangdong Province	Primarily general toys targeted at end customers in the United States ( <i>Note 2</i> )
Shenzhen Jiezhimei	Since around June 2014	Shenzhen	Primarily general toys featuring solar power elements ( <i>Note 2</i> )

*Notes:*

1. Sino Action engages Wah Shing as its manufacturing plant in the PRC under the “three-plus-one” agreement dated 24 June 1997 for the processing of materials and manufacturing of the products for Sino Action.
2. Our Directors understand that, in addition to Sino Action, both Best Toys and Shenzhen Jiezhimei have the required production facilities and expertise for mould production. They have produced moulds for us during the Track Record Period.

We have commenced our business relationship with Sino Action, our largest supplier during the Track Record Period, since inception our business. Our Directors believe that such long-term relationship enables us to source products of consistent quality for sales to our customers. Sino Action engages Wah Shing, a manufacturing plant which is conveniently located adjacent to our offices in Shenzhen, for the production of our products. Wah Shing and our offices in Shenzhen are both located on a parcel of land in Longgang, Shenzhen, owned by Mr. ZHUANG. On 1 August 2014, Mr. ZHUANG and Wah Shing entered into a lease agreement in respect of the parcel of land of about 10,921 sq.m. in Longgang, Shenzhen at the monthly rental of RMB131,052 for a period of 20 months. Please refer to the section headed “History, development and Reorganisation — Our trading business of animation derivative products” and “— Properties” for details.

As we intended to diversify our product portfolio with certain products targeted at end customers in the United States and toys featuring solar power elements, we started to source products from additional suppliers. Since around May 2013, we started to source from Best Toys, which primarily supplies products targeted at end customers in the United States. Further, from around June 2014, we started to source products from Shenzhen Jiezhimei, which produces toys featuring solar power elements. Subsequent to the Track Record Period, we have commenced engaging Shenzhen Jiezhimei (in addition to Sino Action) for the production of food-grade products. Our cooperation with Best Toys and Shenzhen Jiezhimei also reduced our reliance on Sino Action,

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our largest supplier during the Track Record Period. In the long run, as and when the opportunity arises, we intend to engage other new suppliers which match our product portfolio, satisfy our requirements on product quality and possess market reputation. In the event that any of our major suppliers ceases to supply to us, we will seek to engage our other existing suppliers and/or new suppliers to take up the orders intended for the ceasing supplier. We believe that it would not be difficult for us to diversify our supplier base by identifying alternative suppliers that satisfy our requirements. As at the Latest Practicable Date, we have shortlisted five potential suppliers in the PRC for the production of products. We plan to place initial purchase orders of smaller quantity with one or more of these potential suppliers for trial production purpose. Our Directors currently expect that, barring unforeseen circumstances and subject to the actual requirements, we will place orders of approximately 10% of our total cost of sale and services of our trading business with one or more of these potential suppliers in the financial year ending 31 March 2016. At the initial stage, we may provide guidance to these new suppliers on our requirements on the production process and quality control, which may take approximately two months. Our Directors consider that the toy manufacturers in Guangdong province generally operate in similar business environment, and are subject to similar major cost items including costs of raw materials and labour costs. Our Directors therefore believe that alternative suppliers in Guangdong province would be readily available to provide similar services on similar terms to our Group. Further, although the Group enjoys relatively lower production cost from its cooperation with Sino Action which operates under the “three-plus-one” arrangement, our Directors believe that the variation (if any) between the production cost of Sino Action as compared with that of alternative suppliers would not be so substantial that would cause material adverse impact on the operation and financial position of the Group if we engage alternative suppliers in place of Sino Action, and that Our Group would be able to transfer increased costs arising from such variation (if any) to our customers by cost-plus pricing model adopted by us.

During the Track Record Period up to the Latest Practicable Date, each of our suppliers has been an Independent Third Party.

### **Summary of the terms of the master supply agreements**

On 28 October 2014, China Animation BVI and Sino Action entered into the Integrated Supply Agreement for the purpose of recording all the existing arrangements in one document. The Integrated Supply Agreement is for a term of approximately three years and supersedes all the previous agreements between Sino Action and us. Our Directors believe that the Integrated Supply Agreement provides us with a general framework for the manufacturing and logistics functions to be provided by Sino Action for our trading business of animation derivative products.

The Integrated Supply Agreement covers the following major terms:

<b>Matters</b>	<b>Major terms</b>
Term	26 November 2014 to 31 December 2017
Appointment	Sino Action is appointed by China Animation BVI to be the supplier of the animation derivative products produced by Wah Shing. Wah Shing is the manufacturing plant for Sino Action in the PRC.

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### Matters

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### Major terms

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Manufacturing  
arrangements

Sino Action is responsible for coordinating the purchase orders, sourcing of major raw materials (including plastic materials and paint and product packaging materials) and manufacturing of the animation derivative products by Wah Shing. Sino Action shall ensure that Wah Shing will not receive any purchase order from any third party.

To ensure the product quality, China Animation BVI determines and directs Sino Action to source major raw materials from the designated raw material suppliers for the purpose of production.

Upon production, Sino Action shall perform inspection and testing to ensure quality of the finished animation derivative products in accordance with the quality standards required by China Animation BVI. Sino Action shall also allow the customers of China Animation BVI to perform on-site inspections.

Export logistics services

The export logistics services include packaging and delivery of the products to the designated loading port and handling all customs clearance matters of the raw materials and finished products for production purpose.

Fees

The fees charged by Sino Action shall be determined based on the complexity of the production process and costs of the raw materials.

Payment

Sino Action shall issue monthly invoice to China Animation BVI summarising the total fees for the relevant calendar month. China Animation BVI shall then pay the expenses incurred directly to Sino Action or Wah Shing by cash, telegraphic transfer or cheque. Alternately, China Animation BVI shall pay on behalf of Sino Action the expenses incurred by cash, telegraphic transfer or cheque in Hong Kong according to the instructions of Sino Action.

Copyrights

All copyrights of the animation derivative products ordered by China Animation BVI from Sino Action shall belong to China Animation BVI and its customers.



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### Matters

### Major terms

#### Confidentiality

Sino Action and Wah Shing shall keep in strict confidence all the animation derivative products manufactured and all the documents signed with China Animation BVI. Sino Action and Wah Shing shall not disclose to any third party the contents of the agreement, customers' information and product designs, specifications, materials and prices.

#### Non-competition clause

Sino Action shall not and shall procure Wah Shing not to approach the customers of China Animation BVI and shall not receive purchase orders directly from the customers of China Animation BVI.

#### Consequence of breach

Sino Action shall compensate China Animation BVI for any loss incurred by the latter due to the non-fulfilment of manufacturing and logistics responsibilities by Sino Action or Wah Shing. Such losses include but not limited to any damages incurred due to the breach of contract of China Animation BVI with its customers, transportation and administration costs, and losses resulting from currency devaluations.

#### Indemnification

Sino Action shall indemnify in full any loss incurred by China Animation BVI due to the non-fulfilment of manufacturing and logistics responsibilities by Sino Action or Wah Shing. Such losses include all the costs and expenses (including legal fees) resulting from the non-fulfilment of responsibilities.

#### Renewal and termination

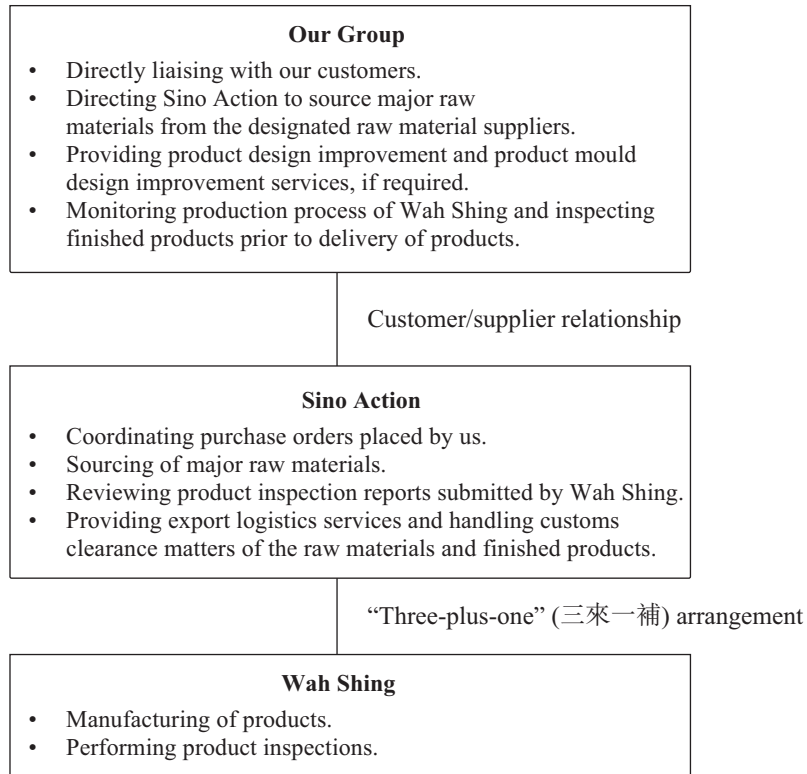
Renewal of the agreement requires both parties' consent. The party seeking early termination of the agreement shall give six-months' written notice to the other party.

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The diagram below illustrates the business relationship among our Group, Sino Action and Wah Shing and the main services provided by each of them:



In addition, for each purchase order, Sino Action is currently entitled to a scaled commission ranged from 2.0% of the purchase price with a transaction cap of HK\$80,000. During the three years ended 31 March 2014 and the five months ended 31 August 2014, commission to Sino Action recognised by us amounted to HK\$2.6 million, HK\$1.8 million, HK\$1.3 million and HK\$0.4 million, respectively. The reason for the commission to Sino Action is to remunerate the export logistics services provided by it. As advised by our PRC Legal Adviser, because of the “three-plus-one” arrangement with Wah Shing, Sino Action is able to import the raw materials into the PRC and export the finished products from the PRC free from all the import taxes and levies. Our Directors confirm that, since Best Toys and Shenzhen Jiezhimei are not operated under “three-plus-one” arrangement, they are not entitled to commissions similar to which Sino Action is entitled. While Best Toys and Shenzhen Jiezhimei also provide export logistics services, the relevant logistics costs are not separately charged by Best Toys and Shenzhen Jiezhimei but included in the purchase price charged by them. Our Directors consider that the arrangement with Sino Action benefits us with relative low production cost charged by Sino Action and the shorter lead time for the delivery of our products to our customers in Japan. Our Directors confirm that the commission is based on the estimated cost incurred by Sino Action for the services and is negotiated by Sino Action and us on an arm’s length basis.

Our Directors confirm that the Integrated Supply Agreement supersedes all the previous agreements and contains all the terms and conditions of the business transactions conducted between Sino Action and us. Hence, our Directors consider that the arrangements under the Integrated Supply Agreement are not new. Our Directors confirm that the transactions between Sino Action and us are conducted on an arm’s length basis with normal commercial terms with reference to (a) the actual

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## BUSINESS

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costs incurred by Sino Action in sourcing the toy products and providing the export logistics services and (b) a reasonable profit margin as agreed between Sino Action and us.

We have also entered into legally binding master supply agreements with Best Toys and Shenzhen Jiezhimei covering, among other things, the following major terms:

<b>Matters</b>	<b>Major terms</b>
Term	Approximately 3-5 years. The term of the current agreements in force are as follows: <ul style="list-style-type: none"><li>• Best Toys: 26 November 2014 to 31 December 2017</li><li>• Shenzhen Jiezhimei: 26 November 2014 to 31 December 2017</li></ul>
Raw materials	To ensure the product quality, we determine and direct our suppliers to source (or procure their respective manufacturing plants to source) major raw materials from the designated raw material suppliers for the production. The suppliers of raw materials are not our suppliers. Our suppliers and/or their manufacturing plants are required to source the raw materials themselves.
Quality control	Upon production, our suppliers shall perform inspection and testing to ensure that the quality of the finished products are in compliance with the quality standards required by us and our customers. Our suppliers are also required to allow our customers to perform on-site inspections.
Fees	The fees charged by our suppliers shall be determined based on the complexity of the production process and costs of the raw materials.
Payment	Suppliers shall issue monthly invoice to us summarising the total fees for the relevant calendar month.
Protective clauses	Non-competition and confidentiality clauses to protect us.
Renewal and termination	Renewal of the agreement requires both parties' consent. Party seeking early termination of the agreement shall give 6-month written notice to the other party.

We place purchase orders with our suppliers based on the orders from our customers. Our suppliers usually provide a credit term of 30 days to us and we normally pay our suppliers according to the credit term set out in the invoice. Our Directors understand that, other than Sino Action, all our other suppliers do not have “three-plus-one” arrangement and we require those suppliers to deliver the products to the loading ports designated by us. Our Directors believe that the production cost charged by these suppliers are therefore generally higher than the production cost charged by Sino Action.

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The following table sets forth the amounts we purchased from our suppliers for the periods indicated:

	Year ended 31 March						Five months ended 31 August	
	2012	% of total	2013	% of total	2014	% of total	2014	% of total
<i>(HK\$'000 except percentages)</i>								
Sino Action	170,770	100%	150,441	100%	106,802	64.8%	106,788	89.9%
Best Toys	–	–	–	–	58,013	35.2%	11,887	10.0%
Shenzhen Jiezhimei	–	–	–	–	–	–	111	0.1%
<b>Total cost of inventories</b>	<b>170,770</b>	<b>100%</b>	<b>150,441</b>	<b>100%</b>	<b>164,815</b>	<b>100%</b>	<b>118,786</b>	<b>100%</b>

For the three years ended 31 March 2014 and the five months ended 31 August 2014, our purchase from suppliers amounted to approximately 96.7%, 95.8%, 95.1% and 97.7%, respectively, of our total cost of sales and services. The remaining cost of sales and services during the Track Record Period was mainly the service fees for engaging research and development personnel as well as quality control personnel via service agreements.

We set forth below a summary of the accreditations obtained by our suppliers' production facilities:

<b>Suppliers' production facilities (suppliers)</b>	<b>Validity of Accreditation</b>	<b>Accreditation</b>	<b>Accreditor</b>
Wah Shing (Sino Action)	21 January 2014 – 20 January 2015	Global Security Verification registration Number: A17292-111537 – R1	Global Security Verification
	3 August 2007 – 2 August 2016	TÜV NORD CERT GmbH (ISO 9001:2008) for manufacture of plastic toys and gifts	TÜV NORD
	10 May 2014 – 9 May 2015	Implementation of Code of Business Practices system which complies with ICTI Code of Business Practices (2013 Version) – Class A	ICTI CARE Foundation

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<u>Suppliers’ production facilities (suppliers)</u>	<u>Validity of Accreditation</u>	<u>Accreditation</u>	<u>Accreditor</u>
YingDe Best Top Toys Co., Ltd (Best Toys)	18 December 2013 – 17 December 2016	Quality Management System (ISO 9001:2008) for manufacture of plastic toys, electronic toys, soft toys and projectile toys	China Quality Certification Centre
	18 January 2014 – 17 January 2015	Implementation of Code of Business Practices system which complies with ICTI Code of Business Practices (2009 Version) — Class A	ICTI CARE Foundation

Pursuant to each of the master supply agreements, including the Integrated Supply Agreement, our suppliers shall not and shall procure their manufacturing facilities not to approach our customers and shall not receive purchase orders directly from our customers. Since the inception of our business, we have not been aware any of our customer bypassing us and placing purchase orders directly with any of our suppliers.

### **Value-added services**

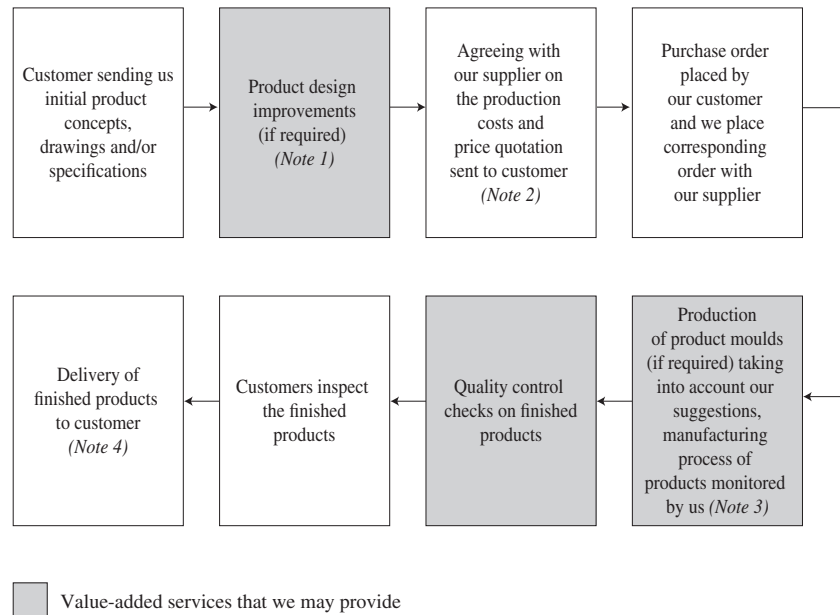
We offer value-added services including quality control and product design improvements to certain customers if required by them which we believe differentiates us from other mere toy traders which do not provide additional services to customers and enables us to charge our customers a higher margin.

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The flow chart sets forth below illustrate the normal process of our trading business and the value-added services that we may provide:



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### Notes:

1. If required by our customers, we may provide recommendations on product design improvement and product moulds improvements.
2. For details of our pricing, please refer to “— Our core businesses during the Track Record Period — Trading of animation derivative products with the provision of value-added services — Pricing”.
3. For details of our monitoring of production process, please refer to “— Our core businesses during the Track Record Period — Trading of animation derivative products with the provision of value-added services — Value added services — Monitoring production process”.
4. For details of the delivery process, please refer to “— Our core businesses during the Track Record Period — Trading of animation derivative products with the provision of value-added services — Transportation and customs clearance”.

### *Product design improvements*

If required by our customers, we may provide recommendations on product design improvement to some of our customers. Mr. ZHUANG has approximately 18 years of experience in the toy industry and is familiar with the product development and manufacturing process of plastic toys. Before the establishment of Shenzhen Wald, Mr. ZHUANG, who is conversant in Japanese, represented our Group to provide some of our Japanese customers with suggestions or advice on product design improvements if required by our customers. Based on his knowledge in the manufacturing process, our Directors believe Mr. ZHUANG is able to provide practical product design ideas to our customers to suit their need.

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With the establishment of Shenzhen Wald, we had a team of three product designers as of the Latest Practicable Date to provide product design advice for our customers. Two of the three product designers have more than nine years of experience in toy design while the third of them joined our Group since 2012. In the product design and development process, our customers provide us with product concepts for proposed new products. Based on these concepts and the clients' requests, we may assist in preparing design drawings and product specifications and may take into account factors such as aesthetic and functional value, possible market acceptance as well as product quality and safety. In some occasions, our team collaborates with our customers and their respective customers in the product design and development process to improve product design, determine choice of raw materials and formulating production plan. The whole product design and development process for a new product, depending on complexity, normally takes about three months. To the best of information, knowledge and belief of our Directors, neither Sino Action, Wah Shing, Best Toys nor Shenzhen Jieshimei has any in-house product design team.

### *Product moulds design improvements*

Some of our customers require us to supply product moulds for the production of new plastic toy products. We may instruct our suppliers to provide product moulds design for our comments and suggestions for improvements. The product moulds are then applied by our suppliers in the production process of plastic toy products. We keep records of used product moulds and we will instruct our suppliers to trash the used product moulds which are no longer in use for confidentiality reasons. Otherwise, the used product moulds may be stored with our suppliers pending future use or transferred to our customers.

### *Monitoring production process*

Historically, we had an arrangement with Sino Action pursuant to which Wah Shing designated a quality control team to conduct quality checks and monitor the overall production process to ensure quality and timely delivery and in return we paid for the costs of employing such personnel. With the establishment of Shenzhen Wald in the PRC, a wholly-foreign owned enterprise and a wholly-owned subsidiary of our Company, some of these quality control personnel have become our employees and continue to oversee the production process of our suppliers to ensure timely delivery of our products and quality of our products. As of the Latest Practicable Date, we had developed a quality control team of six employees, many of whom worked for us during the entire Track Record Period (as members of the quality control team of Wah Shing and subsequently as our employees directly). For details of our relationship with Wah Shing, please refer to the section headed "History, development and Reorganisation — Our trading business of animation derivative products" in this prospectus.

In addition to general toys and product moulds, Wah Shing also manufactures our food-grade animation derivative products, mainly popcorn cases featuring renowned animation characters. Given that food-grade products are intended to have direct contact with food, we require Wah Shing to apply more rigorous quality control measures for hygiene and safety reasons in respect of its production lines for the food-grade animation derivative products. We generally monitor quality of products by checking and performing product testing prior to delivery, while Sino Action mainly review inspection reports provided by Wah Shing for export purpose. We have a team of six employees to conduct checking and inspections on finished products to ensure they are up to our

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customers' satisfaction, while our Directors understand that Sino Action does not have any quality control team to perform the same. Further, to control the quality of raw materials, we determine and direct our suppliers to source (or procure their respective production facilities to source) certain raw materials from our designated raw material suppliers in accordance with our requirements. Some of our customers and/or their respective customers conducted audit on our suppliers. During the Track Record Period, we did not have any product recall, nor were we made subject to any product liabilities or other complaints, claims or investigations arising from any product quality issues.

### *Urgent orders*

During the Track Record Period, some of our customers urgently requested us to supply products within a short timeframe. In considering whether to accept these urgent orders, we will take into account the capability of our suppliers to expediate the manufacturing process. Given our established relationship with Sino Action and its manufacturing plant, Wah Shing, we believe that Sino Action is generally prepared to prioritize the urgent orders requested by us for our customers and shorten the production time with a view to meeting our customers' requirements. Further, our Directors believe that with the presence of Japanese speaking members in our sales team, we are able to communicate with customers and understand their needs more efficiently, which will facilitate the production process, shorten the production lead time and enable our customers to distribute their products time-to-market.

Our Directors believe the above value-added services enable us to establish strong business relationship with our customers in Japan, which would not be replaced lightly by the services provided by export logistics companies and toy manufacturers in China for the following reasons: (1) we have a team of three product designers who are experienced in product design process led by Mr. ZHUANG, who has 18 years of experience in the toy industry and is familiar with the product development and manufacturing process of plastic toys to provide practical product design ideas to our customers. To the best of information, knowledge and belief of our Directors, neither Sino Action, Wah Shing, Best Toys nor Shenzhen Jieshimei has any in-house product design team; (2) our Japanese-speaking sales team can ensure unobstructed communication with our Japanese customers and provide services to them more directly and efficiently. To the best of information, knowledge and belief of our Directors, none of the respective sales teams in Sino Action, Wah Shing, Best Toys and Shenzhen Jiezhimei has Japanese speaking members; (3) we have an in-house quality control team of six members to supervise the manufacturing process and monitor product qualities by performing checking and testing based on the specifications provided by our customers. To the best of information, knowledge and belief of our Directors, Sino Action does not have any quality control team but merely reviews the product testing reports submitted by Wah Shing.

### *Pricing*

Our pricing is based on various factors, including the product specifications, production costs, the sales volume and our relationship with the customers. We provide price quotation to our customers by adopting a cost-plus pricing strategy for our toy products which principally apply a margin on top of the purchase costs paid to our suppliers and our design and development cost (if any). For product moulds, we principally apply a margin on top of the costs we paid to our suppliers. For the three years ended 31 March 2014 and the five months ended 31 August 2014, our gross profit margin for this segment was approximately 37.6%, 39.0%, 31.3% and 35.6%, respectively. Through



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the supply of the products of satisfactory quality and the provision of value-added services including quality control and product design improvements if required by our customers, our Directors believe that we differentiate ourselves from other mere trading companies which do not provide any additional services to customers. Further, our Directors believe that the trust of our major customers in our Group can be demonstrated by the fact that many of our major customers are recurring customers with long term business relationships with us. Our Directors believe that the above factors allow us to charge a relatively higher margin for our products from our customers.

### *Transportation and customs clearance*

Sino Action, Shenzhen Jiezhimei and Best Toys normally arrange for customs clearance of the products they supply at their costs, except that in some cases, our customers would arrange for the customs clearance themselves at their costs.

For transportation, in some cases our customers arrange for transportation themselves to pick up the finished products from our suppliers' warehouses at their own costs, in which cases we consider that delivery is deemed to take place at our suppliers' warehouses. In other cases, we arrange transportation of products from our suppliers' warehouses to the designated point of delivery located in Hong Kong or the PRC specified by our customers at our costs.

### *Inventory control*

We do not source the products in advance for anticipated orders for the trading of animation derivative products; instead, we place corresponding orders with our suppliers pursuant to the actual orders from our customers from time to time. Moreover, our suppliers are responsible for storing the finished products and procuring the delivery of such products to our customers at our directions. Accordingly, we do not have inventory for this business segment.

### *Sales and marketing*

As of the Latest Practicable Date, we had six employees responsible for sales and marketing of our Group. Some of them are conversant in Japanese which we believe will effectively facilitate the communications with the Japanese customers. Many of our major customers are recurring customers with long term business relationships with us. It is our business development strategy to focus on the key market players in the animation toy industry in Japan and class one trading customers which have stable business relationship with the Group. We consider that these customers are credible and reputable in the industry. It is our business strategy to serve these customers on a priority basis in order to maintain stable and long-term business relationship with a view to securing a stable stream of revenue income. This strategy may result in customer concentration risk as disclosed in the "Risk Factors — We rely on the trading of animation derivative products business with a few customers." section in the Prospectus.

The revenue contribution from our Group's five largest customers for the five months ended 31 August 2014 increased (as compared to the percentage for the financial year ended 31 March 2014), primarily due to a few major purchase orders placed by President Japan Co. Ltd and AC Promotion Co. Ltd. during that period. Our Directors believe that different customers place orders at different times according to their own different business cycles (which may vary and may or may not reoccur

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in every 12-month period) according to, among other things, their own marketing strategies and the market reception and popularity of specific products. In particular, barring unforeseen circumstances, our Directors expect that the purchase level by President Japan Co. Ltd and AC Promotion Co. Ltd. from now up to 31 March 2015 would not increase substantially and that the revenue contribution by the Group's top five customers would not significantly increase further for the year ending 31 March 2015.

We aim to secure one to two new customers which are reputable and creditable in the industry every year. For instance, two of our five largest customers for the five months ended 31 August 2014 were relatively new customers of our Group. As at the Latest Practicable Date, we were in preliminary discussion with two potential new trading customers and have provided product quotations to each of them. We are also in preliminary discussion with SEGA for the supply of animation-related products to SEGA directly for sale in its amusement parks and are in the process of providing product samples to SEGA. If these new businesses are secured, our Directors believe that our Group's customers concentration will be decreased. Our Directors are also confident that other potential customers would be readily available in the market.

### **Commercialisation of our proprietary animation characters**

#### *Our research and development capabilities*

Historically, we engaged Shenzhen Huaxia, a company previously controlled by Mr. ZHUANG, to provide research and development personnel to us for the creation and development of self-proprietary animation characters. During the three years ended 31 March 2014 and the five months ended 31 August 2014, the transactions entered into between Shenzhen Huaxia and us amounted to HK\$8.4 million, HK\$9.6 million, HK\$2.5 million and HK\$202,000, respectively. With the establishment of Shenzhen Wald in the PRC, a wholly-foreign owned enterprise and a wholly-owned subsidiary of our Company, certain personnel of Shenzhen Huaxia have become our employees and continue to create and develop self-proprietary animation characters for us. For details of our Shenzhen Huaxia, please see "Overview — Business activities carried out by Shenzhen Huaxia" and "Our Proprietary Animation Characters and Multimedia Entertainment Business" in the "History, Development and Reorganisation" section in this prospectus.

Our design and production team is led by Mr. LIANG Jianjun who is experienced in animation design and production and was the production director of Shenzhen Huaxia from April 2009 to December 2013 and the production director of Shenzhen Tangren. Mr. LIANG led the team which created "*Han Ba Gui*" (憨八龜) which obtained various awards. As our key proprietary animation character, we have commenced the promotion and marketing of "*Violet*" (紫媽) by various means including the organisation of "*Violet*" (紫媽)'s music animation concerts by applying three dimensional mixed reality (MR) technologies.

*Our proprietary animation characters*

We own the following proprietary animation characters:

<u>Animation series</u>	<u>Descriptions</u>	<u>Pictures</u>
“Violet” (紫媽)	An animated character and our female visual artist with a healing voice and graceful dances. She is enthusiastic and gentle and likes to wear violet baby-doll dress.	
“Han Ba Gui” (憨八龜)	It is a story about the adventure of “Han Ba Gui” (憨八龜) who came from the outer space to visit the Earth. The theme of the animation is the harmonious coexistence and relationship between different planets.	
“The Amazing UU” (神奇的優悠)	It is a story about the mysterious journey of the Amazing UU, a character with magical power, and his friends to the “Sports Country”.	
“Animal Conference on the Environment” (動物環境會議)	It is a story about eco-conscious animals gathering together and discussing environmental protection issues and how to promote awareness of others in environmental conservation.	

As of the Latest Practicable Date, we were considering the feasibility to cooperate with third parties in relation to (a) the use of “Violet” (紫媽) in the design of a credit card to be issued by a bank; (b) the appearance of “Violet” (紫媽) in weather forecast on selected television broadcasting channels in Guangdong Province; and (c) the production and screening of a cartoon series featuring “Violet” (紫媽) on a television channel in the Guangdong Province.

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For background information of our acquisition of the trademarks of the above proprietary animation characters (other than “*Violet*” (紫媽)), please see “Overview — Business activities carried out by Shenzhen Huaxia”, “Our business milestones” and “Our proprietary animation characters and multimedia entertainment business” in the “History, Development and Reorganisation” section in this prospectus.

Further information on our intellectual property rights is set forth in the paragraphs under “Further information about our business — 2. Intellectual property rights of our Group” in Appendix IV to this prospectus. Some of our proprietary animation series have gained popularity and recognitions in the PRC. Further information on these awards is set forth in the section headed “History, development and Reorganisation — Our business milestones” in this prospectus.

In addition to the above animation series registered under our name, pursuant to an agreement dated 12 March 2013, IMA Group has agreed to license the intellectual property rights of Aoki Lapis (蒼姬) to us for use in Asia other than Japan at a fee of HK\$300,000 and to authorise our use of visual technologies at a fee of another HK\$300,000.

### *Licensing of animation characters*

We commercialise our proprietary animation characters by licensing the intellectual property rights of such characters to licensees. For instance, we entered into the Trademark Licence Agreement with Zing, pursuant to which we licensed Zing to use the brands, copyrights and trademarks with respect to, among others, “*Han Ba Gui*” (憨八龜), “*The Amazing UU*” (神奇的優悠) and “*Animal Conference on the Environment*” (動物環境會議) in the PRC, Hong Kong, Macau and Japan for a term of 10 years. The fee structure is set forth below:

<b>Fees</b>	<b>Amount</b>
Non-refundable upfront royalty fee	HK\$55.0 million
First year’s annual fee (from 1 November 2011 to 31 October 2012)	HK\$26.4 million
Annual fee for subsequent years	the higher of HK\$26.4 million or an amount equal to 7% of the annual sales of the licensed brands, copyrights and trademarks and all related products

For the three years ended 31 March 2014 and the five months ended 31 August 2014, we generated 4.5%, 11.3%, 21.7% and nil of our revenue from this licensing business. During the year ended 31 March 2012, Zing also purchased products from us in the total amount of HK\$5.0 million. For the year ended 31 March 2014, Zing purchased products from us in the total amount of HK\$7.4 million. Our Directors understand that Zing had also purchased products from other manufacturers in the PRC.

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According to Zing, its then business development did not achieve its contemplated result due to, among other things, its unfamiliarity with the PRC market. Consequently, Zing entered into a deed of termination dated 31 March 2014 with us to terminate the Trademark Licence Agreement. Given that Zing paid a HK\$55.0 million licensing fee to us during the year ended 31 March 2013 for the use of intellectual property rights of our proprietary animation characters for 10 years, such licensing fee was recognised as deferred revenue and amortised over the licensing period. Upon termination of the Trademark Licence Agreement with Zing on 31 March 2014, the remaining balance of the deferred revenue in the amount of HK\$41.7 million was recognised as our revenue for the year ended 31 March 2014. During the three years ended 31 March 2014, we recognised HK\$13.3 million, HK\$31.9 million, and HK\$73.6 million, respectively, as licensing fee under the Trademark Licence Agreement. During the five months ended 31 August 2013 and 2014, we recognised HK\$13.3 million and nil, respectively, as licensing fee under the Trademark Licence Agreement. While Zing terminated the Trademark Licence Agreement with us, Zing decided to cooperate with us, among others, in the movie production featuring our animation characters “*Violet*” (紫媽) and “*Han Ba Gui*” (憨八龜). For further details, please see “Multimedia animation entertainment” of this section.

As part of our licensing business, in November 2014, we entered into agreements (as amended and supplemented) with three licensees (which are also our consignors under our consignment sales business and as confirmed by our Directors, Independent Third Parties), pursuant to which we grant licence to these consignors to sell products of a certain category that contain our various proprietary animation characters in China. The major terms of these agreements in relation to the licensing arrangement are as follows:

<b>Matters</b>	<b>Major terms</b>
Term	Five years from signing of the agreements.
Use of trademarks	Our three licensees have the exclusive rights to use the trademarks of our various animation characters in specified categories of products in the PRC. Licensees shall not sub-license the trademarks to any other third parties. The products manufactured or sold by the licensees on which the trademarks are used shall meet the quality requirements as specified in the agreements, including not limited to those required by the PRC government in relation to product quality and environmental protection certification.
Fees	The licensees shall pay (1) a non-refundable consultancy fee of HK\$5.0 million and (2) an annual royalty fee in the amount of (a) RMB1.0 million or (b) 4.0% of the revenue from sales of the relevant products, whichever is higher. We are entitled to request the licensees to provide their financial statements and other relevant documents to verify their revenue and the licensees shall provide us with such information within ten days of such request.

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### Matters

### Major terms

The non-refundable consultancy fee of HK\$5.0 million under each of the licence agreements is payable by each of the consignors for the consultancy services provided or to be provided by us before 31 March 2015. Such services include the provision of product design and specification consultancy services and interior design and decoration advisory services for the sales counters within and outside Shanghai Joypolis.

### Termination

The agreements can be terminated (1) mutual agreement in writing by the parties to terminate in writing; (2) upon the expiry of its term without renewal; (3) the licensees violate the applicable trademark law causing damage to the reputation or the goodwill of the licensor; or (4) the licensees fail to pay fees when they fall due.

Upon the opening of the stores in Shanghai Joypolis from grand opening which we plan to serve as physical platforms for the consignment sale of our licensees' products bearing our proprietary animation characters, we believe we will be able to further expand our revenue streams.

## EXTENSION OF OUR CORE BUSINESSES IN THE ANIMATION-RELATED INDUSTRY

In addition to our focus on the trading and licensing businesses, following the foot-steps of development and progression of internationally renowned leaders in the animation-related industry, we endeavour to strategically expand and develop our businesses into other animation-related businesses, namely indoor animation amusement park, multimedia animation entertainment and consignment sales, with the objective of creating synergies among our businesses.

### Indoor animation amusement park

According to the Frost & Sullivan Report, with the development of technology in entertainment facilities and the increase in the household income and urbanisation rate in the PRC, the indoor theme park market in the PRC would enjoy a rapid growth. We endeavour to operate top-notch indoor animation amusement parks that provide fashionable and exciting entertainment with high-quality facilities and services, and at the same time are affordable to the young population in China. In light of the potential in this sector and with a view to creating synergies to our existing trading business of animation derivative products and our in-house capability to create and develop self-propriety animation characters, China Animation BVI entered into the SEGA Licence Agreement and obtained the right to establish and operate Joypolis exclusively in Shanghai. According to the SEGA, we are the first licensed operator of Joypolis in China by SEGA. All rights and obligations of the SEGA Licence Agreement have been assigned and novated to China Animation Holding effective from 22 November 2014.

According to Frost & Sullivan, there are two Joypolis indoor animation amusement parks in Japan operated by SEGA located in Tokyo and Osaka, respectively. According to SEGA, since its

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establishment in 1960, SEGA started to ramp up as the manufacturer of amusement machine and leveraged its household game consoles in 1980s to penetrate into the market. The core competency of SEGA is its content development capability. As a video game developer with software assets, SEGA has created a number of applications of product technology which received recognition worldwide. It is primarily engaged in the home game consoles industry, commercial game consoles industry and facilities operation industry. SEGA Networks Co., Ltd., a content provider for intelligent devices, has become a subsidiary of SEGA. In 2003, Sammy Corporation became the largest shareholder of SEGA, and SEGA Sammy Holdings Inc. was then established to integrate the operations of SEGA and Sammy Corporation in 2004. The shares of SEGA Sammy Holdings Inc. are listed and traded on the Tokyo Stock Exchange.

The Joypolis in Tokyo was opened in 1996 by SEGA and reopened in 2012 following a revamp with an emphasis on integrating digital experience and reality in its entertainment concept. In the 3-storey venue with a gross floor area of about 10,000 sq.m., the Joypolis in Tokyo offers more than 20 amusement facilities such as indoor roller coaster and motion capture simulator, as well as areas designated for catering and products sale, while the Joypolis indoor animation amusement park in Osaka occupies a gross floor area of about 4,000 sq.m.

### *Shanghai Joypolis*

The design and concept of Shanghai Joypolis are based on the Joypolis indoor animation amusement parks operated by SEGA in Japan. Shanghai Joypolis will be located on the 3rd and 4th floors of Shanghai Global Harbour (上海環球港), a commercial complex situated on Zhongshan North Road, Putuo District, Shanghai (上海普陀區中山北路). Shanghai Global Harbour (上海環球港) is located in a transportation hub in the Putuo District of Shanghai, on Zhongshan North Road (中山北路) adjacent to Jinshajiang Road (金沙江路) and is close to the entrance of the Inner Ring Elevated Road (內環高架路). Further, the commercial complex is connected to Jinshajiang Road Station (金沙江路站) of the Shanghai Metro which is the connecting station of Lines 3, 4 and 13 of the Shanghai Metro via an underground entrance. Further, according to our landlord, namely Yue Xing, the shopping mall of Shanghai Global Harbour (上海環球港), in which there were a variety of shops, supermarkets and restaurants. We believe that Shanghai Global Harbour (上海環球港) is a landmark in Shanghai and a suitable location to establish our first Joypolis.

### *Location and the Shanghai Joypolis Tenancy Agreement*

The Shanghai Joypolis Tenancy Agreement was entered into between China Animation BVI (which we expect will be substituted by Huajiatai PRC) and Yue Xing, an Independent Third Party. Pursuant to the Shanghai Joypolis Tenancy Agreement, the term of the tenancy will commence from 20 December 2014 in respect of a gross floor area of approximately 1,000 sq.m. and from 28 July 2015 in respect of an additional gross floor area of approximately 7,239 sq.m., both up to 27 July 2025. To facilitate the renovation of Shanghai Joypolis, Yue Xing allows us to use the 1,000 sq.m. and the 7,239 sq.m. areas rent-free for the periods from mid October 2014 to 19 December 2014 and

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from 25 January 2015 to 27 July 2015<sup>1</sup>, respectively. Phase 1 of Shanghai Joypolis with a gross floor area of 1,000 sq.m. was opened on 30 December 2014, while the grand opening of Shanghai Joypolis of 8,239 sq.m. is scheduled to take place in the first quarter of 2016.

Pursuant to the tenancy agreement, during the 10-year term of the tenancy, Yue Xing is entitled to a fixed rent or 4% to 6% of the revenue before tax of Shanghai Joypolis, whichever is higher, as set forth in the table below:

<u>Lease term</u>	<u>Fix rent per annum</u>	<u>Targeted annual revenue before tax</u>				<u>Estimated rent on the basis of a percentage of the targeted annual revenue before tax (Note 1)</u>
<u>(Year)</u>	<u>(Note 1)</u>	<u>(Note 2)</u>	<u>Fixed</u>	<u>percentage</u>	<u>=</u>	<u>(RMB'000)</u>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>				
1st	10,800.0	400,000	X	4%	=	16,000
2nd	12,312.0	400,000	X	4%	=	16,000
3rd	14,774.4	400,000	X	5%	=	20,000
4th	14,774.4	400,000	X	5%	=	20,000
5th	17,787.6	500,000	X	6%	=	30,000
6th	17,787.6	500,000	X	6%	=	30,000
7th	21,340.8	500,000	X	6%	=	30,000
8th	21,340.8	500,000	X	6%	=	30,000
9th	25,585.2	500,000	X	6%	=	30,000
10th	25,585.2	500,000	X	6%	=	30,000

*Notes:*

1. Yue Xing is entitled to charge either the fixed rent or a fixed percentage of the actual annual revenue before tax of Shanghai Joypolis, whichever is higher, as annual rental.
2. These are the targeted annual revenues before tax only and do not represent or project an estimate of the annual revenue before tax of Shanghai Joypolis.

Pursuant to the Shanghai Joypolis Tenancy Agreement, Yue Xing is entitled to early terminate the tenancy agreement if the actual average annual revenue before tax of Shanghai Joypolis for the first five years of the term does not achieve 80% of the average targeted annual revenue before tax for those five years. For details of the risks relating to termination of the Shanghai Joypolis Tenancy Agreement, please refer to “Risk Factors — Risks related to our indoor animation amusement park business — Our indoor animation amusement park business may not achieve the desirable outcome as anticipated.”

<sup>1</sup> Subject to a proviso that if the grand opening of Shanghai Joypolis takes place prior to 28 July 2015, Yue Xing will charge RMB2.0 per sq.m. per day from the grand opening up to 27 July 2015. As we expect that grand opening of Shanghai Joypolis will take place in the first quarter of 2016, we do not expect that this proviso will be applicable to Shanghai Joypolis.

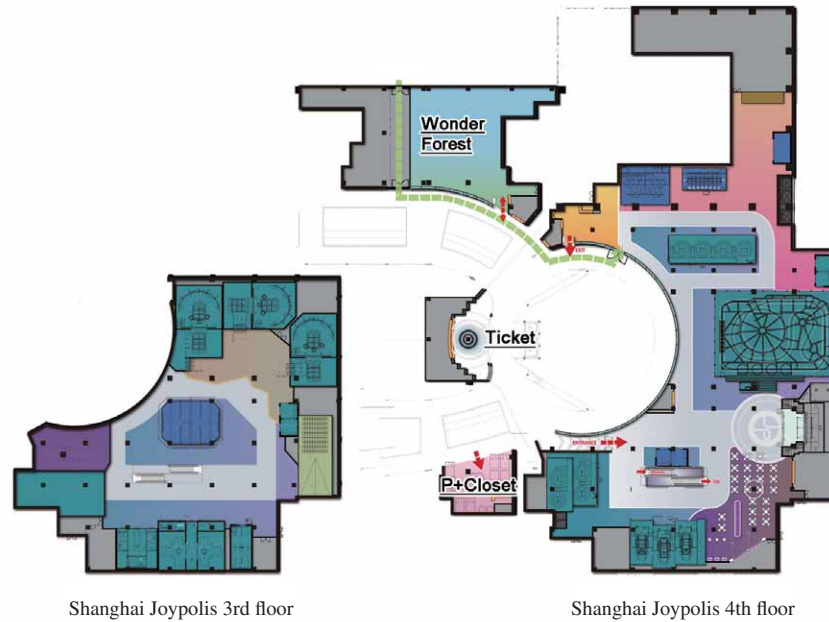


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A tentative floor plan of Shanghai Joypolis upon its grand opening\* is set forth below:



\* *The floor plan set forth above reflects the currently contemplated floor plan for Shanghai Joypolis, which may be subject to further changes.*



*Photos of "P+Closet" and "Wonder Forest", facilities available from the phase 1 opening of Shanghai Joypolis on 30 December 2014.*

We believe that Shanghai Joypolis will be an attractive leisure site of interest, especially as it will be located in an air-conditioned shopping mall, which means that its operation would generally not be affected by weather and climates and that visitors would be able to enjoy the air-conditioned indoor environment all year round. We also believe that visitors would welcome the air-conditioned indoor environment and stay longer in Shanghai Joypolis which in turn would promote the increase of their time and money spent in the indoor amusement park. According to the Frost & Sullivan Report, there is no such comparable indoor animation amusement park in Shanghai. Given that the establishment of such a amusement park could be capital intensive, we believe that there is an entrance barrier for the operation of indoor animation amusement parks.

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### *SEGA Licence Agreement*

The terms and conditions of the SEGA Licence Agreement have been negotiated between SEGA and us on an arm's length basis taking into consideration the fact that Shanghai Joypolis will be the first Joypolis under the licensing arrangement with SEGA in the PRC. SEGA has indicated to us that the terms and conditions of the SEGA Licence Agreement are not applicable to, or indicative of the terms and conditions of, other licensing arrangements with other parties. The following table sets forth the principal terms and conditions of the SEGA Licensing Agreement:

<b>Matters</b>	<b>Major terms and conditions</b>
Parties	SEGA (as Licensor) and China Animation Holding (as Licensee)
Operation of theme park	A joint venture company established or to be established by the Licensee in which China Animation BVI or its assignee, i.e. China Animation Holding, or their respective subsidiaries must hold more than 50.0% of the voting stock or shares in the joint venture company.
Licence	SEGA grants to the licensee, i.e. China Animation Holding, the exclusive rights and licence for opening and operating at least one indoor animation amusement park under the name "Joypolis" in Shanghai, the PRC
Term	Ten years and renewable for another five years if China Animation Holding informs SEGA in writing within one year before the original expiration date.
Fees	<p>Territory fee: China Animation Holding has made a payment to SEGA a non-refundable licence fee within 30 days after the effective date of the SEGA Licence Agreement.</p> <p>Royalty: For the use of the intellectual property rights of SEGA, China Animation Holding shall pay SEGA a non-refundable royalty with reference to a fixed percentage of the annual gross sales amount generated from all Joypolis indoor animation amusement parks operated by us. The aforesaid fixed percentage does not exceed 10% and we will disclose the amount of the royalty in our interim reports and annual reports following the Listing.</p>
Guaranteed amount	<p>Within 30 days after the end of each fiscal year, China Animation Holding shall settle all the royalty on a guarantee basis for the previous year.</p> <p>During the first year of operation, the guaranteed amount will be equivalent to 50% of the agreed amount of royalty. The guaranteed amount of the royalty payable to SEGA for the following years will be one-half of the royalty payable for the previous year.</p>

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<u>Matters</u>	<u>Major terms and conditions</u>
Sale and purchase of equipment	<p>China Animation Holding shall purchase equipment for the Joypolis amusement park from time to time from SEGA.</p> <p>There is no return or refund of the purchase price of the equipment. China Animation Holding shall pay part of the purchase price after the pro-forma invoice is signed and accepted by China Animation Holding and the remaining balance of the purchase price to be settled upon the shipment of the equipment to China Animation Holding.</p>
Technical support	<p>SEGA shall provide installation support regarding the equipment in Shanghai Joypolis at the cost of China Animation Holding.</p> <p>SEGA shall provide maintenance and repair assistance and technical support (including sending a technical supervisor) as requested by, and at the cost of, China Animation Holding.</p>
Training	<p>If SEGA considers necessary or upon the request of China Animation Holding with agreement from SEGA, at the cost of China Animation Holding, SEGA shall send one or more operation supervisor(s) and/or operation trainer(s) and provide training as to operation supervising and operating training.</p>
Opening	<p>Tentative timetable for the opening of Shanghai Joypolis:</p> <ul style="list-style-type: none"><li>– Phase 1 is expected to be opened in December 2014. (<i>Note</i>)</li><li>– Grand opening is expected to be opened from end of 2015 to the end of March 2016.</li></ul>
Termination	<p>Either party may terminate by written notice after a material breach by the defaulting party which has not been rectified within 30 days of receipt of such notice. Further, SEGA may terminate the agreement with immediate effect in certain circumstances as set forth in the agreement.</p>

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### Matters

### Major terms and conditions

SEGA may terminate the SEGA Licence Agreement with one month's written notice to China Animation Holding if there is a "change of control" of our Company as defined in the SEGA Licence Agreement. The written notice may only be given by SEGA if there is no agreed remedial action to rectify the situation within one month immediately after any "change of control" event. It is also stated in the SEGA Licence Agreement that SEGA will not exercise the termination right under the "change of control" provision if:

- (a) Bright Rise continues to be our single largest Shareholder; and
- (b) all shares of Bright Rise will continue to be held by The Fortune Trust; and
- (c) Bright Rise continues to maintain the majority of the voting right at general meetings of our Company, i.e. over 50.0%, through the Concert Party Agreement.

Our Directors confirm that, having confirmed with our Controlling Shareholders (including Bright Rise and other Concert Parties), all of the above conditions are satisfied as of the date of this prospectus and that none of our Controlling Shareholders has intention to dispose of their Shares as of the date of this prospectus. Immediately following completion of the Global Offering and the Capitalisation Issue (assuming that the Over-allotment Option is not exercised), our Controlling Shareholders will hold 55.95% of our Shares in issue. If the Over-allotment Option is exercised in full, the Shareholding percentage of our Controlling Shareholders will decrease to 53.91% of our Shares in issue. All of our Controlling Shareholders are subject to non-disposal undertakings in respect of their Shareholding following the Listing, further information on which is set forth in the section headed "Underwriting" in this prospectus.

*Note: Phase 1 has been opened for business operation since 30 December 2014.*

Taking into account the above and on the basis of the aforesaid Shareholding structure, our Directors confirm that we have obtained SEGA's approval for the establishment of Shanghai Joypolis.

While under the SEGA Licence Agreement, the grand opening of Shanghai Joypolis is expected to take place from end of 2015 to the end of March 2016, barring unforeseen circumstances, we target the grand opening to take place in the first quarter of 2016.

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### *Joint venture agreement in respect of Shanghai Joypolis*

Pursuant to the SEGA Licence Agreement, we have the exclusive right to operate Joypolis in Shanghai through a joint venture company established in the PRC. The joint venture company must be held as to 50.0% or more by China Animation BVI or its assignee or their respective subsidiaries. For the purpose of establishing Shanghai Joypolis, Shenzhen Wald, China Theme Park HK and Pingan Taisheng have entered into a three-party joint venture agreement on 25 August 2014. Pursuant to the joint venture agreement, Huajiatai PRC was established as a sino-foreign equity joint venture in China on 26 September 2014 and owned as to 49.0%, 2.0% and 49.0% by China Theme Park HK, Shenzhen Wald and Pingan Taisheng, respectively. Both Shenzhen Wald and China Theme Park HK are wholly-owned subsidiaries of our Company and we therefore own more than 50.0% of the equity interest in Huajiatai PRC. Our PRC Legal Adviser confirm that the current shareholding structure of Huajiatai PRC complies with the Foreign Investment Catalogue in the PRC. For details of the Foreign Investment Catalogue and its application, please refer to the section headed "Applicable Laws and Regulations" in this prospectus.

The following sets forth the principal terms and conditions of the joint venture agreement:

<b>Matters</b>	<b>Major terms</b>
Parties	China Theme Park HK, Shenzhen Wald and Pingan Taisheng
Term	30 years from the date of incorporation of Huajiatai PRC (being 26 September 2014), subject to such extension as may be approved by unanimous consent of all of the shareholders of the joint venture company and the relevant government authority.
Registered capital and total investment	The total registered capital of Huajiatai PRC of RMB11.0 million shall be contributed by Shenzhen Wald, China Theme Park HK and Pingan Taisheng as to RMB0.2 million, RMB5.4 million and RMB5.4 million, respectively, proportional to their respective shareholding in Huajiatai PRC. The total investment amount of Huajiatai PRC shall be approximately RMB15.7 million.
China Theme Park HK's role	China Theme Park HK is responsible for, among other things, (1) contributing capital in accordance with the joint venture agreement and obtaining financing; (2) filing applications to the competent authorities in the PRC for the preparation and establishment of the joint venture company; and (3) assisting the joint venture company in hiring and training personnel.
Shenzhen Wald's role	Shenzhen Wald is responsible for, among other things, (1) contributing capital in accordance with the joint venture agreement and obtaining financing; and (2) assisting the joint venture company in hiring and training personnel.
Pingan Taisheng's role	Pingan Taisheng is responsible for, among other things, (1) contributing capital in accordance with the joint venture agreement and obtaining financing; and (2) assisting the joint venture company in hiring and training personnel.

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<u>Matters</u>	<u>Major terms</u>
Board composition	The board of directors of the joint venture company shall comprise three directors, and each party shall appoint one director. The chairman of the board shall be a director appointed by China Theme Park HK and the deputy chairman of the board shall be a director appointed by Pingan Taisheng.

Our Directors expect that the total registered capital of Huajiatai PRC of RMB11.0 million shall be contributed in cash by parties for the purpose of contributing to the costs and expenditures involved in the phase 1 opening of Shanghai Joypolis. Barring unforeseen circumstances, our Directors expect that the total capital expenditure and pre-opening costs for the establishment of Shanghai Joypolis up to its grand opening (which, solely for budgeting purpose, is expected to take place on 2 February 2016) to be approximately RMB173.8 million and RMB25.4 million respectively. We intend that additional capital will be injected into Huajiatai PRC, by way of cash injection and/or injection in kind, according to the capital requirements of Huajiatai PRC from time to time and depending on progress of Shanghai Joypolis project. For details of the budget plans and expected expenditure timeframe of Shanghai Joypolis, please refer to “— Extension of our core business in the animation-related industry — Indoor animation amusement park — Budget plans for Shanghai Joypolis”. Further, Harvest Progress, for and on behalf of Pingan Taisheng, paid a non-refundable joining fee of HK\$20.0 million to us for our effort in securing the business opportunity from SEGA to operate Shanghai Joypolis and the preliminary planning, market research and feasibility study conducted, which has been recognised as our revenue for the financial year ended 31 March 2014. This amount is in addition to the capital contributable by Pingan Taisheng to Huajiatai PRC under the joint venture agreement. The receipt of the non-refundable joining fee will not require the approval of SEGA.

We plan to relocate Huajiatai PRC to the Shanghai Free Trade Zone with a view to becoming one of the first movers to this new free trade zone. While as advised by our PRC Legal Adviser, based on the applicable laws and regulations as of the Latest Practicable Date, the existing preferential policies and treatments in this free trade zone might not be available to Huajiatai PRC even if it were relocated to such free trade zone, our Directors believe that it would be in the interest of Huajiatai PRC to be relocated to this free trade zone so as to be prepared to enjoy any preferential policies and treatments that may be extended and made available to Huajiatai PRC in the future. Our PRC Legal Adviser advises that, provided that Huajiatai PRC has obtained all the requisite licences, approval and permits for its relocation to the Shanghai Free Trade Zone, the Negative List will prevail over the Foreign Investment Catalogue. As of the Latest Practicable Date, Huajiatai PRC has not been relocated to this new free trade zone. Please see “Risk Factors — Huajiatai PRC has not yet been relocated to the Shanghai Free Trade Zone and may not be entitled to any preferential policies and treatments even if it can be relocated successfully”.

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Pingan Taisheng is a holding company which holds 49.0% interest in Huajiatai PRC and is owned as to 80.0% by Mr. LI Jian and as to 10.0% by each of two Independent Third Parties. Mr. LI Jian is the son of Mr. LI, who is one of the Initial Investors and a Shareholder through Harvest Progress following completion of the Reorganisation. Please refer to the section headed “History, Development and Reorganisation — Corporate and shareholding structure of our Group after completion of the Reorganisation and the Pre-IPO investment”. Mr. LI has extensive experience in the real estate industry. He has been the shareholder and legal representative of Shenzhen Jingfa Industrial (Group) Co., Ltd (深圳市晶發實業(集團)有限公司), a company engaged in real estate business, since 1996, and the shareholder and legal representative of Shenzhen Mingju Real Estate Co., Ltd. (深圳市名居房地產有限公司) since 2002.

### *Expected timetable for Shanghai Joypolis*

The following table sets forth our indicative timetable as of the Latest Practicable Date, barring unforeseeable circumstances, leading to the commencement of operation of this indoor animation amusement park:

<b>Events</b>	<b>Timetable</b>
Phase 1 opening	Took place on 30 December 2014
Renovation for phase 2	Expected to commence in the first quarter of 2015
Obtaining operating permits required for phase 2	Expected to obtain in the third quarter of 2015
Completion of testing of machines and equipment for phase 2	Expected to complete in the first quarter of 2016
Phase 2/Grand opening	Expected to be in the first quarter of 2016

As of the Latest Practicable Date, we have established Huajiatai PRC with the business scope as set out in the business license of “children’s playground services” which, as advised by our PRC Legal Adviser, is sufficient for the operation of the phase 1 opening of Shanghai Joypolis on 30 December 2014. We plan to expand the business scope of Huajiatai PRC as set out in the business license to cover “game machines” and “amusement park” and expect that we will obtain the License on Operating Entertainment Business (娛樂經營許可證) from Shanghai Municipal Administration of Culture, Radio, Film & TV (上海市文化廣播影視管理局) and other relevant operating licences, approvals and permits in accordance with the applicable requirements for the proposed grand opening of Shanghai Joypolis in the first quarter of 2016. For further details of other major operating licenses, approval and permits, please refer to “Legal and Compliance” in this section and “Applicable Laws and Regulations” and “Risk factors — Phase 2 of Shanghai Joypolis has yet to open and any delay or unexpected complication in the approval process could materially and adversely affect our business plans” in this prospectus.

### *Preparation for Shanghai Joypolis*

Prior to the expected grand opening of Shanghai Joypolis in 2016, as a trial run and part of our marketing campaign, we have participated in the Shenzhen Cartoon and Animation Festival 2014 (深圳動漫節 2014).

The Shenzhen Cartoon and Animation Festival (深圳動漫節) was jointly organised by the Press and Publicity Department of State Administration of Press, Publication, Radio, Film and Television (國家新聞出版廣電總局宣傳司), Radio, Film and TV Administration of Guangdong Province (廣東省廣播電影電視局), Shenzhen Municipal Bureau of Culture, Sport and Tourism (深圳市文體旅遊局), Futian District Government (福田區人民政府) and Shenzhen Media Group (深圳廣播電影電視集團) in the Shenzhen Convention and Exhibition Centre from 16 July 2014 to 20 July 2014. The festival was held annually during summer vacation since it was first held in 2009. It featured cosplay, street dances, cartoon and animation innovations as well as electronic games and offered an exhibition and communication platform for domestic and overseas animation enterprises. According to our record, there were more than 74,000 tickets for the exhibition in the festival during the 5-day period of the event. Our exhibition occupied a gross floor area of about 1,200 sq.m. and included certain attractions that may be made available (with modifications) in Shanghai Joypolis and stage performances by our virtual artist “Violet” (紫嫣). We consider that our exhibition at the Shenzhen Cartoon and Animation Festival 2014 (深圳動漫節 2014) was a trial run of Shanghai Joypolis that not only offered us with an opportunity for advertising and exhibition, but also allowed us to gain valuable experience on, among other things, the operation of Shanghai Joypolis. We may replicate this event or organise similar events in other locations in the PRC, which may both generate revenue for our Group and promote Joypolis in the region.

### *Consignment sales and catering in Joypolis*

We intend to designate a part of Shanghai Joypolis for consignment sales of animation derivative products. For details of our consignment sales arrangements, please refer to “Extension of our core businesses in the animation-related industry — Consignment sales” of this section.

We also intend to sub-let a part of Shanghai Joypolis to lessees for operation of food and beverage catering services for visitors. We intend to charge the lessees an amount that equals the higher of a fixed minimum amount and a certain percentage of their annual revenue.

### *Marketing strategies*

Our marketing strategy for Shanghai Joypolis is to increase customers’ awareness and interest in our indoor amusement parks. We position Shanghai Joypolis as a top-notch animation amusement venue that provide fashionable and exciting entertainment with high-quality equipment, and at the same time are affordable to the young population in China.

We plan to establish an in-house team to design and organise advertising campaigns to convey the brand image and latest information of Shanghai Joypolis to our targeted customers. We plan to primarily focus on advertising through a variety of media, including online media, printed media and brochures and through our CUTV Huaxia Animation Channel and other channels on CUTV, with the use of SEGA’s and our own proprietary animation characters in such advertisements. We also intend



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to launch marketing activities on websites and social networks in the PRC. Our advertisement plan also includes advertisements on the LED billboard installed on the wall of Shanghai Global Harbour (上海環球港). Furthermore, we intend to cooperate with travel agencies and hotels to promote our ticket sales through ticket packages or discounts, and to leverage on joint promotion by local chambers of commerce for corporate customers and promotional activities at schools for student customers.

### *Budget plans for Shanghai Joypolis*

Given that the establishment and operation of the indoor animation amusement park is a new business to our Group, as a matter of prudence, we have (1) obtained from SEGA a feasibility study prepared by them based on their experience and expertise in operating the Joypolis indoor amusement parks in Japan; and (2) engaged a third party consultant to perform sensitivity analysis on the forecast which includes a hypothetical scenario that Shanghai Joypolis records no revenue in the forecast period.

Barring unforeseen circumstances, our Directors expect that the total capital expenditure and pre-opening costs for the establishment of Shanghai Joypolis up to its grand opening to be approximately RMB173.8 million and RMB25.4 million, respectively. As of 31 August 2014, capital expenditure in the amount of RMB47.3 million for Shanghai Joypolis has been settled, which represents 27.2% of the expected total capital expenditure for Shanghai Joypolis up to its expected grand opening in the first quarter of 2016. We expect to fund our share of contribution to the investment in Shanghai Joypolis by internal financial resources and proceeds from the Global Offering.

Set forth below is a summary of the budget plans for Shanghai Joypolis as of the Latest Practicable Date which we, after taking into account the financial resources available to us, including the expected proceeds from the Global Offering based on the lower end of the indicative Offer Price range, the expected future cash flows to be generated from our operations, and in the absence of unforeseeable circumstances, consider to be prudent and based on which we anticipate we will be able to meet our working capital requirements up to and including 31 March 2016.

**The budget plans set forth below only reflect our current intention and estimation of the budget for Shanghai Joypolis that are subject to significant uncertainties and risks, and there is no assurance that our actual spending or other factors will not deviate from our current budget plans. Please refer to the section headed “Risk factors — Risks related to our indoor animation amusement park business — We have no proven track record in operating indoor amusement park in China” for further details of the risks associated therewith.**

### *Phase 1 — Capital expenditure*

Phase 1 of Shanghai Joypolis was opened to visitors on 30 December 2014. Upon the phase 1 opening, two major attractions, namely “Wonder Forest” and “P+Closet” was opened to visitors. The total capital expenditure for Shanghai Joypolis up to its phase 1 opening, (excluding the capital expenditure for grand opening incurred up to that time), is approximately RMB4.8 million. The tangible asset amount (i.e. the net book value of the fixed assets related to Wonder Forest and P+Closet) as of 31 March 2014 was nil and is expected to be RMB4.6 million as of 31 March 2015.

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The total capital expenditure for Shanghai Joypolis for its phase 1 opening is mainly attributable to the establishment of the following two attractions:

<u>Items</u>	<u>Expected amount (RMB)</u>
Wonder Forest	3.5 million
P+Closet	1.3 million

### *Phase 1 — Pre-opening costs*

Pre-opening costs of the phase 1 of Shanghai Joypolis amounted to approximately RMB1.0 million.

### *Phase 1 — Operating expenses*

The following table sets forth the expected operating expenses for Shanghai Joypolis from its expected phase 1 opening on 30 December 2014 up to the grand opening (which is assumed to take place on 2 February 2016):

<u>Items</u>	<u>Expected aggregate amount (RMB) (Note 1)</u>	<u>Monthly average amount (RMB'000)</u>
<b>Rental (Note 2) and management fees (Note 3)</b>	20.3 million	1,557.8
<b>Staff costs and social security contributions (Note 4)</b>	1.0 million	76.2
<b>Cost of materials and utility (Note 4)</b>	0.2 million	12.5
<b>Promotion expense (Note 4)</b>	0.1 million	10.2
<b>Repairs and maintenance (Note 4)</b>	0.5 million	36.9
<b>Depreciation (Note 5)</b>	0.8 million	63.2

*Notes:*

1. These estimated amounts of operating expenses are the aggregate sums of the respective items from the phase 1 opening of Shanghai Joypolis up to the grand opening (which is assumed to take place on 2 February 2016).
2. Pursuant to the Shanghai Joypolis Tenancy Agreement, the tenancy will cover an area of 1,000 sq.m. for the phase 1 opening up to 27 July 2015 and will cover the entire area of 8,239 sq.m. for the grand opening, starting from 28 July 2015. The rent for Shanghai Joypolis is charged at the higher of (1) an annual fixed rental of RMB10.8 million for the entire 8,239 sq.m. at grand opening (i.e. RMB1.3 million for 1,000 sq.m. at phase 1 opening) in the 1st year, to be increased by 14% in the 2nd year, and increased by 20% every two years in the remaining rental period; and (2) a turnover rent based on proportional pre-tax revenue: 4% in the 1st to 2nd

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years, 5% in the 3rd to 4th years, and afterwards 6% in the remaining rental period. A rent-free period running from mid October 2014 to 19 December 2014 is agreed. Assuming that the fixed rent will be charged given the pre-tax revenue is not expected to meet the threshold during the relevant period which would render the turnover rent to become higher than the fixed rent, the estimated effective rental fee (being the total rental payment divided by the total contract duration including both rent-free and normal periods) for Shanghai Joypolis from January 2015 up to the grand opening of Shanghai Joypolis (which is assumed to take place on 2 February 2016) is RMB17.5 million.

3. The monthly management fee during the rent-free period shall be RMB40.0 per sq.m. Within the first 10 months after the rent-free period, the monthly management fee shall be RMB18.0 per sq.m. and after such 10-month period until the end of the tenancy, the monthly management fee shall be RMB8 per sq.m. Based on the above, the estimated effective management fee (being the total management fee divided by the total contract duration including both rent-free and normal periods) for Shanghai Joypolis from January 2015 up to the grand opening of Shanghai Joypolis (which is assumed to take place on 2 February 2016) is RMB2.7 million.
4. The expenses are estimated based on the unaudited actual operation results recorded up to 15 January 2015 during Phase 1 operation of Shanghai Joypolis.
5. Machine is depreciated over 5 years whereas other fixed assets are depreciated over 10 years for both Wonder Forest and P+Closet.

### *Grand opening (Note 1) — Capital expenditure*

Upon the grand opening, Shanghai Joypolis will be expanded from 1,000 sq.m. of phase 1 to 8,239 sq.m., and much more amusement facilities will be introduced to the indoor amusement park. The expected total capital expenditure up to Shanghai Joypolis grand opening is RMB173.8 million, while excluding the capital expenditure amounts incurred for Wonder Forest and P+Closet which have been installed for use from phase 1 opening, the capital expenditure between the phase 1 opening and grand opening is expected to be approximately RMB169.0 million.

The table below sets forth the expected major capital expenditure items and their respective budgeted amounts for the grand opening of Shanghai Joypolis:

<u>Items</u>	<u>Expected amount (RMB)</u>	<u>Expected timeframe</u>
<b>Amusement facilities (including freight charges and taxes)</b>	116.8 million	From May 2014 to October 2015
<b>Machines installation cost</b>	9.5 million	Second quarter of 2015
<b>Renovation</b>	35.8 million (Note 2)	December 2014
<b>Furniture and fixture</b>	6.9 million (Note 2)	December 2014

*Notes:*

<sup>1</sup> While we expect the grand opening of Shanghai Joypolis will take place in the first quarter of 2016, solely for budgeting purpose, we assume that the grand opening will take place on 2 February 2016.

<sup>2</sup> The amounts have been prepaid by the Company as of 31 December 2014.

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### *Grand opening — Pre-opening costs*

Pre-opening costs of the grand opening of Shanghai Joypolis, excluding the pre-opening costs incurred for Wonder Forest and P+Closet, is expected to be RMB24.4 million. The table below sets forth the major pre-opening costs items:

<b>Item</b>	<b>Expected aggregate amount (RMB)</b>	<b>Expected timeframe</b>
<b>Consultant package fee for services provided by SEGA</b> <i>(Note 1)</i>	13.9 million	From September 2014 to September 2015
<b>Pre-opening costs</b>		
Repair and consumable parts	1.4 million	November 2015
Pre-opening supplies	0.3 million	October 2015
Promotion at the opening	4.0 million	From August 2015 to November 2015
Operation preparation and contingency	2.3 million	November 2015
<b>Personnel expense before opening</b>		
Staff costs	2.5 million	From August 2015 to January 2016

*Notes:*

- This consultant package fee was paid SEGA pursuant to the licensing agreement for, among other things, operation, supervising and training and project and construction supervising costs.
- Staff needed before grand opening:

	<b>Monthly salary</b>	<b>Number of staff needed</b>	<b>Number of month needed</b>	<b>Total staff cost</b>
	<i>(RMB)</i>			<i>(RMB'000)</i>
General Manager	25,000	1	12	300.0
Operation Manager	18,750	1	12	225.0
Manager	12,500	7	11	962.5
Supervisor	7,500	5	2	75.0
Staff	5,000	184	1	920.0

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### *Grand opening — Operating expenses*

The following table sets forth the expected operating expenses for Shanghai Joypolis from its grand opening (which is assumed to take place on 2 February 2016) up to and including 31 March 2016:

<b>Item</b>	<b>Expected aggregate amount (RMB) (Note 1)</b>	<b>Monthly average amount (RMB'000)</b>
<b>Royalty fee to SEGA (Note 2)</b>	0.9 million	466.3
<b>Rental (Note 3) and management fees (Note 4)</b>	3.2 million	1,584.5
<b>Staff costs and social security contributions (Note 5)</b>	4.4 million	2,194.0
<b>Utility (Note 6)</b>	0.3 million	135.9
<b>Promotion expense (Note 7)</b>	0.9 million	447.8
<b>Repairs and maintenance (Note 8)</b>	0.9 million	474.5
<b>Other operating costs (Note 9)</b>	1.5 million	735.1
<b>Depreciation (Note 10)</b>	5.2 million	2,581.3

*Notes:*

1. These estimated amounts of operating expenses are the aggregate sums of the respective items from the grand opening (which is assumed to take place on 2 February 2016) up to and including 31 March 2016.
2. The royalty fee is payable to SEGA pursuant to the licensing agreement for the use of intellectual property rights of SEGA in Shanghai Joypolis.
3. Pursuant to the Shanghai Joypolis Tenancy Agreement, the tenancy will cover the entire area of 8,239 sq.m. for the grand opening, starting from 28 July 2015. The rent for Shanghai Joypolis is charged at the higher of (1) an annual fixed rental of RMB10.8 million for the entire 8,239 sq.m. at grand opening in the 1st year, to be increased by 14% in the 2nd year, and increased by 20% every two years in the remaining rental period; and (2) a turnover rent based on proportional pre-tax revenue: 4% in the 1st to 2nd years, 5% in the 3rd to 4th years, and afterwards 6% in the remaining rental period. A rent-free period running from mid October 2014 to 19 December 2014 is agreed. Assuming that the fixed rent will be charged given the pre-tax revenue is not expected to meet the threshold during the relevant period which would render the turnover rent to become higher than the fixed rent, the estimated effective rental fee (being the total rental payment divided by the total contract duration including both rent-free and normal periods) for Shanghai Joypolis from the grand opening of Shanghai Joypolis (which is assumed to take place on 2 February 2016) up to and including 31 March 2016 is RMB2.9 million.

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4. The monthly management fee during the rent-free period shall be RMB40.0 per sq.m. Within the first 10 months after the rent-free period, the monthly management fee shall be RMB18.0 per sq.m. and after such 10-month period until the end of the tenancy, the monthly management fee shall be RMB8 per sq.m. Based on the above, the estimated effective management fee (being the total management fee divided by the total contract duration including both rent-free and normal periods) for Shanghai Joypolis from the grand opening of Shanghai Joypolis (which is assumed to take place on 2 February 2016) up to and including 31 March 2016 is RMB0.3 million.
5. Assuming the staff mix (which includes employees of SEGA assigned to Shanghai Joypolis) and the average staff cost to be as follows:

Title	Expected number of staff	Expected average monthly salary per staff member  (RMB)
SEGA's employees	4	128,000
Top Management	2	21,875
Middle Management	7	12,500
Supervisors	5	7,500
Staff	184	5,000

6. Assuming the average utility expense per sq.m. per month to be 1.5% of the revenue generated by Shanghai Joypolis upon grand opening. However, the expected expense amount is the minimum operating expenses registered and is expected to still be incurred in our stress test assuming there is no visitor to Joypolis and thus no revenue generated.
7. Promotion expense is assumed to be 5% of the revenue generated by Shanghai Joypolis upon grand opening. However, the expected expense amount is the minimum operating expenses registered and is expected to still be incurred in our stress test assuming there is no visitor to Joypolis and thus no revenue generated.
8. Repair and maintenance is assumed to be 5% of the revenue generated by Shanghai Joypolis upon grand opening. However, the expected expense amount is the minimum operating expenses registered and is expected to still be incurred in our stress test assuming there is no visitor to Joypolis and thus no revenue generated.
9. Other operating costs are assumed to be 8.4% of the revenue generated by Shanghai Joypolis upon grand opening. However, the expected expense amount is the minimum operating expenses registered and is expected to still be incurred in our stress test assuming there is no visitor to Joypolis and thus no revenue generated.
10. Machine is depreciated over five years whereas other fixed assets are depreciated over 10 years.

### *Sources of income of Shanghai Joypolis*

#### *Ticketing income*

We expect to derive a major part of our income from Shanghai Joypolis from ticketing. To facilitate ticket sale, we intend to sell tickets of Shanghai Joypolis at ticket counters and other designated ticketing locations. The entrance ticket price of Shanghai Joypolis will be determined with reference to, among other things, our operating costs, the ticket price of other Joypolis indoor amusement parks in Japan and the acceptance level of our target local customers. The price will be reviewed on an annual basis and may be adjusted from time to time. While we have the sole discretion in determining the ticket price for Shanghai Joypolis, we will take into account the views of SEGA and Pingan Taisheng in such determination.

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For “P+Closet” in phase 1 of Shanghai Joypolis, each turn of a photo-taking machine will require the input of two to three tokens, each of which is sold at RMB25, with scaled discounted prices for each single purchase of multiple tokens (up to the maximum of 10 tokens at the price of RMB180). Customers may also rent costumes for photo-taking, at the price of RMB10 for each apparel or accessory item, with scaled discounted prices for rental of multiple items (up to the maximum of 5 items at the price of RMB30). For “Wonder Forest” in phase 1 of Shanghai Joypolis, tickets are sold at RMB100.0 per child accompanied by an adult. Tickets for “Wonder Forest” can be purchased in advance for use later within the same calendar month.

For grand opening, the table below sets forth the standard ticket price that we contemplated as of the Latest Practicable Date for different ticket categories:

<u>Ticket type</u>	<u>Standard ticket pricing</u>	<u>Bulk purchase ticket pricing</u>
Adult (day)	RMB200	RMB180
Children (day)	RMB150	RMB135
Adult (night)	RMB150	RMB135
Children (night)	RMB110	RMB100

*Notes:*

- 1: Day ticket is valid from 10:00 a.m. to 5:00 p.m., and night ticket is valid from 5:00 p.m. to 10:00 p.m.
- 2: There is no difference in ticket price between weekends / public holidays and weekdays.
- 3: Bulk purchase tickets are not valid for Saturday, Sunday, public holidays and special dates as stipulated by us. The bulk purchase tickets are only valid within three months from the date of purchase or before the upcoming 31 March, whichever is earlier.

We intend to employ a computerised system to monitor and keep track of ticket sale, admission and play histories of a visitor from the grand opening of Shanghai Joypolis, pursuant to which visitor will be provided with an electronic entrance pass which contains a chip detectable by the security screeners installed at the entrances of Shanghai Joypolis and amusement rides in recording the entrance time and entrance records. We believe that this advanced digital ticket checking system not only will minimise the manpower required to be allocated at each entrance, it will also serve to record and reflect important operation data including the number of visitors, peak hours and visitor preference for us to better evaluate and improve on the operation of Shanghai Joypolis.

### *Phase 1 & grand opening — Miscellaneous income*

Other than ticketing income, we expect that there will be additional miscellaneous income derived from Shanghai Joypolis such as rental income from food and beverage stores and the operation of mini-games such as claw vending machines.

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### *Estimated payback period and breakeven points*

For reference and illustration purposes only, set forth below is a highly hypothetical analysis on the payback periods in respect of our investment for Shanghai Joypolis built on an assumed scale of estimated number of visitors. **The analysis is based on a series of assumptions that are speculative in nature and may or may not reflect actual circumstances. In particular, since the phase 1 of Shanghai Joypolis only recently took place on 30 December 2014 and the grand opening is yet to take place, our assumptions on the estimated number of visitors and expected spending per visitor for Shanghai Joypolis are not based on our proven historical record and are subject to significant uncertainties and risks. In addition, the analysis only reflects our current intention and estimation of the budget for Shanghai Joypolis, and there is no assurance that our actual expenditure will not deviate from our current budget plans. Any difference in actual circumstances from any of the key assumptions adopted for the analysis may also result in a significant change in the actual investment payback period. Consequently, the estimated payback periods and breakeven points may or may not accurately represent the actual investment payback period or breakeven point for our investment in Shanghai Joypolis. Please refer to “Risk factors — Risks related to our indoor animation amusement park business — Our indoor amusement park business may not achieve the desirable outcome as anticipated.” for further details of the risks associated therewith.**

	Scenario 1	Scenario 2	Base Case	Scenario 3	Scenario 4
Estimated annual number of visitors ( <i>Note 1</i> )	780,000	890,000	1,000,000	1,110,000	1,220,000
Estimated average monthly visitors (A)	65,000	74,167	83,333	92,500	101,667
Payback period starting from grand opening (which is assumed to take place on 2 February 2016) (B)	46 months	39 months	33 months	29 months	26 months
Number of accumulated visitors needed to cover the total capital expenditures and pre-opening costs of Shanghai Joypolis ( <i>Note 2</i> )	3.0 million	2.9 million	2.8 million	2.7 million	2.7 million
Estimated breakeven points	November 2019	April 2019	October 2018	June 2018	March 2018

*Notes:*

1. The estimated annual number of visitors for the Base Case is estimated based on, among other things, the implementation plan prepared by SEGA. Scenario 1, 2, 3 and 4 are prepared to show possible effects on the estimated payback period in response to the change of number of visitors of Shanghai Joypolis.



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2. Represents the accumulated number of visitors needed to cover the total capital expenditures and pre-opening costs for grand opening (which is assumed to take place on 2 February 2016), which is calculated by multiplying (A) the estimated average monthly visitors and (B) payback period starting from February 2016.

### *Expected impact on our Group*

#### *Operational impact*

Given that Shanghai Joypolis is a new business to our Group, we expect to allocate existing and engage new employees to support its establishment and operation. For details of the expected number of employees to be allocated for Shanghai Joypolis as at phase 1 and grand opening, please refer to the paragraphs under “Staff allocation and staff training for Shanghai Joypolis” below. Further, our Directors and senior management will also devote substantial portion of their time to lead such project. In the long run, we expect that Shanghai Joypolis will serve as a physical platform for our consignment sale of our licensees’ products and our Directors believe that our Group will be able to further cross-sell other business segments such as promoting our proprietary animation characters, movies and music concerts in the indoor amusement park, to create synergies among our businesses and generate additional revenue for our Group.

#### *Financial impact*

Our Directors believe that Shanghai Joypolis will generate a new source of income for our Group with a positive profit outlook envisaged on the basis of, among other things, (1) the historical number of visitors of the Shanghai Global Harbour (上海環球港) of approximately 24.0 million for the year ended 31 October 2014 provided by Yue Xing; and (2) the number of visitors to Shanghai Joypolis estimated based on the experience of SEGA in operating similar indoor animation amusement parks in Japan. Whilst we expect that barring unforeseen circumstances, the total capital expenditure for the establishment of Shanghai Joypolis to be approximately RMB173.8 million, our Directors do not expect it will have any significant impact on our total assets as Huajiatai PRC, the operator and holder of the assets for Shanghai Joypolis, is a non-wholly owned subsidiary of our Company. However, as our core businesses during the Track Record Period were trading business and licensing of animation characters business, we did not have a significant amount of tangible assets except for the leasehold improvement in respect of the relevant premises of our offices in Shenzhen. Going forward, our Directors believe that the establishment and operation of Shanghai Joypolis (especially upon its grand opening) and other potential indoor animation amusement park(s) which we may establish in the future may bring the following the financial impact to our Group (i) substantial expenditure will be incurred for the establishment of indoor amusement park(s), and our tangible assets will be significantly increased. These tangible assets are mainly game machines and equipment which will be depreciated over a period of 5 to 10 years, and thus more depreciation expenses will be incurred which will affect our profit margin; (ii) our operating costs will increase, including the rental expenses in relation to the venue of the indoor amusement park(s) and insurance costs; and (iii) our PRC tax expenses will also increase. We expect to fund our investment in Shanghai Joypolis by internal financial resources and proceeds from the Global Offering. The total capital expenditure and the pre-opening costs for Shanghai Joypolis up to its grand opening are expected to be approximately RMB173.8 million and RMB25.4 million, respectively. As of 31 August 2014, the capital expenditure in the amount of RMB47.3 million for Shanghai Joypolis has been settled. As Huajiatai PRC is owned as to 49.0%, 2.0% and 49.0% by

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China Theme Park HK, Shenzhen Wald and Pingan Taisheng, respectively, we (through China Theme Park HK and Shenzhen Wald) shall only be responsible for 51.0% of the total investment in Shanghai Joypolis. We expect to fund our contribution to the capital expenditure and the pre-opening costs of Shanghai Joypolis by internal resources in the amount of HK\$142.2 million. We also expect to use HK\$54.5 million and HK\$91.4 million from the net proceeds from the Global Offering (assuming the Offer Price is HK\$4.10, being the mid-point of the indicative range of the Offer Price of HK\$3.65 to HK\$4.56, and the Over-allotment Option is not exercised) in (a) funding our contribution to the remaining capital expenditure of Shanghai Joypolis; (b) supporting the working capital for Shanghai Joypolis and the preliminary expenses for the next Joypolis project(s) (subject to the approval by SEGA), respectively. We do not expect to incur substantial external borrowing (if any) for the establishment and operation of Shanghai Joypolis.

### *Stress test on working capital*

For reference and illustration purposes only, we have performed two highly hypothetical stress tests by assuming all other factors remain constant. The possible impact on our working capital up to and including 31 March 2016: (i) in the worst case scenario where there is zero visitor to Shanghai Joypolis from its phase 1 opening up to and including 31 March 2016; and (ii) the total capital expenditure and pre-opening costs for Shanghai Joypolis increase by 20%. Under these hypothetical situations, taking into account the financial resources available to us, including the expected net proceeds from the Global Offering based on the lower end of the indicative Offer Price range and assuming that the Over-allotment Option is not exercised, the expected future cash flows to be generated from our core businesses, in the absence of unforeseeable circumstances, the expected decrease of our working capital for the two stress tests will be HK\$30.7 million and HK\$11.2 million, respectively as of 31 March 2016 and we will still be sufficient to meet our working capital requirements up to 31 March 2016. For further details of the bases and assumptions of the stress test, please refer to “Financial Information — Liquidity and capital resources — Working capital” in this prospectus. **The stress tests only reflect our current intention and our estimation of the budget for Shanghai Joypolis that are subject to significant uncertainties and risks. Our Directors cannot assure you that our actual spendings will not deviate from our current budget plans. In addition, the stress tests are based on a series of assumptions that may not reflect the actual circumstances and the analysis may not accurately represent our ability to meet our working capital requirements. Please refer to “Risk factors — Risks relating to our indoor animation amusement park business — We have no proven record in operating indoor animation amusement park in China” for further details of the relevant risks.**

Operating in a dynamic business environment, our management would closely monitor and evaluate our business performance, principal drivers of our business and external factors and circumstances, and would endeavour to respond to any adverse factor by adjusting business strategy in a timely manner. All proposed material business decisions will also be assessed and approved by the investment committee of our Board before implementation. These adjustments of business strategy depend on the judgment of our management, and the exercise of which requires a matrix of consideration the intricacy and uncertainty of which simply cannot be measured or taken into account by this hypothetical analysis. When faced with situations that may materially and adversely affect our working capital or business performance, our management will consider making various adjustments to our business plans, including but not limited to, delaying or suspending our capital expenditure plans, adjusting the ticket price and opening hours of Shanghai Joypolis and increasing

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our debt and/or equity fund raising. We are therefore confident that with the experience and leadership of our Board including our investment committee our Group will be able to meet its working capital requirements up to and including 31 March 2016. In the event of material change in circumstances or our business plans, in compliance with Rule 13.09 of the Listing Rules, we will make announcements as and when appropriate if our business might be materially or adversely affected.

### *Phase 1 opening of Shanghai Joypolis*

Phase 1 of Shanghai Joypolis was opened on 30 December 2014. The amusement facilities available during such phase include P+Closet and Wonder Forest. We believe that opening Shanghai Joypolis in stages not only offers our staff the training and experience they need for the actual grand opening of the indoor amusement park, but it also serves as an excellent opportunity to advertise Shanghai Joypolis to the general public.

### *Staff allocation and staff training for Shanghai Joypolis*

Given that the operation of Shanghai Joypolis involves, among other things, the operation of amusement facilities, crowd management and other safety issues, we believe that it is crucial that we have sufficient number of employees who have obtained the required training for the safe and uninterrupted operation of our Joypolis.

We have hired Mr. PEI Ying (裴瑩先生) as the curator of Shanghai Joypolis. Mr. PEI has worked in an amusement facilities provider which provides facilities for indoor and outdoor amusement parks in China. Prior to that, he worked for a company which provided market research and consultancy services for amusement parks in China. In addition to our employees for the operation of Shanghai Joypolis, pursuant to the SEGA Licence Agreement, we expect SEGA to assign four of their employees to Shanghai Joypolis as of grand opening, to provide supervision, guidance and on-site training to our employees and technical support to Shanghai Joypolis. The following table sets forth the member and function of our employees and the employees of SEGA allocated for the operation of Shanghai Joypolis:

<b>Functions</b>	<b>Number of our employees to be employed for Shanghai Joypolis</b>		<b>Number of employees of SEGA to be assigned to Shanghai Joypolis</b>	
	<b>As of phase 1 opening</b>	<b>As of grand opening (expected)</b>	<b>As of phase 1 opening</b>	<b>As of grand opening (expected)</b>
Sales and marketing	1	1	–	–
Park operation	18	145	–	2
Technical Support	1	17	–	2
Management	2	20	–	–
Finance	2	15	–	–
<b>Total</b>	<b>24</b>	<b>198</b>	<b>–</b>	<b>4</b>

*Crowd management and safety of amusement rides*

We recognise that Shanghai Joypolis may be visited by thousands of visitors daily and given that they are indoor amusement parks located in an enclosed environment, it is pertinent for us to employ efficient crowd management policies to ensure safety of our visitors in emergency situations. In this respect, we plan to implement crowd control policies with the assistance and input from SEGA which has experience in operating indoor amusement parks of similar kind. Currently, we expect that Shanghai Joypolis can accommodate 4,000 visitors at most at one time and we will apply crowd control measures if the number of visitors at any given time reaches certain figure or if the crowd situation may otherwise affect our operation. As advised by our PRC Legal Adviser, as pre-conditions for the grant of the License on Operating Entertainment Business (娛樂經營許可證) by Shanghai Municipal Administration of Culture, Radio, Film & TV (上海市文化廣播影視管理局), we are required to obtain the certificate of fire protection safety examination before public gathering place put into use or operation (公眾聚集場所投入使用、營業前消防安全檢查合格證) issued by the fire protection departments of the public security organs, and the certificate of keeping within the limits of environmental noise emission set by the State (符合國家規定的環境噪聲排放標準的證明文書) issued by the competent department of environmental protection or the environmental noise monitoring institutions.

According to our PRC Legal Adviser, certain equipment and facilities to be installed in Shanghai Joypolis may be regarded as “special equipment” under the Special Equipment Safety Law of the People’s Republic of China (中華人民共和國特種設備安全法), pursuant to which Huajiatai PRC shall register with the local safety supervision institutions at the level of city or district above, supported by acceptance inspection report and safety inspection qualified mark (安全檢驗合格標誌) issued by the supervision and inspection institutions. Only after the safety inspection qualified mark has been fixed on a prominent position of the special equipment the new equipment can be put to use. We intend to perform regular inspections on our equipment going forward. We also expect that SEGA will also provide maintenance and technical support. If there happens to be any machinery break-down or malfunction, we will perform repairs by our in-house technician if required, arrange SEGA’s specialist technicians from Japan to perform on-site repairing work. According to our PRC Legal Adviser, operators of large amusement devices are required by Regulations on Safety Supervision of Special Equipment (特種設備安全監察條例) and the Measures for the Supervision and Management of Personnel Operating Special Equipment (特種設備作業人員監督管理辦法) to pass the examination organized by the departments for safety supervision and administration of special equipment and acquire the certificates of special operators (特種設備作業人員證) before they may engage in corresponding operations.

According to our PRC Legal Adviser, each of P+Closet and Wonder Forest, being the facilities available from the phase 1 opening of Shanghai Joypolis, does not constitute a special equipment or game machine.

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Pursuant to the Special Equipment Safety Law of the People’s Republic of China (中華人民共和國特種設備安全法) and the Special Equipment Catalogue (特種設備目錄), “special equipment” (特種設備) refer to equipment which pose a greater threat to personal and property safety, such as large-scale recreation facilities (大型遊樂設施). Pursuant to the Regulations on Safety Supervision of Special Equipment (特種設備安全監察條例), “large-scale recreation facility” refers to large facilities carrying passengers for recreation purposes, the maximum designed linear speed of which must be equal to or faster than 2m/s, or that the ground clearance of which must be equal to or higher than 2m. According to the PRC Legal Adviser, neither P+Closet nor Wonder Forest constitutes special equipment (*Note 1*).

Pursuant to the Pilot Work Plan on Administration of Electronic Games Operating Venues In Shanghai (上海電子遊戲經營場所管理試點工作方案) issued by the Shanghai Municipal Administration of Culture, Radio, Film & TV (上海市文化廣播影視管理局), game machines are classified into two categories: game machines and amusement machines. A “game machine” refers to a machine that is manufactured with electronic technology, displays image and sound through electronic screens, and to be operated by a player with rockers, or keyboards, or buttons, in order to engage in recreation activities, e.g., arcade game machine. An “amusement machine” refers to a machine that is manufactured with principles of mechanics or the combination of principles of mechanics and electronic technology, with the function of simulating physical action, and to be operated by a player with substantial objects, in order to engage in recreation activities. According to the PRC Legal Adviser, neither P+Closet nor Wonder Forest constitutes a game machine or an amusement machine (*Note 2*).

For further details of the laws and regulations and the major licenses, permit and approvals in relation to the operation of our Joypolis indoor amusement parks, please refer to the section headed “Applicable Laws and Regulations — Entertainment venues industry” in this prospectus and the paragraphs under “Legal and Compliance” in this section.

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*Notes:*

<sup>1</sup> P+Closet is a motionless machine located on the ground and does not carry any passenger. Wonder Forest contains two parts, namely Jungle Gym and Digital Aquarium. Jungle Gym is a three-storied motionless facility located on the ground for the children to climb up and down. Digital Aquarium is a motionless machine located on the ground and does not carry any passenger.

<sup>2</sup> The operation process of P+Closet is that, after customers put on the cosplay costumes provided, P+Closet will be used for taking pictures of the customers as a camera, customers can then download their pictures through P+Closet to their mobile phones. It is the combination of the changing costumes of the customers and taking pictures that constitute a recreation activity. The P+Closet machine itself serves as a camera, and is not manufactured with the function of simulating physical action. Jungle Gym is a non-electronic facility located on the ground with no function of simulating physical action, and is not operated by a player with substantial objects. Therefore, as advised by the PRC Legal Advisor, Jungle Gym does not constitute a game machine or an amusement machine. The operation process of Digital Aquarium is that, after a customer draws a picture on a piece of paper (or other carriers) and puts the picture into the machine, Digital Aquarium will project the picture into a screen with a background of submarine landscape. It is the combination of the drawing and projecting of picture that constitute a recreation activity. The Digital Aquarium machine itself only serves as a scanner as well as a projector, and has no function of simulating physical action.

### **Multimedia animation entertainment**

As another means to commercialise our proprietary animation characters, we have commenced the development and expansion of our animation-related business into the multimedia animation entertainment sector. While this business has yet to provide a substantial amount of contribution to us, it forms a natural extension of our core business and an integral part of our strategic development in the animation-related industry with an aim to cross-selling our related lines of business and thereby creating synergies among them.

No revenue was generated from our multimedia animation entertainment business during the three years ended 31 March 2014. During the five months ended 31 August 2014, the revenue generated by these businesses amounted to approximately HK\$0.4 million.

### ***Movie investment and production***

#### *Movie investment*

On 14 April 2012, we entered into a movie production cooperation agreement with Roy Entertainment, being our investment partner, for the investment in a Chinese movie tentatively known as “七號公館 (House No. 7)”. Pursuant to this agreement, we invested approximately HK\$1.8 million in this movie and licensed the appearance of “*Han Ba Gui*” (憨八龜) in the movie. According to our agreement with Roy Entertainment, we shall be entitled to 50.0% of the net income generated from the movie and in the event that the movie cannot be screened in China or our share of the net income is less than our investment amount, Roy Entertainment shall pay us our investment amount in full and indemnify us the shortfall, as the case may be. Our Directors expect that the movie “七號公館 (House No. 7)” will be screened in China in or around the third quarter of 2015. We consider that this is an opportunity for us to promote “*Han Ba Gui*” (憨八龜) taking into consideration the guaranteed return of our investment amount under the agreement with Roy Entertainment, and coupled with the sharing of the net income from this movie. Our Directors expect that this movie will be distributed and screened in the PRC by a third party distributor to be engaged. As a financial investor of the movie, we are not involved in the film production, distribution or screening arrangements. Going forward, we aim to be more proactive in the movie sector with commercialisation of our proprietary animation characters.

#### *Movie production*

On 23 December 2014, we entered into a legally binding agreement with Someno Films, Studio Comet and Zing for the production of an animated movie featuring our animation characters “*Violet*” (紫嫣) and “*Han Ba Gui*” (憨八龜) and other animation characters from time to time agreed by all the relevant parties. Someno Films, Studio Comet and Zing are Independent Third Parties. Pursuant to the agreement, a committee will be established for the preparation and coordination in the production of the movie. We will contribute the rights to use “*Han Ba Gui*” (憨八龜) and “*Violet*” (紫嫣) to the movie and will be responsible for generating computer graphic designs of the two characters. The total production cost for the movie is expected to be JPY200.0 million, of which we would contribute JPY50.0 million by way of cash and JPY100.0 million in kind, representing 75.0% of the expected total production cost of the movie. Someno Films and Studio Comet will be responsible for the preparation work for the film, such as writing of the screenplay and actual production of the movie, which is valued as contribution in kind of JPY50.0 million as agreed by all the parties.

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Pursuant to the agreement, Zing is granted a non-exclusive right to sell and distribute merchandise and derivative products of the film in Japan bearing the animation character of “*Han Ba Hui*” (憨八龜). Barring unforeseen circumstances, the production of the film is expected to complete in or around May 2016.

The principal terms and conditions of the agreement are set forth below:-

<u>Matters</u>	<u>Major terms and conditions</u>
Preparation and coordination	A committee shall be established for the preparation and coordination in the production of the movie. Studio Comet shall be in charge of the production of the movie.
Production cost	The total production cost for the movie is expected to be JPY200.0 million. Someno Films and Studio Comet shall together contribute JPY50.0 million by way of cash or in kind. China Animation BVI shall contribute JPY50.0 million by way of cash and the remaining JPY100.0 million in kind, representing 75.0% of the expected total production cost of the movie.
Profit sharing ratio	China Animation BVI will be entitled to 75.0% of the net profit generated from the movie (other than the sales of related merchandise). Someno Films and Studio Comet will be entitled to 25.0% of the net profit generated from the movie in equal share.
Production period	The production of the movie shall last for a maximum period of 18 months starting from the month when the payment is first released by China Animation BVI.
Responsibilities	<p>Someno Films and Studio Comet shall be responsible for the preparation work for the production of the movie, such as screenplay writing and actual production of the movie.</p> <p>Specifically, Studio Comet shall be responsible for the initial preparation work and screenplay writing. Someno Films shall provide copyrights of the movie with and collect the royalties for the copyright of the movie scripts from China Animation BVI in the amount of JPY5.0 million, which have been duly settled by China Animation BVI in full.</p> <p>During the production period, as may be agreed by Someno Films, Studio Comet and China Animation BVI, from time to time, China Animation BVI may be involved in the designated scope of work prescribed by Studio Comet.</p>

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<u>Matters</u>	<u>Major terms and conditions</u>
Copyrights of “ <i>Han Ba Gui</i> ” (憨八龜) and “ <i>Violet</i> ” (紫媽) and the movie	China Animation BVI shall retain all the copyrights of “ <i>Han Ba Gui</i> ” (憨八龜) and “ <i>Violet</i> ” (紫媽) and shall contribute the rights to use the characters in the movie. In addition, China Animation BVI shall have the rights to use the animation characters in the movie, including the right to distribute the movie with and without editing.
Distribution and screening of the film	<p>The film is expected to be distributed and screened in the PRC and Japan subject to the applicable laws and regulations.</p> <p>Zing shall be granted a non-exclusive right to sell and distribute merchandise and derivative products of the movie in Japan bearing the animation character of “<i>Han Ba Gui</i>” (憨八龜). Such right is estimated to be exercisable during the period from 1 April 2016 to 31 December 2017.</p>
Confidentiality	<p>Unless with the consent from all other parties, Someno Films, Studio Comet, China Animation BVI and Zing shall keep in strict confidence the terms and conditions and the existence of the agreement.</p> <p>However, Someno Films, Studio Comet and China Animation BVI can inform their respective shareholders and business development departments the terms and conditions and the existence of the agreement. For the purpose of complying with the relevant laws and regulations, the disclosure may be made to members of the public and for the purpose of the Listing.</p>

In addition, China Animation BVI and Someno Films entered into a separate agreement as supplemented in November 2014, pursuant to which (1) Someno Films agrees that the copyright of the movie scripts they produced for the movie be owned by China Animation BVI for an amount of JPY 5.0 million payable to Someno Films, which has been duly settled by China Animation BVI in full; and (2) China Animation BVI shall be entitled to the copyright of the derivative products and merchandise related to the movie. Our Directors confirm that the amount of the upfront fee is determined by China Animation BVI and Someno Films on an arm’s length basis with reference to the prevailing market rates of screenplay of animation movies in Japan.

Our Directors expect that the movie will be produced in Japan and be distributed and screened in the PRC and Japan. As advised by our PRC Legal Adviser, only certain approved entities are allowed to operate film import business and to distribute imported foreign films nationwide. For details of the procedures for the importation and distribution of a foreign film in China, please refer to “Application Laws and Regulations — Regulations on cartoon film & TV play import and export” of this prospectus. As advised by our legal advisers as to Japan law, our Directors confirm that there is no government permit or approval required for the distribution, marketing and screening of the movie in Japan. In Japan, the Film Classification and Rating Committee (“FCRC”), an independent,



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nongovernmental organisation, has a film classification system under which movies are classified into one of four categories. It is permissible under the laws of Japan to market or distribute a movie without obtaining a classification from FCRC. However, theatres which are a member of the Japan Association of Theatre Owners would not show any movies which have no classification.

Pursuant to the agreement dated 23 December 2014, China Animation BVI's contribution to the film include two parts: (1) a cash contribution of JPY50.0 million; and (2) a contribution in kind in the amount of JPY100.0 million. Our Directors expect that such contribution in kind will be provided by permitting the use of the Group's proprietary animation characters, namely "*Han Ba Gui*" and "*Violet*", in the movie and the support of computer graphic design of the two characters for the production of the movie. Taking into account the agreed contribution under the agreement, barring unforeseeable circumstances, our Directors currently do not consider that any distribution or screening delay of the movie in any of the target markets would have any material adverse impact on the business and the financial condition of the Group.

According to Someno Films, it is principally engaged in production and distribution of movies and television programs and Mr. Yukio SOMENO, being the president and executive producer of the Someno Films, is an experienced movie producer and was involved in the production of different movies. According to Studio Comet, it is principally engaged in the production of animation movies and produced the Japanese animation film "(映画ジュエルペットスウィーツダンスプリンセス Jewelpet the Movie: Sweets Dance Princess)".

### ***Music animation concert***

China Animation BVI entered into a concert cooperation agreement with Shenzhen Cultural Industry on 18 November 2014 in respect of the animation concert of "*Violet*" (紫嫣) on 1 February 2015 at China Resources Shenzhen Bay Sports Centre Spring Cocoon Stadium (華潤深圳灣體育中心春蘭體育館). Pursuant to the agreement, China Animation BVI shall be responsible for (1) licensing the right to Shenzhen Cultural Industry to use our proprietary animation character "*Violet*" (紫嫣) in relation to the concert; and (2) providing technical support and contents for the concert at a consideration of RMB1 million for the concert. Shenzhen Cultural Industry shall be responsible for the overall preparation, coordination, implementation and management of the concert, including not limited to planning and scheduling of workflow, arranging venue, marketing, ticketing and liaising in respect of the concert. Pursuant to the agreement, we are entitled to receive a fee of RMB1.0 million from Shenzhen Cultural Industry, while Shenzhen Cultural Industry will bear the costs and expenses incidental to organising of the concert. The ticket prices for our animation concert on 1 February 2015 ranged from RMB98 to RMB980 each.

We also entered into a concert cooperation agreement with CHK and Fosun Yishen on 31 March 2014 in respect of music animation concerts of "*Violet*" (紫嫣), pursuant to which China Animation BVI shall be responsible for (1) licensing the right to Fosun Yishen to use our proprietary animation character "*Violet*" (紫嫣); and (2) providing technical support for the concerts for a production fee which is capped at RMB2.0 million for each concert, while Fosun Yishen shall have the first right to be sub-contracted for the operation and management of the concerts. In April 2014, Fosun Yishen paid a non-refundable upfront fee of RMB79,460 to us. As of the Latest Practicable Date, we were still in the process of determining the schedule and location of the music animation concert to be organised in cooperation with CHK and Fosun Yishen.

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In the past, we have held mini music animation concerts of “*Violet*” (紫嫣) in our exhibition in the Shenzhen Cartoon and Animation Festival 2014 (深圳動漫節2014) from 16 July 2014 to 20 July 2014 which generated an aggregate of RMB0.3 million ticketing income. On 31 December 2014, our virtual artist “*Violet*” (紫嫣) appeared as a guest and performed in a new year countdown show held in an outdoor theme park in Shenzhen. The performance was also broadcasted via a television channel in Shenzhen. According to the Frost & Sullivan Report, “*Violet*” (紫嫣) is the first virtual artist which performed bidialectal music animation concert in China by applying three dimensional mixed reality (MR) technologies. These concerts will be different from the traditional music concerts as there will be no real artists performing on stage; instead, three dimensional images of the virtual artists will be projected with image recognition technologies, which will result in interactive performance of the virtual artists with the aim of bringing innovative entertainment to the audience.

### *Internet and mobile applications*

In November 2013, we entered into the CUTV Agreements in relation to an online animation channel, namely CUTV Huaxia Animation Channel (CUTV 華夏動漫頻道). CUTV is an internet television channel officially launched in August 2011. As of the Latest Practicable Date, nine television channels were broadcasted through CUTV Huaxia Animation Channel broadcasts animations and cartoons. CUTV Huaxia Animation Channel has commenced its operation and made available to the public in the internet free-of-charge since May 2013. In addition to the website of CUTV, the public can also view CUTV Huaxia Animation Channel via the mobile applications of CUTV.

The major terms of the CUTV Agreements are as follows:

<u>Matters</u>	<u>Major terms</u>
Parties	Shenzhen Wald and China City Internet Television Company Limited (華夏城視網絡電視股份有限公司)
Term	10 years
Our role	Exclusive right to supply the contents for CUTV Huaxia Animation Channel and manage and market such contents
CUTV’s role	Provide channel management, system development, hardware and bandwidth maintenance and management of advertisements
Fees	Shenzhen Wald shall pay CUTV an annual fee of RMB300,000 (subject to increment of not more than 15% for three years)
Income distribution	The party who secures an advertisement will be entitled to 70% of the advertisement income and the other party will be entitled to the remaining 30%

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We market our animations on this channel with an aim to, on one hand, attract viewership and thereby increasing our advertising income and, on the other hand, promoting our proprietary animation characters thereby benefiting our other animation-related businesses segments involving our proprietary animation characters.

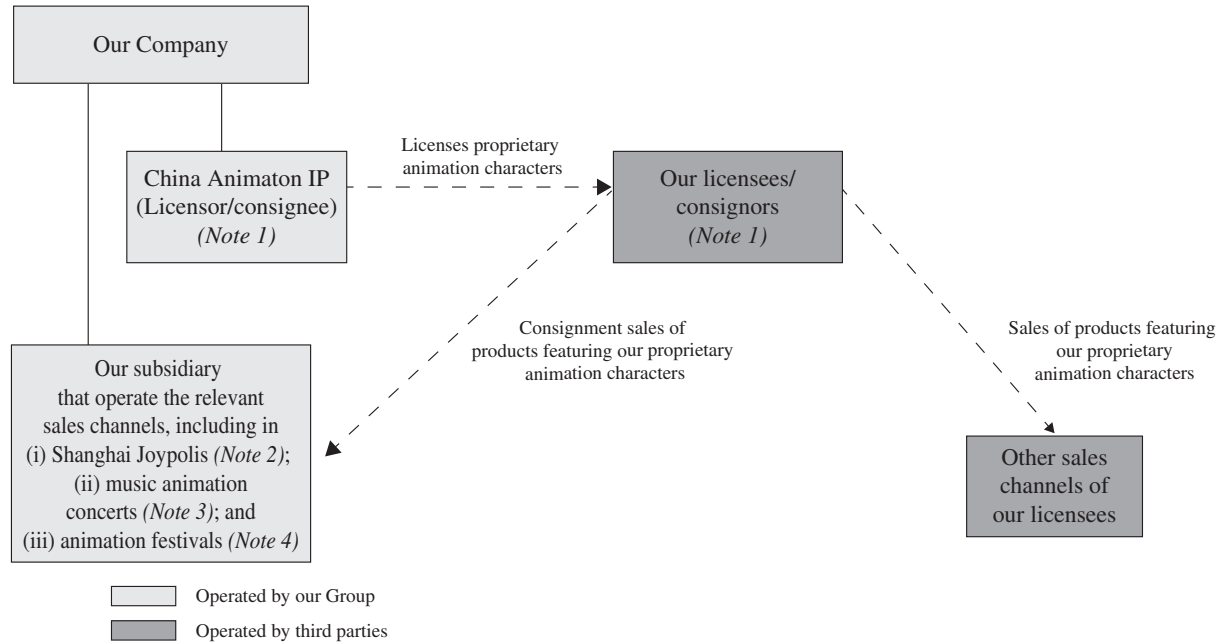
We are also keen to commercialise our proprietary animation characters via mobile applications as we see this as another potential growth area in the long run by making use of our proprietary animation characters. On 29 January 2014, we entered into an cooperation agreement with a PRC entity that provides internet and mobile value-added services, online advertising services and eCommerce services to users in the PRC and an Independent Third Party, pursuant to which we shall from time to time design and provide animation-related emotion icons featuring our proprietary animations such as “*Han Ba Gui*” (憨八龜) for use in its products including computer software and mobile applications in return for commission fees based on the number of online purchases of individual set of emotion icons by users of the mobile applications. Pursuant to the cooperation agreement, from March 2014 to January 2015, we shall provide a set of emotion icons which shall contain 25 to 42 emotion icons of various faces showing different emotions such as delight, anger, sorrow and happiness at about a month’s interval. Whilst we do not expect to incur additional capital investment for this new business as we are mainly responsible for the graphic design of the emotion icons, at this stage we do not expect this business would contribute significantly to the Group’s revenue and profit in the short to medium run but would serve to promote our proprietary animation characters to the users of these mobile applications. Our costs required for this business are primarily the labour cost for the personnel involved the icon designing process. Two members of our design and production team are responsible for the design of these emotion icons. We see this as another potential growth area by making use of our proprietary animation characters. We intend to keep monitoring market feedback on the game and make necessary modifications in order to cater to the market demand.

### **Consignment sales**

In November 2014, China Animation IP entered into agreements (as amended and supplemented) with three consignors (which are also the licensees of our licensing of animation characters business and are Independent Third Parties), pursuant to which we may sell our consignors’ products featuring our proprietary animation characters on a consignment basis at the designated counters at our music animation concerts, Shanghai Joypolis and animation festivals in which we participate, at a commission of RMB1.0 million or 4.0% of the revenue generated by the sales of such products, whichever is higher. Further, we expect that a part of Shanghai Joypolis will be designated stores for sale of consignment products upon its grand opening, and further consignment agreement(s) in relation to the consignment sale in Shanghai Joypolis may be entered into at a later stage as the grand opening approaches. During the Track Record Period, we did not generate any revenue from consignment sales. However, we believe this business will bring synergies to our other businesses.

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The following simplified chart illustrates the proposed business model of our consignment sales business, including its expected synergy with our licensing business:



*Notes:*

1. Please refer to “— Our core businesses during the Track Record Period — Commercialisation of our proprietary animation characters — Licensing of animation characters” for further details of our licensing business. These three licensees are also our consignors pursuant to the agreements they entered into with China Animation IP, our wholly-owned subsidiary.
2. We expect that grand opening of Shanghai Joypolis, in which we intend to designate certain area for consignment sales, will take place in the first quarter of 2016.
3. Our first large scale music animation concert of “*Violet*” (紫嫣) was held on 1 February 2015 where no consignment sales were conducted. We expect that there will be consignment sales in our music animation concerts in the future.
4. We intend to invite consignors to sell products through our booth in the future animation festivals that we may participate in, such as the Shenzhen Cartoon and Animation Festival (深圳動漫節).

We expect that the animation derivative products bearing our proprietary animation characters will be sourced by our licensees/consignors from third parties and will be approved by us before they are shelved. As we expect that our consignments will retain ownership of the products until they are sold, we will not hold any inventory for our consignment sales business.

Further, on 23 December 2014, Huajiatai PRC, as consignee, entered into a consignment agreement with a capsule toys vending machine operator, as consignor and as confirmed by our Directors, an Independent Third Party pursuant to which the capsule toys vending machine operator will place twenty capsule toy vending machines in the areas designated by us, for the period from 30 December 2014 to 30 December 2015 and at a consignment commission of 25% of the sales revenue generated by the capsule toy vending machines. We have placed these capsule toy vending machines in phase 1 of Shanghai Joypolis.

**OUR OTHER PARTICIPATIONS IN THE ANIMATION-RELATED INDUSTRY****The China Shenzhen International Cultural Industry Fair**

Shenzhen Huaxia was one of the participants of the China Shenzhen International Cultural Industry Fair (中國(深圳)國際文化產業博覽交易會) from 2012 to 2014, an annual exhibition jointly held by Ministry of Culture of the People's Republic of China (中華人民共和國文化部), Ministry of Commerce of the People's Republic of China (中華人民共和國商務部), State Administration of Press, Publication, Radio, Film and Television (國家廣播電影電視總局), China Council for the Promotion of International Trade (中國國際貿易促進委員會), Guangdong Provincial People's Government (廣東省人民政府) and Shenzhen Municipal People's Government (深圳市人民政府). We paid RMB1.4 million, RMB2.7 million and RMB0.2 million designing fees to Shenzhen Huaxia in relation to the design of our exhibition and related materials for distribution at the fair for the years ended 31 March 2012, 2013 and 2014 respectively. During the fair, we were able to showcase our product offering and our proprietary animations to local and overseas industry players, which we believe will be an excellent chance to attract new customers for our existing businesses and to explore new potential business opportunities.

**Start-up Enterprises Incubator Centre**

To promote the animation-related industry, with the authorisation of Longgang Labour and Employment Service Centre (龍崗區勞動就業服務中心), we operate a 3,000 sq.m. Start-up Enterprises Incubator Centre (創新創業孵化基地) adjacent to our administrative office in Longgang, Shenzhen. In the innovation centre, start-up enterprises with registered capital of less than RMB100,000 can set up their offices at a discounted rent and enjoy preferential policies such as the subsidies of social security insurance and tax from the local government. In the long run, we expect that the innovation centre would appeal to talented professionals in the animation-related industry, thereby providing suitable candidates or business opportunities for us to expand our own capabilities.

**OUR CUSTOMERS**

Our overall five largest customers during the Track Record Period are (1) the four major customers which purchased the animation derivative products for the Japanese market, namely President Japan Co. Ltd, Kuwugata, A.C. Promotion and Re-ment Co. Ltd.; and (2) the customer of our proprietary animations licensing business, namely, Zing. None of our customers during the Track Record Period was also our supplier.

Revenue from our five largest customers for each of the three years ended 31 March 2014 and the five months ended 31 August 2014 accounted for 76.2%, 88.2%, 87.2% and 92.7% of our total revenue respectively, while revenue from our largest customer accounted for approximately 40.2%, 29.2%, 40.0% and 40.3% of our total revenue for those respective periods.

All of the above customers are Independent Third Parties as of the Latest Practicable Date. Our Directors understand that Zing has been held by Mr. Atsushi HIRAMATSU since the date of establishment. Mr. ZHUANG and Mr. TING were the directors of Zing, together with Mr. Atsushi HIRAMATSU, during the period between 12 January 2010 and 29 June 2011, for the reason of

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promoting the business of Zing in Japan. During the period between November 2007 and November 2012, Mr. ZHUANG was one of the directors of A.C. Promotion for the intended purpose of business promotion in Japan. Mr. ZHUANG confirms that he has never been a shareholder of A.C. Promotion, nor has he ever participated in the business management of A.C. Promotion.

Save for the aforesaid, none of our Directors, their respective associates, or any shareholder of our Company (which to the knowledge of the Directors owns more than 5% of our share capital) has had any interest in any of our five largest customers since the inception of the Track Record Period up to the Latest Practicable Date.

### OUR SUPPLIERS

We had three suppliers during the Track Record Period, namely Sino Action, Best Toys and Shenzhen Jiezhimei. All of them are suppliers of our animation derivative products. None of our suppliers during the Track Record Period was also our customer.

Purchases from these three suppliers accounted for 96.7%, 95.8%, 95.1% and 97.7% of our total cost of sales and services for each of the three years ended 31 March 2014 and the five months ended 31 August 2014 respectively. The remaining cost of sales and services was mainly the service fees for engaging research and development personnel as well as quality control personnel via service agreements. Purchases from our largest supplier accounted for approximately 96.7%, 95.8%, 61.6% and 87.8% of our total cost of sales and services for those respective periods.

None of our Directors, their respective associates, or any shareholder of our Company (which to the knowledge of the Directors owns more than 5% of our share capital) has had any interest in any of our five largest suppliers since the inception of the Track Record Period up to the Latest Practicable Date.

### COMPETITION

According to the Frost & Sullivan Report, the animation derivative products trading industry is highly fragmented. As the competitive landscape of the industry is scattered across different geographical locations, industry players and in-house manufacturing capabilities, as advised by Frost & Sullivan, there is no meaningful and specific statistics on the market shares of comparable industry players. We consider our main and direct competitors in our sales of animation derivative products business to be companies based in China which are engaged in the manufacturing and/or trading of similar products. In addition, we may face competition from the entry of new participants into our markets particularly given the low entry barrier. However, our Directors consider that our Group has built up our reputation over the years and have established long-term stable business relationships with our major customers and our ability to supply products of quality that is consistently satisfactory to our major customers, which differentiate our Group with our competitors.

According to the Frost & Sullivan Report, as of the Latest Practicable Date, Shanghai Joypolis was the only indoor amusement park to be opened in Shanghai. However, we believe that Shanghai Joypolis will compete with other forms of entertainments, tourism and recreational activities. In particular, our Directors understand that SEGA is expected to open its own Joypolis indoor

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animation amusement park with a joint venture partner in Qingdao, Shandong Province, which may potentially compete with our Joypolis indoor animation amusement parks in China. Please also refer to “Risk factors — Risks related to our indoor animation amusement park business — Our right to operate Joypolis is only limited to Shanghai under the SEGA Licence Agreement.” for further details of the competition risks. In addition, as new attractions and recreation centres are developed or being developed in China, including the Shanghai Disney Resort, the number of expected visitors to our Joypolis indoor animation amusement parks may be adversely affected by the availability of other attractions in or near the cities. The profitability of the leisure-time industry is also influenced by various factors that are not directly controllable, such as economic cycle, entertainment trends and amount of available leisure time. Moreover, we face competition from entry of new participants into the indoor amusement park market. As multimedia animation entertainment business is our new and developing business, we face competitions from both existing market players as well as newly emerged competitors. For more details of the risks relating to these new businesses, please refer to “Risk factors — Risks related to our indoor animation amusement park business”.

### SEASONALITY

Historically, for our animation derivative products trading business, our revenue was subject to seasonality, which was mainly driven by the seasonal purchase patterns of our customers and end-consumers of the animation derivative products we supply. We generally record higher sales in or around third quarter of the year given that, based on our observations, our customers place more purchasing orders with us in that quarter in anticipation of stronger market demand for animation derivative products around Christmas. We believe that similar seasonality factor will also affect our proposed consignment business in the PRC. Please refer to “Risk factors — Seasonal fluctuation may materially and adversely affect our financial condition and results of operations” in this prospectus for further details.

Our proposed indoor animation amusement park business may be affected by seasonal fluctuations in revenue and profitability. Our Directors believe that, generally speaking, summer and winter when there are consecutive school holidays are the peak seasons for recreational businesses targeting students and families, including our proposed indoor animation amusement parks.

### FOREIGN EXCHANGE FLUCTUATIONS

A substantial part of our business is the trading of animation derivative products and our bills are usually settled by our customers in US dollars. We mainly pay manufacturing fees and commissions to our suppliers in Hong Kong dollars. However, pursuant to the SEGA Licence Agreement, we are required to pay SEGA licensing fee, costs for amusement facilities and other charges for services they provide to us in connection with the operation of the indoor animation amusement park in Japanese Yen. Further, we purchase certain equipment for Shanghai Joypolis from SEGA and pay SEGA in Japanese Yen. Appreciation of Japanese Yen would have a negative effect on the amount we are required to pay SEGA and going forward our exposure to Japanese Yen will therefore increase. Further, we pay our employees in our Shenzhen office in Renminbi and our other operating expenses also includes Renminbi. To minimize exchange risk, we closely monitor the movements in the exchange rates of US dollars, Renminbi and Japanese Yen to reduce the volatility risks of US dollars, Renminbi and Japanese Yen. According to our procedures, we shall

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monitor any increase in foreign exchange risk by establishing procedures to budget capital requirements for different foreign currencies and prepare monthly budgets accordingly for the review by the Group's chief financial officer. We also adopted procedures such that updates regarding foreign currencies are reported to our management team on a regular basis. We did not engage in any hedging activities during the Track Record Period but we will monitor from time to time to consider if there is such a need in the future.

### EMPLOYEES

As of the Latest Practicable Date, we had a total of 46 full-time employees. The following table sets forth the number of our full-time employees by area of responsibility and location of office as of Latest Practicable Date:

<b>Departments</b>	<b>Number of employees</b>	
	<b>Hong Kong</b>	<b>PRC</b>
Design and production	–	10
Business development	–	6
Quality control	–	6
Trading	2	2
Administration	2	8
Finance	5	5
<b>Total</b>	<b>9</b>	<b>37</b>

We recruit our employees based on a number of factors such as their relevant work experience, educational background, language ability and the needs of vacancies. We do not use employment agents in recruiting our employees. We provide training to certain employees to strengthen staff commitment and enhance their skills and technical knowledge at work.

Due to our administrative oversight, Shenzhen Wald did not fully pay the required amount of contributions in respect of the social insurance and the housing provident fund for some of the employees during the Track Record Period, which is in breach of the requirements under the Social Insurance Law of the PRC (《中華人民共和國社會保險法》). As of 31 August 2014, the total outstanding contributions for the social insurance and the housing provident fund of Shenzhen Wald amounted to approximately RMB0.5 million and RMB0.2 million, respectively. According to the relevant PRC laws and regulations, we may be required to pay the outstanding contributions within a given period. If we fail to do so within the given period, the relevant government authorities may impose a fine ranging from RMB10,000 to RMB50,000 on Shenzhen Wald and may apply to a PRC court for an order to enforce the payment.

Shenzhen Wald received a confirmation letter dated 16 January 2015 from the Social Insurance Bureau of Shenzhen (深圳市社會保險基金管理局) confirming that there was no record of any administrative penalties being imposed upon Shenzhen Wald for violating the laws and regulations in relation to social insurance for the period from 1 June 2012 to 31 December 2014. Further, Shenzhen Wald also received a receipt and a confirmation letter dated 8 January 2015 from the



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Shenzhen Housing Provident Fund Management Centre (深圳市住房公積金管理中心) confirming that Shenzhen Wald opened the relevant housing provident fund account on 9 April 2012 and it had not been penalized for violating laws and regulations in relation to housing provident fund for the period from June 2012 to December 2014.

As advised by our PRC Legal Adviser, the Social Insurance Bureau of Shenzhen and the Shenzhen Provident Fund Management Centre are the competent government authorities for the administration of social insurance and housing provident fund of Shenzhen Wald. Based on the above confirmations, from 1 June 2012 to 31 December 2014 and June 2012 to December 2014, respectively, Shenzhen Wald has not been penalized or fined for violating laws and regulations of social insurance or housing provident fund. We have been in compliance with the relevant regulations in relation to social insurance and housing provident fund since November 2014. Further, under the Deed of Indemnity, Mr. ZHUANG and Bright Rise have agreed jointly and severally to indemnify us against any outstanding social insurance and housing provident fund payable by Shenzhen Wald and any relevant penalty, loss and damage suffered by Shenzhen Wald.

As an internal control measure to prevent future breach, we have assigned relevant personnel to be responsible for the payment obligations; and specified the personnel to maintain the list of employees who shall be covered under the scope of social insurance and housing fund to ensure compliance with the relevant laws and regulations.

Save as disclosed above, we have made contributions to housing fund and pension, medical, maternity and unemployment benefit plans for our employees in accordance with the applicable laws and regulations in the PRC.

Our Directors believe that we maintain a good working relationship with our employees, and we had not experienced any significant problem or dispute with our employees or suffered disruptions due to any labour dispute during the Track Record Period. As of the Latest Practicable Date, none of our employees was represented by collective bargaining arrangements or is a member of a labour union. We did not experience any labour strikes during the Track Record Period.

## TAXATION

Our profitability and financial performance is affected by the level of taxation that we pay on our profit. During the Track Record Period, we were not entitled to any preferential tax treatments.

Historically, China Animation BVI, was the principal operating company of our Group during the period from 1 April 2008 to 31 March 2013. During this period and up to the date of this prospectus, China Animation BVI was primarily engaged in the trading business of animation derivative products. Moreover, China Animation BVI also licensed our proprietary animation characters to Zing for licensing fee. On 30 August 2013, after considering the advice from professionals regarding tax matters in Hong Kong, China Animation BVI applied for company registration with the Companies Registry of Hong Kong under Part XI of the then Companies Ordinance as a non-Hong Kong company. On 16 October 2013, through its tax representative, China Animation BVI notified the IRD that it had established a place of business in Hong Kong since the year of assessment of 2008/09 and had derived Hong Kong sourced profit subject to the Hong Kong profits tax. Subsequently, China Animation BVI has lodged offshore profits claims in respect of the

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trading income (other than trading income derived from the Hong Kong affiliates of Japanese customers) and licensing income derived by it on the basis that the profits were derived from outside Hong Kong.

According to the profits tax returns submitted to the IRD and taking into account the advice of the tax adviser, China Animation BVI estimated that the total estimated tax payable for the assessment years 2008/09 to 2012/13 (taking into account the aforesaid offshore profits claims) amounts to HK\$4.6 million in aggregate. China Animation BVI has already paid this estimated amount of tax on the basis that the offshore profits claim will be accepted by the IRD. As of the Latest Practicable Date, the offshore profits claims were still under review by the IRD. Please refer to the risk factor as set out in the section headed “Risk Factors — Risks related to our business operation generally — If the IRD charges a profit tax and/or penalty that substantially exceeds the tax provision we made, it will have a negative impact on our financial condition and results of operations” in this prospectus for details.

### HEALTH AND SAFETY MATTERS

As advised by our PRC Legal Adviser, pursuant to the national and local health and safety laws and regulations in the PRC, we are required to provide our employees in the PRC with a safe working environment, pursuant to which:

- (1) we shall establish and perfect the system of occupational safety and health, strictly implement the rules and standards of the PRC government with regard to occupational safety and health, carry out education among employees in occupational safety and health, prevent accidents in the process of work, and lessen occupational hazards;
- (2) the facilities of occupational safety and health must meet the standards set by the PRC government;
- (3) the facilities of occupational safety and health for a newly-built, renovated or expanded project must be designed, constructed and put into operation or use simultaneously with the main part of the project;
- (4) we shall provide employees with occupational safety and health conditions conforming to the provisions of the PRC government and necessary articles of labour protection, and provide regular health examination for employees engaged in work with occupational hazards;
- (5) employees to be engaged in specialised operations must receive specialised training and acquire qualifications for such special operations. We are also subject to the national and local laws and regulations in the PRC in relation to the operation of Shanghai Joypolis. Further information on these laws and regulations is set forth in the section headed “Applicable Laws and Regulations — Entertainment venues industry” in this prospectus.

During the Track Record Period and up to the Latest Practicable Date, none of our employees had been involved in any major accident in the course of their employment with us and we had complied with applicable national and local health and safety laws and regulations in all material respects.

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### ENVIRONMENTAL MATTERS

Since we are not engaged in the manufacturing of products and our trading business does not involve any environmental protection issue, we have not incurred any cost in complying with applicable environmental laws and regulations for the three years ended 31 March 2014 and the five months ended 31 August 2014. Similarly, our Directors believe that we were in all material respects in compliance with the applicable environmental protection laws and regulations in the PRC during the Track Record Period. Following the Listing and for the year ending 31 March 2015, our Directors expect that we would not incur any cost on environmental protection.

### PROPERTIES

As of the Latest Practicable Date, we did not own any real property for our business operations. The premises leased by us are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. The terms of each of the lease agreements have been negotiated on an arm's length basis and on normal commercial terms.

According to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this prospectus is exempted from strict compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which require a valuation report with respect to our interests in land or buildings.

As of the Latest Practicable Date, our Directors confirm we leased five properties in the PRC and Hong Kong for our business purpose:

<b>Leased properties</b>	<b>Gross floor area</b>	<b>Address</b>	<b>Term</b>
Our offices in Shenzhen (Note 1)	5,400 sq.m.	1st, 2nd, 3rd and 5th Floors of Building No. 10, Ailian Industrial Zone, Wulian Community, Longcheng Street Longgang District, Shenzhen PRC	From 1 August 2014 to 31 March 2016
Our offices in Shenzhen (Note 2)	8,022 sq.m.	1st, 2nd, 3rd and 5th Floors of Building No. 9, Ailian Industrial Zone, Wulian Community, Longcheng Street, Longgang District Shenzhen PRC	From 1 August 2014 to 31 March 2016

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Leased properties	Gross floor area	Address	Term
Our offices in Hong Kong ( <i>Note 3</i> )	1,205 sq.ft.	Unit 2 on 21st Floor Greenfield Tower Concordia Plaza No. 1 Science Museum Road Kowloon, Hong Kong	From 27 June 2014 to 26 June 2015
Our venue for Shanghai Joypolis ( <i>Note 4</i> )	8,239 sq.m.	Part of 3rd and 4th Floors Shanghai Global Harbour No. 3300 Zhongshan North Road Putuo District Shanghai PRC	From 20 December 2014 (for 1,000 sq.m.) (with a rent free period from 20 September 2014 to 19 December 2014) and 28 July 2015 (for 7,239 sq.m.) (with a rent free period from 25 January 2015 to 27 July 2015) to 27 July 2025
Huajiatai PRC's offices	504 sq.m.	L3008, 3rd Floor Shanghai Global Harbour No. 3300 Zhongshan North Road Putuo District Shanghai PRC	From 1 August 2014 to 1 August 2016

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*Notes:*

1. The premises for our offices are leased from Mr. ZHUANG pursuant to a lease agreement dated 1 August 2014. The lease agreement constitutes a continuing connected transaction for our Company. Further information on the lease agreement is set forth in the section headed "Exempted Continuing Connected Transactions" in this prospectus.
2. The premises for our offices are leased from Mr. ZHUANG pursuant to a lease agreement dated 1 August 2014. The lease agreement constitutes a continuing connected transaction for our Company. Further information on the lease agreement is set forth in the section headed "Exempted Continuing Connected Transactions" in this prospectus.
3. The premises for our offices in Hong Kong are leased from an Independent Third Party pursuant to a lease agreement dated 2 July 2013.
4. The premises for Shanghai Joypolis are leased from Yue Xing, an Independent Third Party, pursuant to the Shanghai Joypolis Tenancy Agreement dated 24 July 2014. Further information on this is set forth in the paragraphs under "Extension of our core businesses in the animation-related Industry — Indoor animation amusement park" above.

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As advised by our PRC Legal Adviser, Mr. ZHUANG has not yet obtained all the legal title ownership certificates for the our leased properties in Shenzhen (the “**Shenzhen Properties**”). According to the notice published by the Leadership Group in Handling Historical Unauthorised Structures in the Area of Longgang District, Shenzhen City (深圳市龍崗區處理歷史遺留違法建築領導小組) (the “**Longgang District Leadership Group**”), any matters related to the qualified application for the legal title ownership of buildings on historical heritage site for production and business purposes shall be subject to the approval of Longgang District Leadership Group. As of the Latest Practicable Date, Mr. ZHUANG has not yet obtained such approval. The Office of Leadership Group in Handling Historical Unauthorised Structures in the Area of Longcheng Street, Longgang District, Shenzhen City (深圳市龍崗區龍城街道處理歷史遺留違法建築領導小組辦公室) (the “**Longgang Leadership Group**”) issued a confirmation letter dated 19 November 2014 stating, among other things, that (1) the Longgang Leadership Group has accepted Mr. ZHUANG’s application, and the Longgang District Leadership Group is processing the application of Mr. ZHUANG in transferring the title of the Shenzhen Properties to him; (2) Mr. ZHUANG has completed all requisite procedures of the Longgang District Leadership Group’s collective approval, and is waiting for such collective approval; (3) upon approval by Longgang District Leadership Office and payment by Mr. ZHUANG of the outstanding land premium, Mr. ZHUANG can apply for the title ownership certificates; (4) Mr. ZHUANG as the beneficial owner of the Shenzhen Properties has the rights to lease the Shenzhen Properties to other parties; and (5) Mr. ZHUANG shall not be liable for the lack of legal title to the Shenzhen Properties due to the historical title defects. As advised by our PRC Legal Adviser, Longgang Leadership Group is the competent authority for Mr. ZHUANG to apply for the approval of lawful title of the Shenzhen Properties and give preliminary opinions following review and examination, and therefore is competent in issuing the above confirmation, whilst the Longgang District Leadership Group is to confirm and approve qualified application for the legal title ownership of the Shenzhen Properties.

Our Directors are of the view that, in light of the above confirmation and taking into account that, if required, we would be able to identify suitable replacement for relocation without any difficulty. Mr. ZHUANG as the lessor would indemnify us pursuant to the Deed of Indemnity to compensate any loss and damage suffered by us in relation to the title defects of the Shenzhen Properties (including the leasehold improvement in respect of the Shenzhen Properties). Our Directors are also of the view that the title defects of the Shenzhen Properties would not result in any material adverse effect to our Group as a whole. Nevertheless, there remains risks in relation to the lease of the Shenzhen Premises. Further information is set forth in the section headed “Risk Factors — The properties in Shenzhen leased by Mr. ZHUANG to us have title defects, and any interference to the lease agreements may result in disruption to our business” for details of the associated risks.

Our Directors consider that it is in our interest to lease the Shenzhen Premises from Mr. ZHUANG given the close proximity with our major suppliers.

As advised by our PRC Legal Adviser, as of the Latest Practicable Date, the lease agreements with respect to the premises in Shanghai have not yet been registered. Our PRC Legal Adviser confirm that such non-registration would not affect the legality of the agreements; however, Huajiatai PRC may be subject to a penalty between RMB1,000 and RMB10,000. Huajiatai PRC will proceed to registration of the lease agreements as soon as possible and in any event prior to the Listing.

### INTELLECTUAL PROPERTY

As of the Latest Practicable Date, we had registered various trademarks in the PRC and had submitted trademark applications in the PRC, Hong Kong, Macau, Taiwan and Japan for the protection of our intellectual property rights. Our trademark applications are submitted in those jurisdictions where our Directors believe to be our principal markets. As of the Latest Practicable Date, we had registered various copyrights in the PRC and had submitted one patent application in the PRC. Further information about our intellectual property is set forth in the paragraphs under “Further information about our business — 2. Intellectual property rights of our Group” in Appendix IV to this prospectus.

In general, in respect of the products that we supply to our customers in our sale business with their specified-characters, we do not retain the intellectual property rights relating to those products. In respect of the products based on our proprietary animation characters, we retain the intellectual property rights of those products. We rely on trademarks and copyrights to protect our intellectual property rights. We will also engage external adviser to advise us on intellectual property protection issues as and when required. Further information on the risks and uncertainties associated with our intellectual property is set forth in the sections headed “Risk Factors — Risks related to our trading of animation derivative products” and “Risk Factors — Risks related to the commercialisation of our proprietary animation characters” in this prospectus.

Our Directors are not aware of any large-scale counterfeiting issue in China in respect of the products sourced by the Group for its customers in Japan. In any event, the Group does not have the intellectual property rights in respect of the products sourced by the Group for its customers in Japan.

Our Directors are aware that there were counterfeited products featuring the propriety animation characters of the Group in the PRC. Our Directors believe that product counterfeiting issue in the PRC was a reason which affected Zing (which was the licensee of our proprietary animation characters) in achieving its contemplated results in product development. Our Directors did not take any remedial step as the licensing business was not our core business during the Track Record Period. However, with the opening of Shanghai Joypolis with the retail space allocated for the sales of merchandise and other animation derivative products, we have retained Dongguan Chuanghua Intellectual Property Agency Co., Ltd. 東莞市創華知識產權代理有限公司, a consultancy firm of PRC focusing on intellectual property, to advise us on the intellectual property issues and the steps that may be taken by us in response to the counterfeiting issue. As of the Latest Practicable Date, our Directors were not aware of large-scale and nation-wide counterfeiting issue in respect of any products featuring our proprietary animation characters. Our Directors will keep on monitoring the counterfeiting issue.

Under the SEGA Licence Agreement, we shall be obliged to inform SEGA if it learns of any threatened or actual infringement of any of the intellectual property rights owned by SEGA. Our Directors have designated personnel to monitor the intellectual property issue in China from time to time.

### INSURANCE

We maintain property insurance on the leased offices and the insurance policies cover losses due to fire. We do not maintain product liability insurance coverage with respect to the products sourced by us for our customers as, as advised by our PRC Legal Adviser, it is not mandatory in China. We have not experienced any material product liability claims in relation to our products during the Track Record Period. In respect of Shanghai Joypolis, we intend to purchase and maintain insurance against personal injury and damage of property due to accidents or caused by facilities, public liability, business interruption, etc, as and when appropriate, taking into account the timetable and progress of our opening plan for Shanghai Joypolis. We also provide social security insurance including pension insurance, unemployment insurance, work related injury insurance and medical insurance for our PRC employees. Our Directors believe that our insurance coverage to be consistent with that of other companies of similar size and nature in the same industry in China.

As of the Latest Practicable Date, we had not made or been the subject of any insurance claims. For risks associated with our insurance coverage, see the section headed “Risk Factors — Risks related to our business operation generally — We have limited insurance coverage” in this prospectus.

### LEGAL AND COMPLIANCE

#### Legal proceedings

As of the Latest Practicable Date, we were not aware of any pending or threatened litigation, arbitration or administrative proceedings against us or any of our subsidiaries which could have a material adverse effect on our financial conditions or results of operations.

As of the Latest Practicable Date, we were not involved in any pending, threatened or actual litigations, arbitrations or other proceedings which we believe would materially and adversely affect our business, financial condition or results of operations.

#### Regulatory matters

With the advice provided by our legal advisers as to Hong Kong law, our Directors confirm that, save as the non-compliant incidents disclosed in this prospectus, all subsidiaries of our Company incorporated in Hong Kong have the requisite power to conduct its business described in this prospectus in Hong Kong and does not require any additional approvals, authorisations, licenses (other than the respective business registration certificates which have to be renewed on an annual basis) and permits from government in Hong Kong to carry out such business.

With the advice provided by the PRC Legal Adviser, our Directors confirm that all members of our Group in the PRC have obtained the necessary permits, licences and approvals for their respective business activities that are currently in operation in the PRC. For Shanghai Joypolis, Huajiatai PRC will apply for the relevant licence, approval and permits from time to time after seeking professional advice from our advisers. As of the Latest Practicable Date, Huajiatai PRC has obtained the requisite licences, approvals and permits for its current business scope of “children’s playground services” which, as advised by our PRC Legal Adviser, is sufficient for the operation of the phase 1 opening of Shanghai Joypolis on 30 December 2014. As further advised by our PRC Legal Adviser, upon expansion of the business scope under the business licence, Huajiatai PRC will be required to obtain the following major licences, approvals and permits for the grand opening of

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Shanghai Joypolis which is currently scheduled to take place in the first quarter of 2016, if Huajiatai PRC intends to engage in the relevant businesses:

<b>Major licenses, approvals and permits</b>	<b>Relevant governmental authorities issuing the licenses, approvals and permits</b>	<b>Our expected timeframe</b>
License on the Installation, Modification and Repair of Special Equipment (特種設備安裝改造維修許可證)	Shanghai Municipal Supervisory Administration of Quality and Technology (上海市質量技術監督局)	October 2015
Confirmation on the Contents of the Game and Entertainment Facilities (遊戲遊藝設備內容審核確認單)	Shanghai Municipal Administration of Culture, Radio, Film & TV (上海市文化廣播影視管理局)	October 2015
License on Operating Entertainment Business (娛樂經營許可證)	Shanghai Municipal Administration of Culture, Radio, File & TV (上海市文化廣播影視管理局)	Fourth quarter of 2015
License on Catering Services (餐飲服務許可證)	Shanghai Municipal Supervisory Administration of Food and Drugs (上海市食品藥品監督管理局)	Fourth quarter of 2015
Registration on the Use of Special Equipment (特種設備使用登記)	Shanghai Municipal Supervisory Administration of Quality and Technology (上海市質量技術監督局)	Submit application within 30 days of grand opening

Taking into consideration the advice of the PRC Legal Adviser and the discussions with the relevant government authorities in the PRC, our Directors are of the view that we will be able to obtain the necessary permits, licences and approvals for Shanghai Joypolis for the grand opening which are expected to take place in the first quarter of 2016. Nevertheless, there remains risks that we may not be able to obtain the relevant licenses, approvals and permits on time or at all. Further information on these risks is set forth in the section headed “Risk Factors — Risks related to our indoor animation amusement park business — Shanghai Joypolis has yet to open and any delay or unexpected complication in the approval process could materially and adversely affect our business plans” in this prospectus.

### **Compliance matters**

Our Directors also confirm that, save as otherwise disclosed in this prospectus, we have complied with the applicable laws and regulations in all material aspects to the respective business activities carried out by the relevant members of the Group in Hong Kong and the PRC, respectively. This confirmation is made by our Directors after due consideration of the advices provided to us by our legal advisers as to Hong Kong law and the PRC Legal Adviser. Our Directors further confirm that we have not established any business presence in Japan.



We set forth below the non-compliance incidents relating to our Group during the Track Record Period and the measure we have adopted or propose to adopt to rectify the non-compliance:—

Non-compliance incidents	Relevant laws and regulations, legal consequences and potential maximum penalty	Reasons for non-compliance	Rectification actions	Internal control measures to prevent future breach
<p>We did not notify the IRD of our assessable profits for the years of assessment 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 on time.</p>	<p>After seeking professional advice, we understand that the possible penalty, if any, is likely to be at the level of 50% of the amount of tax undercharged, that is, HK\$1,105,000, HK\$1,958,000, HK\$2,283,000 and HK\$2,283,000 as of 31 March 2012, 2013, 2014 and 31 August 2014, respectively.</p>	<p>Relying on the advices from time to time given by the company providing secretarial services and accountancy services to China Animation BVI, Mr. ZHUANG was under the impression that China Animation BVI was not required to complete the company registration and the profits tax filings in Hong Kong. In December 2011, Mr. ZHUANG requested a firm of Hong Kong certified public accountants to review the Hong Kong profits tax position of China Animation BVI. China Animation BVI received a written opinion from the firm that the trading profit of China Animation BVI would not be subject to Hong Kong profits tax and that there was no tax evasion based on the documents reviewed for the issuance of the tax opinion. On this basis, Mr. ZHUANG genuinely believed that no registration of China Animation BVI as a non-Hong Kong company under the then Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (the “<b>Companies Ordinance</b>”) and no filing of profits tax returns with the IRD would be required.</p>	<p>Although China Animation BVI did not complete any business and tax registration until 2013, it made backlog tax filings to the IRD and the filings were made to the IRD on time once the profits tax returns were issued to China Animation BVI.</p> <p>China Animation BVI made the relevant filings and notifications in February 2014 for the year of assessment 2008/09 and in May 2014 for the years of assessment 2009/10, 2010/11, 2011/12 and 2012/13.</p> <p>China Animation BVI have lodged the offshore profits claims (which is under review) in respect of its trading income (other than trading income derived from the Hong Kong affiliates of our Japanese customers) and licensing income derived from outside of Hong Kong.</p> <p>We estimate that the total tax payable by China Animation BVI for the years of assessment of 2008/09 to 2012/13 amounts to HK\$4,566,000 if the offshore profits claims are accepted by the IRD. We have already paid such amount to the IRD based on the tax returns received.</p>	<p>China Animation BVI engaged Russell Bedford Hong Kong as its tax service provider to handle its Hong Kong profits tax filing matters to prevent the re-occurrence of its non-compliance.</p> <p>Based on the information provided, the handling director at Russell Bedford Hong Kong has close to 30 years of experience in taxation and business advisory, was formerly a tax partner with an international accounting firm and specializes in Hong Kong and regional tax advisory. The handling director is a member of Hong Kong Institute of Certified Public Accountants. Based on the above, our Directors are of the view that the handling director is competent to handle the tax matter of China Animation BVI and in this connection, nothing has come to the Sole Sponsor’s attention that could lead to cast doubts on the handling director’s competency in this respect.</p> <p>We have strengthened the internal control measures in respect of the possible tax liability of each member of our Group. All tax computations for the existing members and newly established members will be prepared by an accounting manager of our Group who is a certified public accountant and will be reviewed and approved by our chief financial officer on a monthly or quarterly basis. We have also engaged a reputable firm of accountants to review its tax compliance system and conduct tax compliance review on a regular basis. With the support from external advisers, we have formulated annual tax plans and have prepared fiscal budgets with appropriate tax provisions based on the prevailing charging rates at the places/jurisdictions where the relevant members of our Group are incorporated or having a permanent place of business. If there is any material discrepancy between the amount of tax provision and the actual amount of the tax payment, our chief financial officer will report to our Board and will review the difference with further advice obtained from the external tax advisers. Our Directors are of the view that all of these measures are reasonable in the circumstance in seeking to prevent similar non-compliant incidents from happening again in the future and in this connection, nothing has come to the Sole Sponsor’s attention that could lead to cast doubts on such view.</p>
<p>However, in about August 2013, as part of the preparation work for the Listing, Mr. ZHUANG was clarified that the registration as a non-Hong Kong company by China Animation BVI under the then Companies Ordinance should have been completed from April 2008 when it established a place of business in Hong Kong, albeit that a part or all of the trading profit of China Animation BVI was not sourced in Hong Kong. China Animation BVI then proceeded to complete the registration as a non-Hong Kong company under the Companies Ordinance and that all previous Hong Kong profits tax filings were submitted to the IRD during the period between February and May 2014 with the advice from Russell Bedford Hong Kong, a firm of Hong Kong certified public accountants engaged by China Animation BVI in June 2013. An offshore profits claim has subsequently been submitted to IRD by Russell Bedford Hong Kong for and on behalf of China Animation BVI in respect of its trading profit arising in or derived from the business activities conducted outside Hong Kong. As of the Latest Practicable Date, the IRD did not issue any final ruling on the claim.</p>				

Non-compliance incidents	Relevant laws and regulations, legal consequences and potential maximum penalty	Reasons for non-compliance	Rectification actions	Internal control measures to prevent future breach
			<p>Russell Bedford Hong Kong believed that China Animation BYI would have strong supporting grounds for its offshore trading profit claim (except for trading profits derived from the Hong Kong affiliates of China Animation BYI's Japanese customers) and thus the tax returns were filed on this basis.</p> <p>As of 31 August 2014, we had made accumulated provision of HK\$71,109,000 as tax payable. Having taken into account the professional advice we received, our Directors believe that our Group has made appropriate provision in respect of the possible tax liability.</p>	

## **INTERNAL CONTROL MEASURES**

Our Board is responsible for establishing our internal control system and reviewing its effectiveness. We have engaged an internal control consultant to conduct a review of our internal control system and have implemented (or will implement no later than the Listing) the relevant suggestions proposed by our internal control consultant, such as enhancing internal filing and monitoring system for the agreements, and implementation of internal control system for the credit review of customers. Based on its review, the internal control consultant has not identified any material deficiencies regarding our Group's internal control system. As our business continues to expand, we will continue to refine and enhance our internal control system to respond to the evolving requirements of our business operations. We will continue to review our internal control system to ensure due compliance with the applicable laws and regulations.

We have decided to adopt the following measures to ensure on-going compliance with the applicable laws and regulations and to strengthen our internal control upon Listing:

- (1) establishing internal control system manuals on corporate governance, operations, management, legal matters, finance and auditing setting out the internal approval and review procedures pursuant to which our employees at different departments shall comply with;
- (2) supervision and guidance by our Audit Committee comprising our independent non-executive Directors which is empowered to provide an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of our Group, overseeing the audit process etc;
- (3) supervision and guidance by our Investment Committee comprising four Directors and one senior management which is empowered to consider the investment and business decisions of our Group (such as the establishment of new Joypolis in China) and monitor the performance of our Group for compliance with investment policies and guidelines;
- (4) hiring additional personnel to support our continued growth and development including candidates with professional experience and qualifications. In this regard, we will identify suitable candidate with legal background to oversee legal and compliance matters; and
- (5) engage external professional advisers (including Compliance Adviser with effect from Listing, as well as legal advisers as to Hong Kong and PRC laws, and tax advisers) to provide professional advice and guidance to our Group to ensure compliance with the applicable laws and regulations. We also expect our external professional advisers will provide internal training to our employees from time to time to ensure our employees are kept up-to-date to any legal and regulatory developments.

Based on the above, our Directors are of the view that the Company has taken reasonable steps to establish an internal control system and procedures to enhance the control environment at both the working and management levels, and that the internal control measures are adequate and effective for the Group's business operations.

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### DIRECTORS

Our Board consists of six Directors, including three executive Directors and three independent non-executive Directors. The following table sets forth information regarding members of our Board:

Name	Age	Position in our Group	Date of joining us	Date of appointment as Director	Responsibilities in our Group
Mr. ZHUANG Xiangsong (庄向松)	45	Chief executive officer and executive Director	(Note 1)	25 September 2013	Overseeing our overall business and strategic development.
Mr. TING Ka Fai Jeffrey (丁家輝)	49	Chief operating officer and executive Director	2 January 2014	20 November 2014	Overseeing the daily business operations of our Group including overseeing our sales departments.
Ms. LIU Moxiang (劉茉香)	39	Executive Director	1 June 2012	20 November 2014	Overseeing the progress of our theme park business and the daily administrative works.
Mr. NI Zhenliang (倪振良)	68	Independent non-executive Director	20 November 2014	20 November 2014	Supervising our compliance and corporate governance matters and providing independent views to our Board.
Mr. TSANG Wah Kwong (曾華光)	62	Independent non-executive Director	20 November 2014	20 November 2014	Supervising our compliance and corporate governance matters and providing independent views to our Board.
Mr. HUNG Muk Ming (洪木明)	49	Independent non-executive Director	20 November 2014	20 November 2014	Supervising our compliance and corporate governance matters and providing independent views to our Board.

*Note:*

(1) Mr. ZHUANG is the founder of our Group.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### Executive Directors

**Mr. ZHUANG Xiangsong** (庄向松), aged 45, is our founder, our executive Director and our Chief Executive Officer. Mr. ZHUANG was appointed as an executive Director on 20 November 2014. Mr. ZHUANG is also the Chairman of our Board. Mr. ZHUANG is primarily responsible for conducting the business of our Group and formulation of business and strategic development of our Group. Mr. ZHUANG has approximately 18 years of experience in the toy industry. Prior to establishing our Group, Mr. ZHUANG, together with a business partner, started the toy sales business in July 1996 through the acquisition of all issued share capital of Sino Action as a shelf company. During the period between July 1996 and March 2008, Mr. ZHUANG was a shareholder of Sino Action holding 50.0% of its shares in issue. Mr. ZHUANG sold all his equity interest in Sino Action in March 2008 in order to focus on the business development of China Animation BVI.

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

Mr. ZHUANG was elected to serve as a representative of the People’s Congress of Shenzhen City Committee (深圳市人民代表大會代表) from June 2010 to May 2015. Mr. ZHUANG has been the Vice President and Deputy Chairman of Shenzhen City Longgang District General Chamber of Commerce (Association of Industry and Commerce) (深圳市龍崗區總商會(工商聯)), the President and the Chairman of Shenzhen City Longgang District Longcheng Chamber of Commerce (Association of Industry and Commerce) (深圳市龍崗區龍城街道商會(工商聯)), the Vice President of Shenzhen City Longgang District Henggang Chamber of Commerce (深圳市龍崗區橫崗商會), and the Enforcement Supervisor in the fourth term of the Municipal People’s Procuratorate of Shenzhen City (深圳市人民檢察院第四屆執法監督員). Mr. ZHUANG was appointed as the supervisor of the Buji Customs of Shenzhen (深圳布吉海關監督員) for the period between 1 September 2012 to 1 August 2014.

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

**Mr. TING Ka Fai Jeffrey** (丁家輝), aged 49, was appointed as an executive Director on 20 November 2014. Mr. TING is our Chief Operating Officer. Mr. TING joined our Group in January 2014, before which Mr. TING worked for Wah Shing during the period between 2008 and 2013 primarily on overseeing the production of the toy products by Wah Shing for Sino Action/China Animation BVI. Mr. TING is principally responsible for overseeing our daily business operations including the sales and the production activities and the implementation of our business plans. Mr.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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TING has approximately six years of experience in the merchandising industry. Before joining our Group and Wah Shing, Mr. TING was the deputy general manager with Tohki Enterprise Co., a furniture manufacturer, from 1 September 1992 to 31 July 1998. Mr. TING obtained the degree of bachelor of arts from the University of Western Australia in March 1991.

**Ms. LIU Moxiang (劉茉香)**, aged 39, was appointed as an executive Director on 20 November 2014. Ms. LIU joined Shenzhen Wald in June 2012. Ms. LIU is principally responsible for implementing our business plans and strategies. Prior to joining our Group, Ms. LIU worked in sales team of エイメックストレーディング (Aimex Trading Co., Ltd.\*) from April 2004 to July 2005. From October 2005 to June 2007, Ms. LIU worked for Walita Toys and Gifts Co., Ltd., Shenzhen as an assistant to the senior executives. Ms. LIU was the executive manager of Shenzhen Huaxia between June 2007 and June 2012. Ms. LIU graduated from 九江學院 (Jiujiang University\*) (formerly known as 九江財經高等專科學院 (Jiujiang College of Finance and Economics\*)) in July 1999 on international business. From October 1999 to March 2001, Ms. LIU attended Kobe YMCA Japanese Language School in Japan. Ms. LIU studied business administration in Kobe Gakuin University, Graduate School of Economics, in Japan from April 2002 to March 2004 and received a master degree of arts in business administration.

### Independent Non-executive Directors

**Mr. NI Zhenliang (倪振良)**, aged 68, was appointed as an independent non-executive Director on 20 November 2014. Mr. NI is currently the Chairman of the Hong Kong-Greater China Expert Calligraphy Association (香港大中華名家書畫會) and the Shenzhen Municipal Marketing Institute (深圳市市場學會) in the PRC. Mr. NI is also a member of the Federation of Hong Kong Writers (香港作家聯會) in Hong Kong.

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

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

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

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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**Mr. TSANG Wah Kwong (曾華光)**, aged 62, was appointed as an independent non-executive Director on 20 November 2014.

Mr. TSANG is a former partner of PricewaterhouseCoopers in Hong Kong and China and has over 30 years of experience in auditing and providing support for initial public offerings and acquisition transactions. From July 1978 to June 2011, Mr. TSANG worked in PricewaterhouseCoopers in Hong Kong and China. Mr. TSANG is currently an independent non-executive director, chairman of the audit committee and the compensation committee of Agria Corporation, a company listed on the New York Stock Exchange, an independent non-executive director and chairman of the audit committee of China Merchants China Direct Investments Limited (Stock code: 133), a company listed on the Stock Exchange, an independent non-executive director and chairman of the audit committee of PanAsialum Holdings Company Limited (Stock code: 2078), a company listed on the Stock Exchange, an independent non-executive director and chairman of the nomination committee of Sihuan Pharmaceutical Holdings Group Ltd. (Stock code: 460), a company listed on the Stock Exchange, and an independent non-executive director and chairman of the audit committee of TK Group (Holdings) Limited (Stock code: 2283), a company listed on the Stock Exchange. Mr. TSANG was a director of PGG Wrightson Limited (PGGW) from November 2011 to December 2012 and has been reappointed as a director of PGGW from November 2014. PGGW is a company listed on the New Zealand Stock Exchange.

Mr. TSANG received a bachelor's degree in business administration from the Chinese University of Hong Kong in 1978. Mr. TSANG has been a fellow member of the Hong Kong Institute of Certified Public Accountants since September 1991, a member of the Chinese Institute of Certified Public Accountants since May 2004 and a fellow member of the Chartered Association of Certified Accountants since March 1989.

**Mr. HUNG Muk Ming (洪木明)**, aged 49, was appointed as an independent non-executive Director on 20 November 2014.

Mr. HUNG has over 24 years of experience in auditing, finance and accounting. Since February 2005, Mr. HUNG has been the group financial controller of Guangdong Mingcrown Group Limited (廣東名冠集團有限公司), a company engaging in construction, property development, hotels, steel production and ports businesses in Dongguan and Xinhui, the PRC. From October 2002 to January 2005, Mr. HUNG was the group financial controller of Hoi Meng Group (開明集團), a company engaging in garment design, manufacturing and export with production facilities in the PRC, Macau and Cambodia. From July 2001 to September 2002, Mr. HUNG worked as a finance manager of Hong Kong Exchanges and Clearing Limited (Stock code: 388), a company listed on the Stock Exchange. From November 1994 to July 2001, Mr. HUNG was the accounting manager of financial control department of Embry (H.K.) Limited. From August 1990 to November 1994, Mr. HUNG was promoted from accountant to senior accountant I of Price Waterhouse (now known as PricewaterhouseCoopers). Mr. HUNG is currently an independent non-executive director and chairman of the audit committee of Cinda International Holdings Ltd. (Stock code: 111), a company listed on the Stock Exchange, an independent non-executive director and chairman of the audit committee of Silver Grant International Industries Ltd. (Stock code: 171), a company listed on the Stock Exchange, and an independent non-executive director and chairman of the audit committee of Century Sage Scientific Holdings Ltd. (Stock code: 1450), a company listed on the Stock Exchange. From September 2004 to February 2006, Mr. HUNG was the independent non-executive director and

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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chairman of the audit committee of Rontex International Holdings Ltd. (Stock code: 1142), a company listed on the Stock Exchange.

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

Save as disclosed in this prospectus, each of our Directors confirmed that he or she (as the case may be) (i) did not hold any directorships in the last three years prior to the Latest Practicable Date in public companies, the securities of which are listed on any securities market in Hong Kong or overseas; (ii) does not hold any other positions with us or other members of our Group; and (iii) does not have any relationship with other Directors, senior management or Controlling Shareholders, if any, of our Company or any interest in our Shares within the meaning of Part XV of the SFO.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of our Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as of the Latest Practicable Date.

### HONOURABLE CHAIRMAN

**Mr. Shinichiro IKEDA** (池田慎一郎), aged 56, is our Honorable Chairman advising us on our overall business directions and the strategic planning. Mr. IKEDA was appointed as our Honourable Chairman on 16 February 2015. Mr. IKEDA has approximately 25 years of experience in the toy merchandising and animation design and production industries in Japan. Mr. IKEDA is the director of BanjihanAce, the director of IMA Group, the director of 株式会社ソル・インターナショナル (SOL International Inc.\*), a company engaging in distribution of toy products in Japan, the director of 株式会社スタジオデーン (Studio Deen Inc.\*), a company engaging in animation production and other related business activities, and the director of 一般財団法人日本漫画事務局八月十五日の會 (Japan Comic Affairs Bureau August 15 Meeting\*), an industry association of comics artists in Japan.

Mr. IKEDA has been a director of BanjihanAce since March 2007. Mr. IKEDA is the director of 株式会社サーファーズパラダイス (Surfers Paradise Inc.\*), a company engaging in toy and general consumer product trading and manufacturing. Mr. IKEDA graduated from Dokkyo University, Japan with a bachelor's degree in law in March 1983.



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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### SENIOR MANAGEMENT

The following table sets forth information in respect of our senior management team.

<u>Name</u>	<u>Age</u>	<u>Date of joining us</u>	<u>Position</u>
Mr. WONG Yee Shuen Wilson (黃以信)	47	1 November 2014	Chief Financial Officer
Mr. LUK Sik Tat, Patrick (陸適達)	39	21 June 2012	Finance Manager
Mr. YU Kin Keung (余健強)	33	7 May 2014	Finance Manager
Mr. LIANG Jianjun (梁健軍)	37	1 July 2012	Production Director, Creative and Research and Development Department
Mr. ZHAN Zhengli (詹正禮)	44	1 July 2012	Manager of Production Management and Control
Mr. ZHANG Jun (張俊)	44	1 January 2014	Director, Research and Development
Mr. LAI Jianhua (賴建華)	32	1 January 2014	Public Affairs Manager
Mr. PEI Ying (裴瑩)	31	1 November 2014	Curator of Shanghai Joypolis

**Mr. WONG Yee Shuen Wilson (黃以信)**, aged 47, is our Chief Financial Officer. Mr. WONG joined us on 1 November 2014. Mr. WONG is responsible for the financial management and strategic planning of our Group. Mr. WONG has over 23 years of experience in auditing and finance. Mr. WONG worked in PricewaterhouseCoopers in Hong Kong and PRC for 12 years since January 1991 and was a senior manager in PricewaterhouseCoopers in the PRC when he left PricewaterhouseCoopers in February 2004. Mr. WONG also worked as a senior manager in Ernst and Young during the period between November 2005 and December 2007. Mr. WONG served as a director of Bakerhouse Global Limited, and has also been an independent non-executive director of China Pipe Group Limited (Stock code: 380), a company listed on the Stock Exchange. From 18 January 2013 to 3 July 2014, Mr. WONG has served as the independent non-executive director of PanAsialum Holdings Company Limited (Stock code: 2078), a company listed on the Stock Exchange. Mr. WONG graduated from the University of New South Wales, Australia with a master's degree in commerce in October 1994. Mr. WONG is a member of the Australian Institute of Banking and Finance and Australian Society of Certified Practising Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants.

**Mr. LUK Sik Tat, Patrick (陸適達)**, aged 39, is our finance manager and our company secretary. Mr. LUK joined us on 21 June 2012. Mr. LUK is responsible for the accounting and financial management of our Group. Mr. LUK has approximately 17 years of experience in accounting and finance. During the period between November 2008 and May 2012, Mr. LUK served as a supervisor in financial reporting with MIQ Logistics Hong Kong Limited, a provider of global, transportation and distribution services and a former subsidiary of YRC Worldwide, an assistant manager at Crowe Horwath (HK) CPA Limited (formerly known as CCIF CPA Limited) from

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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November 2006 to November 2008, an audit senior at Wong Lam Leung & Kwok C.P.A. Limited from March 2004 to July 2006, an audit semi-senior and audit senior at K.W. Tam & Co. from September 2000 to January 2003 and from February 2003 to February 2004, respectively, an auditor II at K.L. Wong & Co. from April 1999 to May 2000 and an audit junior at Tai, Kong & Co. from June 1997 to December 1998.

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

**Mr. YU Kin Keung (余健強)**, aged 33, is our finance manager. Mr. YU joined us on 7 May 2014. Mr. YU is responsible for the accounting and financial management of our Group. Mr. YU has approximately six years of experience in accounting and finance.

Mr. YU was the account manager in Chung Yuen High Polymer New Materials Holdings Limited from September 2010 to May 2014, the assistant accountant in Evermate Trading Limited (德明貿易有限公司) from June 2010 to September 2010 and the auditor in Hong Kong Great Wall CPA Limited from March 2008 to October 2009. Mr. YU graduated from Monash University with a bachelor of commerce's degree in accountancy and finance in 2007. Mr. YU has been an associate member of CPA Australia since July 2011.

**Mr. LIANG Jianjun (梁健軍)**, aged 37, is the production director of our creative and research and development department. Mr. LIANG joined us on 1 July 2012, before which Mr. LIANG worked for Shenzhen Huaxia from April 2009. Mr. LIANG is responsible for animation design and production. Mr. LIANG has approximately 12 years of experience in the animation design and production. Before joining Shenzhen Huaxia, Mr. LIANG was the production director of Shenzhen Tangren from August 2004 to April 2009, and the Deputy Director of Technical Department of Shenzhen Meiyang Plastic Ltd. (深圳美陽注塑有限公司 (now renamed as Tianma Precision Plastic (Shenzhen) Company Limited) (天馬精密注塑(深圳)有限公司), a company engaging in the business of manufacturing of components and parts from October 2000 to March 2002. Mr. LIANG graduated from Guangdong University of Technology, Guangdong Province (廣東省廣東工業大學), with a bachelor's degree in engineering in July 2000.

**Mr. ZHAN Zhengli (詹正禮)**, aged 44, is our production management and control manager. Mr. ZHAN joined us on 1 July 2012. Mr. ZHAN is responsible for product management and control of our Group. Mr. ZHAN has relevant experience in production management. Before joining us, Mr. ZHAN worked at Wah Shing and was responsible for the operation of production systems during the period between May 2004 and June 2012.

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

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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**Mr. ZHANG JUN (張俊)**, aged 44, is the responsible person for our product research and development. Mr. ZHANG joined us on 1 January 2014. Mr. ZHANG is an art director and mainly responsible for directing and background design of animated movies.

Mr. ZHANG worked for Shenzhen Huaxia during the period between November 2009 and December 2013. Before joining Shenzhen Huaxia, Mr. ZHANG worked in the art and design departments at various animation companies.

**Mr. LAI Jianhua (賴建華)**, aged 32, is our public affairs manager. Mr. LAI joined us on 1 January 2014. Mr. LAI is mainly responsible for external affairs, maintaining government-enterprise relationship and keeping abreast of relevant laws, regulations and policies.

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

**Mr. PEI Ying (裴瑩)**, aged 31, is the curator of Shanghai Joypolis. Mr. PEI joined us on 1 November 2014. Mr. PEI is mainly responsible for the operation of Shanghai Joypolis of our Group.

From November 2010 to October 2014, Mr. PEI worked in 瀋陽市創奇遊樂設備有限公司 (Shenyang Province Chuangqi Play Equipment Company Limited\*). From June 2007 to October 2010, Mr. PEI worked in 南京杰杰遊樂設備有限公司 (Nanjing Jeijie Youleshebei Youxiangongsi\*)

Save as disclosed herein, as of the Latest Practicable Date, the senior management of the Company did not hold directorship in other listed companies in the past three years.

### MANAGEMENT CONTINUITY OF OUR GROUP THROUGHOUT THE TRACK RECORD PERIOD

#### Management continuity during the Track Record Period

During the Track Record Period, China Animation BVI was our principal operating entity, of which Mr. ZHUANG was the founder and has been the sole director. Mr. ZHUANG was solely responsible for our overall business and strategic development with no employee employed by us until May 2012. Our Directors consider that the factual circumstances resemble the circumstances set forth in the Listing Decision LD54-2, in which the Stock Exchange determined that the management continuity requirement was satisfied where the management function was largely vested in one dominant director throughout the Track Record Period.

In addition, during the Track Record Period, Mr. ZHUANG was assisted by the other executive Director, namely Mr. TING and Ms. LIU. Mr. TING worked for Wah Shing during the period between 2008 and 2013 primarily on overseeing the production of the toy products by Wah Shing for Sino Action/China Animation BVI. Ms. LIU has been working for Shenzhen Wald since June 2012 and before which, she had worked for Shenzhen Huaxia from March 2007 under the supervision of Mr. ZHUANG. Hence, Mr. TING and Ms. LIU worked for us under the supervision of Mr. ZHUANG throughout the Track Record Period even though their employments have only been transferred to our Group since June 2012 and January 2014, respectively.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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Amongst the members of our senior management, Mr. LIANG Jianjun, Mr. ZHANG Jun and Mr. LAI Jianhua are amongst the employees of Shenzhen Huaxia who had worked under the supervision of Mr. ZHUANG throughout the Track Record Period with their employment transferred to us during the Track Record Period.

The above employee arrangements were made pursuant a service agreement entered into between China Animation BVI and Shenzhen Huaxia in April 2008.

In light of the Listing Decision LD54-2 and the fact that most of our management responsibilities have been vested with Mr. ZHUANG during the Track Record, together with other executive Directors and members of the senior management team working for us during the Track Record Period, our Directors consider that the management continuity requirement under the Listing Rules is satisfied.

Our Directors confirm that the employees transferred from Shenzhen Huaxia to us during the Track Record Period possess the required knowledge and experience in the animation industry in the PRC. Our Directors further confirm that all of these employees have been working on a full-time basis with Mr. ZHUANG throughout the Track Record Period and have been involved in the continuous developments and modifications of our proprietary animation characters, i.e. “*Han Ba Gui*” (憨八龜), “*Amazing UU*” (神奇的優悠), “*Animal Conference on the Environment*” (動物環境會議) as well as the related commercialisation business activities. After joining us, these employees are also instrumental to the design and development of the virtual artist “*Violet*” (紫嫣). Hence, our Directors consider that Mr. ZHUANG and the employees transferred from Shenzhen Huaxia are our Group’s core management and all of these employees are relevant and responsible for our operating results during the Track Record Period.

### **Division of works amongst our senior management**

Our Directors believe that we have implemented effective contingency plans even though Mr. ZHUANG is not able to discharge his responsibilities as the chairman and our chief executive officer and an executive Director. Mr. TING is our chief operating officer of our Group and an executive Director. Mr. TING is very familiar with the business operations of our Group. Ms. LIU, an executive Director, has been involved in the entire negotiation process with SEGA, the establishment of Shanghai Joypolis and the planning for the next Joypolis in China (if any). Mr. WONG is our chief financial officer and is vested with the responsibility of overseeing the financial matters of our Group. Our Directors therefore believe that we have a clear and balanced division of works amongst members of our Board and that our business would not be subject to unmanageable risks even though Mr. ZHUANG leaves or no longer leads our Group.

Our Company will enter into a service contract with Mr. ZHUANG for a period of three years commencing from the Listing Date. During the term of the service contract, Mr. ZHUANG is required to devote all of his time and efforts to the business development of our Group in discharging his duties as an executive Director. Mr. ZHUANG will also enter into the Deed of Non-Competition in favour of our Group pursuant to which Mr. ZHUANG has agreed that he would not compete with us so long as he is one of our Controlling Shareholders.

Our Directors believe that the above arrangements and measures are sufficient and appropriate for the protection of our business interests in the contingency events.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### BOARD COMMITTEES

We have established the following four committees of our Board: an audit committee, a nomination committee, a remuneration committee and an investment committee. These committees operate in accordance with terms of reference established by our Board.

#### **Audit committee of our Board**

We have established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Corporate Governance Code as set forth in Appendix 14 to the Listing Rules. The audit committee consists of our three independent non-executive Directors, namely Mr. TSANG Wah Kwong, Mr. HUNG Muk Ming and Mr. NI Zhenliang as members. The chairman of the audit committee is Mr. TSANG Wah Kwong, who holds appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules. The primary duties of the audit committee are to assist our Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of our Group, overseeing the audit process and performing other duties and responsibilities as assigned by our Board.

#### **Remuneration committee of our Board**

We have established a remuneration committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the Corporate Governance Code as set forth in Appendix 14 to the Listing Rules. The members of the remuneration committee are Mr. HUNG Muk Ming, Mr. TSANG Wah Kwong and Mr. TING. The chairman of the remuneration committee is Mr. HUNG Muk Ming. The primary duties of the remuneration committee include, among other things, the review and determination of the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management.

#### **Nomination committee of our Board**

We have established a nomination committee with written terms of reference in compliance with paragraph A.5 of the Corporate Governance Code as set forth in Appendix 14 to the Listing Rules. The current members of the nomination committee are Mr. ZHUANG, Mr. HUNG Muk Ming and Mr. NI Zhenliang. The chairman of the nomination committee is Mr. ZHUANG. The primary function of the nomination committee is to make recommendations to our Board on the appointment of Directors and the management of succession of our Board.

#### **Investment committee of our Board**

We have established an investment committee with written terms of reference. The investment committee currently consists of four Directors and one senior management. The current members of the investment committee are Mr. ZHUANG, Mr. TING, Ms. LIU, Mr. TSANG Wah Kwong and Mr. WONG, with Mr. ZHUANG serving as chairman of the committee.

The primary functions of the investment committee are mainly to consider the investment and business decisions of our Group and make recommendations to our Board in respect of the major investment projects of our Group, such as the establishment of new Joypolis in China. The investment committee also monitors the performance of our Group for compliance with the investment policies and guidelines.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

During the Track Record Period, our executive Directors have received remuneration in the form of salary, allowances, benefits in kind and share-based payments. During the three years ended 31 March 2014, the aggregate of the remuneration (including salaries, allowance, benefits in kind and retirement scheme contributions) paid to our Directors (including the remuneration paid prior to their appointment Directors) was nil, HK\$0.17 million and HK\$0.37 million, respectively. During the five months ended 31 August 2013 and 2014, the aggregate of the remuneration (including remuneration paid prior to their appointment as Directors) paid to our Directors amounted to HK\$0.12 million and HK\$0.28 million, respectively.

Under the arrangement currently in force, it is estimated that the aggregate amount of emoluments payable by our Group to our Directors for the year ending 31 March 2015 will be HK\$0.84 million (excluding the annual discretionary bonus of not more than one per cent. of the net profit of our Group to be decided by the remuneration committee of our Board and distributed to our executive Directors and our Honourable Chairman commencing from the year ending 31 March 2016).

During the three years ended 31 March 2014, the aggregate of the remuneration paid (including salaries allowance, benefits in kind and retirement scheme contributions) to our senior management by our Group (including remuneration paid prior to their appointment as senior management) was nil, HK\$0.56 million and HK\$0.87 million, respectively. During the five months ended 31 August 2013 and 2014, the remuneration paid to our senior management of our Group (including remuneration paid prior to their appointment as senior management) was HK\$0.31 million and HK\$0.54 million, respectively.

### COMPLIANCE ADVISER

We have appointed Quam Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us on the following matters:

- (a) the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (c) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and
- (d) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares.

The terms of the appointment shall commence on the Listing Date and end on the date on which we distribute our annual report in respect of our financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

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*The following discussion and analysis should be read in conjunction with our consolidated financial statements as of and for the years ended 31 March 2012, 2013 and 2014, and the five months ended 31 August 2014 together with the accompanying notes, included in Appendix I to this prospectus. Our consolidated financial statements have been prepared in accordance with HKFRS, which may differ in material respects from the generally accepted accounting principles in other jurisdictions. The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed in such forward-looking statements as a result of various factors, including those set forth in “Forward-looking statements” and “Risk factors” in this prospectus.*

### OVERVIEW

We engage in multi-line businesses in the animation-related industry, including the trading of animation derivative products and the licensing of animation characters, which constituted our core business during the Track Record Period, as well as the establishment and operation of indoor animation amusement park and multimedia animation entertainment, which constituted the extension of our core business in the animation-related industry. Our revenue increased from HK\$292.3 million for the year ended 31 March 2012 to HK\$338.7 million for the year ended 31 March 2014, representing a CAGR of 7.6%. For the five months ended 31 August 2014, our revenue increased to HK\$186.8 million from HK\$144.0 million for the five months ended 31 August 2013, representing a growth rate of 29.7%. Our profit increased from HK\$82.0 million for the year ended 31 March 2012 to HK\$130.6 million for the year ended 31 March 2014, representing a CAGR of 26.2%. For the five months ended 31 August 2014, our profit increased to HK\$39.7 million from HK\$34.5 million for the five months ended 31 August 2013, representing a growth rate of 15.1%.

### Trading of animation derivative products

Trading of animation derivative products was the primary contributor of our revenue during the Track Record Period. We supply animation derivative products to our customers and provide value-added services to some of them. The animation derivative products we supply are mainly toys featuring a variety of popular third-party owned animation characters as specified by our customers from time to time. Most of our customers are Japanese companies which source these products for toy companies in Japan (such as Tomy and SEGA) and leading outdoor theme parks in Japan. We engage third-party suppliers in the PRC for the manufacture of our animation derivative products. For the three years ended 31 March 2014 and the five months ended 31 August 2014, our revenue from the trading of animation derivative products amounted to HK\$279.0 million, HK\$251.6 million, HK\$245.1 million and HK\$185.5 million, respectively, representing 95.5%, 88.7%, 72.4% and 99.3% of our total revenue for the respective period.

### Licensing of animation characters

Through acquisitions or self-development, we own the intellectual property rights of a number of proprietary animations such as “Han Ba Gui” (憨八龜), “Violet” (紫媽), “Animal Conference on the Environment” (動物環境會議) and “The Amazing UU” (神奇的優悠). During the Track Record Period, we generated revenue from our proprietary animation characters primarily through licensing of the intellectual property rights of the animation characters to Zing. For the three years ended 31

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March 2014, our revenue from the licensing of animation characters amounted to HK\$13.3 million, HK\$31.9 million and HK\$73.6 million, respectively, representing 4.5%, 11.3% and 21.7% our total revenue for the respective period.

We entered into agreements (as amended and supplemented) with three licensees (which are also our consignors under our consignments sales business and as confirmed by our Directors, Independent Third Parties), pursuant to which we grant licence to the consignors to sell products within a defined category that contain our proprietary animation characters in China. In addition to the non-refundable consultancy fee we receive from our licensees, we also charge an annual royalty fee in an amount that equals the higher of a minimum and a certain percentage of their revenue from sales of the relevant products. Upon the opening of the stores in Shanghai Joypolis from grand opening which we plan to serve as physical platforms for the consignment sale of our licensees' products bearing our proprietary animation characters, we believe that we will be able to further expand our revenue streams generated from the licensing business.

### **Establishment and operation of indoor animation amusement park**

According to the Frost & Sullivan Report, with the development of technology in the entertainment facilities, and the increase in the household income and urbanisation rate in the PRC, the indoor theme park market in the PRC would enjoy a rapid growth. We endeavour to operate top-notch indoor animation amusement parks that provide fashionable and exciting entertainment with high-quality facilities and services, and at the same time are affordable to the young population in China.

In light of the potential in this sector and with a view to creating synergies to our core business and our in-house capability to create and develop propriety animation characters, we entered into the SEGA Licence Agreement, pursuant to which we have the right to operate Joypolis exclusively in Shanghai. For the year ended 31 March 2014, our revenue from the establishment and operation of indoor animation amusement park amounted to HK\$20.0 million, which represented a non-refundable joining fee of HK\$20.0 million paid to us by Harvest Progress, for and on behalf of Pingan Taisheng, in consideration of our effort in securing the business opportunity to operate Shanghai Joypolis. The receipt of the non-refundable joining fee is not in breach of the terms and conditions of the SEGA Licence Agreement. Following payment of such non-refundable joining fee, Harvest Progress then appointed Pingan Taisheng, a company owned as to 80.0% by Mr. LI Jian, the son of Mr. LI, to cooperate with us in Shanghai Joypolis project. For the five months ended 31 August 2014, our revenue from this segment amounted to HK\$872,000, which represented revenue from ticket sales for our exhibition at the Shenzhen Cartoon and Animation Festival 2014 (深圳動漫節2014) as a trial run of Shanghai Joypolis and as part of our marketing campaign. Please refer to “Business — Extension of our core businesses in the animation-related industry — Indoor animation amusement park — Preparation for Shanghai Joypolis” for further details of our participation in the Shenzhen Cartoon and Animation Festival 2014 (深圳動漫節2014).

We intend to further expand our operation of Joypolis indoor animation amusement parks in China and we believe this segment will be a significant driver of our Group's future growth and development in the long run.



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### **Multimedia animation entertainment**

We are also expanding into the multimedia animation entertainment sector, namely in the areas of (i) movie investment and production; (ii) music animation concerts; and (iii) online entertainment and mobile applications. For the five months ended 31 August 2014, our revenue from multimedia animation entertainment was HK\$411,000, which represented a revenue of approximately HK\$0.4 million from ticket sales for “*Violet*” (紫嫣)’s concerts we organised at the Shenzhen Cartoon and Animation Festival 2014 (深圳動漫節2014) and a revenue of approximately HK\$9,000 from our design and provision of animation-related emotion icons featuring our proprietary animation characters for use in computer software and mobile applications.

### **BASIS OF PREPARATION OF OUR FINANCIAL INFORMATION**

Our Company and companies now comprising our Group are under common control of Mr. ZHUANG. For the purpose of the Accountants’ Report, the text of which is set forth in Appendix I to this prospectus, the financial information of our Group has been prepared on a basis in accordance with Hong Kong Standards on Auditing, HKFRS, and amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants. The consolidated statements of financial position as of 31 March 2012, 2013, 2014 and 31 August 2014 and the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Track Record Period have been prepared as if our Company had always been the holding company of our Group and the current group structure had been in existence throughout the Track Record Period, except that the financial information of those companies newly set up by us during the Track Record Period is included in the financial information from their respective dates of establishment.

### **FACTORS AFFECTING OUR OPERATING RESULTS AND FINANCIAL CONDITION**

Our financial condition and results of operations have been, and will continue to be, affected by a number of factors, including those set forth below.

#### **Changes in global economic conditions, especially in Japan and the PRC**

A significant portion of our revenue is derived from Japan through the trading of animation derivative products. For the three years ended 31 March 2014 and the five months ended 31 August 2014, our revenue from the Japanese market represented 89.0%, 95.8%, 92.0% and 93.2% of our total revenue, respectively. Although our Directors were not aware of any trade restriction or quota in relation to the import of our products to Japan as of the Latest Practicable Date, fluctuation in the Japanese economy may affect our financial conditions and results of operations. Continued weakness in the economy and domestic consumption of Japan, where our major customers and their respective customers are located, may result in a reduction of the demand for our products and lowered purchase price from our customers, thereby adversely affecting our revenue from the trading of animation derivative products. In addition, our operating results and prospects will be significantly affected by natural catastrophes happening in or near Japan as well as the economic, political or social conditions in or affecting Japan. Japan has historically experienced large-scale earthquakes and is prone to other natural disasters such as typhoons, flooding and tsunamis. These may result in material impacts on our Japanese customers and their customers, which could

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adversely affect the demand for and purchase price of our products. Please refer to “Risk Factors — Risks related to our trading of animation derivative products — Our trading business of animation derivative products is affected by the economic performance and the domestic consumption level in Japan.” for further details of risks related to the economic performance and domestic consumption level in Japan.

Furthermore, exchange rate fluctuations of Japanese Yen may affect our financial conditions and results of operations. We purchase certain equipment for Joypolis indoor amusement park from SEGA in Japanese Yen, and our revenue is denominated in US dollar, Hong Kong dollar or RMB depending on the operating segment, which exposes us to foreign currency risk. Appreciation of Japanese Yen against the relevant currencies would have a negative effect on the amount we are required to pay SEGA in terms of US dollar, Hong Kong dollar or RMB. Recently, Japanese Yen has depreciated substantially mainly due to measures released by the Japanese government to stimulate its economy. If Japanese Yen depreciation persists and our customers and their respective customers do not have appropriate hedging arrangements in place, they may request us to reduce the price of our products to maintain their profitability. Under this circumstance, we may not have sufficient bargaining power to maintain our historical profit margin level and we may even lose purchase orders from our customers if our quotations are not acceptable to them, which will in turn adversely affect our revenue and profit from the trading of animation derivative products. The exchange rates between Japanese Yen and other currencies are affected by, among other things, changes in political and economic conditions. As a result, we are exposed to foreign exchange fluctuations and movements in the exchange rate of the Japanese Yen. Please refer to “Risk factors — Risks related to our Business operation generally — Fluctuations in exchange rates may result in foreign currency exchange losses and foreign exchange regulations may limit the ability of our operating subsidiaries to remit payments to us and may expose us to exchange rate volatility.” for further details of risks related to fluctuations in exchange rates.

As we expand our businesses into the PRC market through the extension of our core business in the animation-related sector, in particular in the establishment and operation of indoor animation amusement park segment, demand for our products and services will also be dependent upon the general economic conditions in the PRC, the adverse change of which may affect our business strategy, prospects and results of operations.

### **Level of demand for our products and relationship with our customers**

We rely on a limited number of major customers. Revenue from our five largest customers for the three years ended 31 March 2014 and the five months ended 31 August 2014 amounted to HK\$222.6 million, HK\$250.0 million, HK\$295.5 million and HK\$173.1 million, respectively, representing 76.2%, 88.2%, 87.2% and 92.7% of our total revenue for the respective period. Revenue from our largest customer for the three years ended 31 March 2014 and the five months ended 31 August 2014 amounted to HK\$117.5 million, HK\$82.8 million, HK\$135.5 million and HK\$75.3 million, respectively, representing 40.2%, 29.2%, 40.0% and 40.3% of our total revenue for the respective period. Many of our major customers during the Track Record Period have working relationship with us for more than five years. While we entered into master product purchase agreements with some of our major customers for a term of one year with one-year automatic renewal provisions unless termination notice is served at least three months before the expiration date, such agreements do not constitute any commitment from our customers to purchase

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from us. In the event that any of our major customers significantly reduce their purchases from us or our business relationship with them terminates, we may not be able to maintain the same sales volume.

Furthermore, our results of operations are also affected by our customers' ability to successfully sell the products supplied by us. Our customers sell the products sourced from us to Japanese toy companies or leading outdoor theme parks. If our customers are unable to market and sell products supplied by us successfully or maintain their competitiveness due to lack of market acceptance or otherwise, they may not order new products or may decrease the quantity or purchase price of their orders, which could adversely affect our results of operations and revenue from such customers.

### **Relationship with our suppliers and business partners and factors affecting them**

We do not have our own manufacturing capabilities and we source animation derivative products from three external suppliers in the PRC. Our performance, and in particular our profit margins, partly depends on our ability to source such products at low cost. During the Track Record Period, we relied on our largest supplier, Sino Action, for the manufacture of a substantial portion of our animation derivative products. For the three years ended 31 March 2014 and the five months ended 31 August 2014, purchases from Sino Action accounted for 96.7%, 95.8%, 61.6% and 87.8% of our total cost of sales and services, respectively. Our Directors consider that we have stable relationships with our suppliers. As of the Latest Practicable Date, we have been in business relationship with our largest supplier for six years. Although we believe we have maintained a stable relationship with our suppliers and are able to source products on reasonable commercial terms from other suppliers in the PRC when necessary, the results of our operations could be materially affected if we were to encounter any shortages in the manufacturing of animation derivative products. In addition, any cost inflation experienced by our suppliers would affect the cost of products they manufacture for us. Our Directors consider that our suppliers have maintained reasonable cost; however, to the extent that our suppliers are not able to counterbalance the labour cost inflation in the PRC as a result of government-mandated wage increases, more demand from employees or otherwise, raw material cost inflation, or other cost inflation due to other reasons, they may pass some cost onto us, which could affect the results of our operation and, in particular, our profit margins. Please refer to "Risk factors — Risks related to our trading of animation derivative products — We do not have our own manufacturing capability and we rely on a few suppliers to manufacture the animation derivative products for our customers." for further details of the risks associated with our reliance on suppliers.

As part of our growth strategies, we have obtained the right to operate Joypolis in Shanghai by entering into the SEGA Licence Agreement. In connection with our expansion plans into the indoor animation amusement park industry, China Theme Park HK has also entered into a joint venture agreement with Pingan Taisheng and we plan to adopt the joint venture model in the expansion of other Joypolis projects (if any) with joint venture partners. Our success in the indoor animation amusement park segment depends on our ability to maintain stable relationships with our business partners, including SEGA and Pingan Taisheng, as well as landlords of the venues for our Joypolis indoor animation amusement park to be opened in Shanghai and other indoor animation amusement parks that may be opened by us in the future. In addition, factors affecting our business partners, in particular factors affecting the reputation or popularity of Joypolis in Japan, could materially affect

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our results of operations in the establishment and operation of indoor animation amusement park segment. Furthermore, our results of operations could be materially affected if our business partners are unable to perform their respective contractual obligations due to factors affecting them. Please refer to “Risk factors — Risks related to our indoor animation amusement park business — Our business partners may fail to perform their obligations under the relevant agreements as agreed.” and “Risk factors — Risks related to our indoor animation amusement park business — We rely on SEGA’s expertise in the operation of Shanghai Joypolis.” for further details of the risks.

### **Competitive dynamics**

Trading of animation derivative products was and we expect it to continue to be a significant source of our revenue. We face competition from existing and new suppliers of animation derivative products in the PRC, Japan or other Asian countries or regions, which may or may not have in-house manufacturing capabilities. Customers are tempted to shift their choices and preferences when other suppliers offer more competitive prices or better product quality. Our financial condition and results of operations will be affected by our ability to remain competitive in this industry, which in turn depends on our ability to compete effectively by responding rapidly to market trends, controlling costs and differentiating our services from those offered by our competitors in ways that will appeal to customers.

As we expand into the indoor animation amusement park industry, we face competition from operators of indoor animation amusement parks and other amusement centres. In particular, our Directors understand that SEGA is preparing to open its own Joypolis indoor animation amusement park with a joint venture partner in Qingdao, Shandong Province, which may potentially compete with Shanghai Joypolis. In addition, as new attractions and recreation centres are being developed in Shanghai, including the Shanghai Disney Resort, the number of expected visitors to Shanghai Joypolis may be adversely affected by the availability of other attractions in the city. Although we intend to expand our operation of Joypolis indoor animation amusement parks in other cities in China, we have not entered into any legally binding agreement for such expansion, and any such future expansion is subject to SEGA’s approval. Please refer to “Risk factors — Risks related to our indoor animation amusement park business — Our right to operate Joypolis is only limited to Shanghai under the SEGA Licence Agreement.” for further details of the risks.

### **Changes in our cost structure, in particular costs related to our employees**

We did not incur any staff costs until June 2012. Historically, we engaged Shenzhen Huaxia to provide a team of research and development personnel exclusively for us to carry out the creation and development of animation characters, and in return we paid service fee to Shenzhen Huaxia. We also had an arrangement with Sino Action pursuant to which Wah Shing designated a quality control team to conduct quality checks during the production process, and in return we paid service fee for the costs of employing such personnel. Please refer to “History, Development and Reorganisation — Business activities carried out by Shenzhen Huaxia” for further details of our historical arrangement with Shenzhen Huaxia and “Business — Our core businesses during the Track Record Period — Value-added services — Monitoring production process” for further details of our historical arrangement with Wah Shing and Sino Action. With the vision to create an integrated animation business in China, we established Shenzhen Wald as a wholly-foreign owned enterprise in the PRC in May 2011. During the transition period from the establishment of Shenzhen Wald to June 2012,

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we were selecting appropriate personnel and management for the newly established PRC entity and entered into service agreements with certain research and development professionals from Shenzhen Huaxia who exclusively worked for us as well as certain quality control personnel from Wah Shing who were designated to conduct quality checks during the production of our products. Beginning in June 2012 when our operation of Shenzhen Wald became more mature, Shenzhen Wald accepted the transfer of employees from Shenzhen Huaxia and Wah Shing and we started to build up the key management team for Shenzhen Wald. During the Track Record Period, the fees for engaging research and development personnel from Shenzhen Huaxia as well as quality control personnel from Wah Shing via service agreements were recorded as service fees under cost of sales and services, whereas remuneration to our in-house employees was recorded as staff costs under cost of sales and services or administrative expenses, depending on the employee's primary responsibilities. For the three years ended 31 March 2014 and the five months ended 31 August 2014, service fees were HK\$5.5 million, HK\$4.5 million, HK\$4.6 million and nil, respectively, and staff costs were nil, HK\$1.9 million, HK\$3.7 million and HK\$3.0 million, respectively. The fluctuations in our service fees and staff costs during the Track Record Period primarily reflected the historical arrangements discussed above and the gradual transfer of employees from Shenzhen Huaxia and Wah Shing to our Group. Our service fees did not decrease significantly immediately after Shenzhen Wald accepted the transfer of employees from Shenzhen Huaxia and Wah Shing primarily because the transfer was gradual and we continued to engage Shenzhen Huaxia and Wah Shing to provide us with research and development and quality control services in order to ensure a smooth transition in connection with the transfer of employees. The cost of labour in the PRC has been increasing over the past years as a result of government-mandated wage increases and other changes in PRC labour laws, as well as increasing competition for employees among employers. Our net profits and results of operations will be affected if we experience significant increases in labour costs because of changes in labour law and regulations, increasing competition for employees, increase in wages or increases in other employee benefits costs.

### **Our business and product mix**

During the Track Record Period, our business was organised into four operating segments — trading of animation derivative products, licensing of animation characters, establishment and operation of indoor animation amusement parks and multimedia animation entertainment, each of which had different contribution to our revenue and profit. Different products we supply within the segment of trading of animation derivative products also have different gross profit margins. For the five months ended 31 August 2014, revenue from our trading of animation derivative products, establishment and operation of indoor animation amusement parks and multimedia animation entertainment was HK\$185.5 million, HK\$0.9 million and HK\$0.4 million, respectively, representing 99.3%, 0.5% and 0.2% of our total revenue for the respective period. For the year ended 31 March 2014, revenue from our trading of animation derivative products, licensing of animation characters and establishment and operation of indoor animation amusement parks was HK\$245.1 million, HK\$73.6 million and HK\$20.0 million, respectively, representing 72.4%, 21.7%, 5.9% of our total revenue for the respective period. During the Track Record Period, the trading of animation derivative products and the licensing of animation characters constituted our core business and contributed to a substantial portion of our revenue. As we endeavour to strategically expand and develop our businesses into more diversified areas in the animation-related industry, we have redeployed our resources into the other segments, in particular the indoor animation amusement park segment, and expect to generate an increasing proportion of our revenue from the operation of

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Joypolis indoor animation amusement parks in China going forward. We evaluate the profitability of potential new segments before devoting our resources and we believe our results of operations for the new segments we entered into during the Track Record Period demonstrated our ability to drive additional growth by seizing business opportunities. For the year ended 31 March 2014 and the five months ended 31 August 2014, our revenue from the establishment and operation of indoor animation amusement park amounted to HK\$20.0 million and HK\$872,000, respectively. For the five months ended 31 August 2014, our revenue from multimedia animation entertainment amount to HK\$411,000. If our business or product mix changes, our results of operations will be affected accordingly.

### **Our tax treatments**

During the Track Record Period, our taxation represented the tax provisions we made for Hong Kong Profits Tax, which was calculated at 16.5% of the estimated assessable profit and amounted to HK\$14.9 million, HK\$14.0 million, HK\$11.2 million and HK\$10.1 million for the three years ended 31 March 2014 and the five months ended 31 August 2014, respectively. Our effective tax rate, calculated as taxation divided by profit before tax, was 15.4%, 14.1%, 7.9% and 20.3% for the three years ended 31 March 2014 and the five months ended 31 August 2014, respectively. The fluctuation in our effective tax rate during the Track Record Period primarily reflected the fluctuation in the proportion of our revenue that was considered offshore income for Hong Kong Profits Tax purpose and was not subject to Hong Kong Profits Tax, which mainly consisted of income from the licensing of animation characters and income from the establishment and operation of indoor animation amusement park. Based on the tax advice from a third party tax adviser, no provision for the PRC EIT or Japan income tax has been made during the Track Record Period. Although our subsidiary Shenzhen Wald was established in 2011 and generated income arising mainly from ticket sales for our exhibition at the Shenzhen Cartoon and Animation Festival 2014 (深圳動漫節2014) and from multimedia animation entertainment segment in 2014, Shenzhen Wald reported accumulated losses during the Track Record Period, and consequently, no Enterprise Income Tax provision has been made.

### ***Assessment of Hong Kong Profits Tax***

China Animation BVI was previously under the impression that since it is a company incorporated in the BVI, it was not required to file business registration and tax reporting in Hong Kong. China Animation BVI did not notify the IRD of its assessable profits for years of assessment 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 on time in prior years. Instead, we only made notification to the IRD in October 2013 that China Animation BVI had derived assessable profits since 2008. Following our notification, the IRD issued tax returns to China Animation BVI which we completed and submitted to the IRD within the time frame as stipulated in the respective returns as follows: the return for the year of assessment 2008/09 were submitted in February 2014, and the returns for the years of assessment 2009/10, 2010/11, 2011/12 and 2012/13 were submitted in May 2014. We received notices of assessment for the years of assessment 2008/09 in March 2014, the year of assessment 2009/10 in May 2014, the year of assessment 2010/11, 2011/12 and 2012/13 in July 2014, respectively, from the IRD which stated that tax payable for the years of assessment 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 amounted to approximately HK\$4,566,000 in aggregate, which was based on the amounts reported in tax returns filed by our Group for the relevant years assuming no penalty would be imposed by the IRD. We have already paid such amount

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to the IRD based on the tax returns received. Up to the Latest Practicable Date, the IRD has not issued any penalty notice to our Group in respect of the late notification of chargeability for the relevant years as mentioned above.

### *Offshore profits claim*

We have lodged the offshore profits claims in respect of our trading income (other than trading income derived from the Hong Kong affiliates of our Japanese customers) and licensing income which were derived from outside of Hong Kong. On the assumption that the aforesaid offshore profits claims will be accepted by the IRD, we estimate that the total tax payable for the years of assessment of 2008/09 to 2012/13 amounts to HK\$4,566,000 in respect of our trading income derived from the Hong Kong affiliates of our Japanese customers, since we believe we have grounds to argue that the core business activities giving rise to the other part of our trading income were mostly rendered outside Hong Kong, and that the intellectual property right generating the licensing income was used outside Hong Kong. We have already paid such amount to the IRD based on the tax returns received. Although the offshore profit claim submitted by China Animation BVI has its own merits primarily based on the facts that some of its core business activities were carried out outside Hong Kong and that those business activities which might have performed in Hong Kong were mainly supportive and administrative in nature, the IRD is still in the process of reviewing the case and may consider various factors, such as the whole business operational process as well as the nature of activities performed in Hong Kong and outside Hong Kong, before expressing a formal opinion on the offshore profit claim.

After seeking professional advice, our Directors are of the view that in the event our offshore profits claims in respect of our trading income are not accepted due to the consideration of various factors as a whole as aforesaid, but the offshore profits claims in respect of the licensing income are accepted by the IRD given that the relevant intellectual property right was used outside Hong Kong, the estimated outstanding tax payable by our Group for the six years ended 31 March 2014 and the five months ended 31 August 2014 would be HK\$71,881,000 after taking into account the Profits Tax already paid in the amount of HK\$4,566,000 as aforesaid. As of 31 August 2014, we had made accumulated provision of HK\$71,109,000 as tax payable, out of which the amount of approximately HK\$573,000 represented tax provision for our onshore profits which should be subject to Hong Kong Profits Tax, and the remaining amount of approximately HK\$70,536,000 represented tax provision for the amount under our offshore profits claims. Based on review of the related tax returns and supporting documents for the relevant years of assessment and information provided by us, since (1) we took the initiative to perform our backlog tax filings with the IRD and the tax returns were all filed on time once they were issued by the IRD; (2) we declared our total income including onshore and offshore income to the IRD when performing the backlog tax filings; (3) upon the tax filings were made and assessments were issued by the IRD, we made all the required tax payment on time; and (4) the IRD is still at the stage of collecting/assessing information from us about the offshore claim and, as of the Latest Practicable Date, we have not been notified that the tax matter was transferred to the tax investigation unit of the IRD, which will investigate any suspected tax evasion case; our Directors, taking into account advice of our tax adviser, are of the view that the above factors (1) to (3) indicate that China Animation BVI did not have the intention to hide its chargeability on the portion of profits which should be subject to tax in Hong Kong, and all these factors indicated that the difference in opinion between China Animation BVI and the IRD on the tax position (if any) is more of ordinary in nature rather than tax evasion and therefore it is unlikely that

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penalty for tax evasion will be imposed. Our Directors believe that our Group has made appropriate provision in respect of the possible tax liability. Please refer to “Risk Factors — Risks related to our business operation generally — If the IRD charges a profits tax and/or penalty that substantially exceeds the tax provision we made, it will have a negative impact on our financial condition and results of operations” for further details.

In addition to making tax provision for the relevant years as discussed above, our Directors have also considered possible penalty that may be imposed by the IRD on our Group, if any, arising from the late notification of chargeability for the relevant years. After seeking professional advice, our Directors understand that the possible penalty, if any, is likely to be at the level of 50% of the amount of tax undercharged on our onshore trading profits in relation to the late notification of chargeability, being HK\$1,105,000, HK\$1,958,000, HK\$2,283,000 and HK\$2,283,000 as of 31 March 2012, 2013, 2014 and 31 August 2014, respectively. However, based on the relevant facts and circumstances and taking into account the professional advice we received, our Directors believe that it is not probable that such penalty will be imposed on our Group, and consequently, no provision has been made against such potential penalty. No penalty was estimated for the other part of the Company’s trading income and its licensing income, since our Directors hold the position that that part of the trading profits and licensing income are offshore sourced and not taxable, and so there should be no late notification of “chargeability” (i.e. the profits are considered not chargeable to tax). Hence our Directors consider that at this point of time, the penalty of HK\$2,283,000 was already sufficient as the ordinary dispute in tax position with respect to the other parts of the Company’s profits should not result in penalty.

Our taxation expenses directly impact our profitability. As we expand our business operations in the PRC and generate revenue from our PRC operating subsidiaries, in particular in the establishment and operation of animation amusement park and multimedia entertainment segments, our PRC operating subsidiaries Shenzhen Wald and Huajiatai PRC may be subject to PRC EIT going forward absent applicable preferential tax treatments, tax concessions or tax allowances. Under the EIT Law, a resident enterprise in the PRC is subject to a uniform 25% enterprise income tax rate on its global income. If our future revenues are subject to PRC EIT, our taxation expenses may increase and our net profit may be negatively affected.

### **CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**

The discussion and analysis of our financial position and results of operations are based on the consolidated financial statements prepared in accordance with HKFRSs issued by the HKICPA. Preparation of our individual and consolidated financial information requires us to make estimates and judgements in applying certain critical accounting policies which may have a significant impact on our consolidated results. We base our estimates on historical experience and other assumptions which our management believes to be reasonable under the circumstances. Results may differ from these estimates under different assumptions and conditions. Our significant accounting policies are set forth in detail in Note 3 of the Accountants’ Report included in Appendix I to this prospectus. Our management has discussed the development, selection and disclosure of these estimates with the Directors.



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### Revenue recognition

We measure revenue at the fair value of the consideration received or receivable. With respect to our trading of animation derivative products, we recognise revenue when the products are delivered and the titles have been passed to our customers, at which time all the following conditions are satisfied:

- our Group has transferred to our customers the significant risks and rewards of ownership of the products;
- our Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the products sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to our Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

With respect of our licensing of animation characters, we recognise royalty income in profit or loss on a straight-line basis over the licensing period. Upon early termination of the licensing agreement, we recognise the non-refundable royalty fees (which are initially recognised as deferred income) as income immediately.

With respect to our establishment and operation of indoor animation amusement park, we recognise the joining fee we receive from potential business partner as income in profit or loss in the period when the fee is received and the conditions set out in the relevant agreement are fulfilled or become unconditional.

With respect of our establishment and operation of indoor animation amusement park and multimedia entertainment, we recognise income from admission ticket sales when tickets are accepted and surrendered by the customer. We recognise income from tickets sold for use at a future date as deferred revenue until the tickets are surrendered or have expired.

We recognise service income when services are provided.

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

### Foreign currencies

In preparing the financial statements of each individual group entity, we record transactions in currencies other than the functional currency of that entity in their respective functional currency at

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the exchange rates prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. We recognise exchange differences arising from the settlement of monetary items or from the retranslation of monetary items in profit or loss for the period in which they arise.

For the purpose of presenting our consolidated financial information, we translate the assets and liabilities of our Group denominated in foreign currencies into the presentation currency of our Group, being Hong Kong dollar, using exchange rates prevailing at the end of each reporting period. We translate income and expense items at the average exchange rates for the reporting period. We recognise exchange differences, if any, in other comprehensive income and accumulate such differences in equity under the heading of translation reserve.

### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation as reported in the consolidated statements of profit or loss and comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or deductible. Our Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

We recognise deferred tax for temporary differences between the carrying amounts of assets and liabilities in the financial information and the corresponding tax base used in the computation of taxable profit. We generally recognise deferred tax liabilities for all taxable temporary differences. We generally recognise deferred tax assets for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. We do not recognise such deferred tax assets and liabilities if the temporary difference arises from the initial recognition (other than in a business combination) of the assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. We recognise deferred tax liabilities for taxable temporary differences associated with investments in our subsidiaries, except where we are able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. We only recognise deferred tax assets arising from deductible temporary differences associated with such investments to the extent that it is probable that there will be sufficient taxable profits against which the benefits of the temporary differences can be utilised and they are expected to reverse in the foreseeable future.

We review the carrying amount of deferred tax assets at the end of each reporting period and we reduce it to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. We measure deferred tax assets and liabilities at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Our measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which we expect, at the end of the reporting period, to recover or settle the carrying amount of our assets and liabilities. We recognise current and deferred tax in profit or loss.

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### **Property, plant and equipment**

We record property, plant and equipment in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

We recognise depreciation so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. We review the estimated useful lives, residual values and depreciation method at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

We derecognise an item of property, plant and equipment upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. We determine any gain or loss arising on the disposal or retirement of an item of property, plant and equipment as the difference between the sales proceeds and the carrying amount of the asset and we recognise such amount in profit or loss.

### **Intangible assets**

Our intangible assets primarily include our proprietary animation characters and series. Intangible assets with finite useful lives that we acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. We recognise amortisation on a straight-line basis over the estimated useful lives of our intangible assets. We review the estimated useful life and amortisation method at the end of each reporting period, with the effective of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at costs less any subsequent accumulated impairment losses.

### **Impairment of assets**

At the end of each reporting period, we review the carrying amounts of our tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indicator exists, we estimate the recoverable amount of the asset in order to determine the extent of the impairment loss, if any. When it is impossible to estimate the recoverable amount of an individual asset, we estimate the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, we allocate corporate assets to individual cash-generating units, or otherwise allocate them to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount and we recognise an impairment loss immediately. If an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. We recognise a reversal of an impairment loss as income immediately.

### RESULTS OF OPERATIONS

The table below sets out selected financial information for the periods indicated.

	Year ended 31 March			Five months ended 31 August	
	2012	2013	2014	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i>
Revenue	292,299	283,493	338,744	144,013	186,824
Cost of sales and services	(176,587)	(157,107)	(173,293)	(92,106)	(121,619)
<b>Gross profit</b>	115,712	126,386	165,451	51,907	65,205
Other income	26	–	13	–	202
Selling and distribution expenses	(7,470)	(8,550)	(3,314)	(1,676)	(1,296)
Administrative expenses	(8,896)	(17,476)	(14,810)	(5,896)	(9,703)
Listing expenses	(2,446)	(1,187)	(5,554)	(3,817)	(3,840)
Other expenses	–	–	–	–	(753)
<b>Profit before taxation</b>	96,926	99,173	141,786	40,518	49,815
Taxation	(14,895)	(13,966)	(11,184)	(5,980)	(10,111)
<b>Profit for the year/period</b>	82,031	85,207	130,602	34,538	39,704
Item that may be reclassified subsequently to profit or loss:					
Exchange difference arising on translation of foreign subsidiary	14	(36)	(7)	(57)	(72)
<b>Total comprehensive income for the year/period</b>	<u>82,045</u>	<u>85,171</u>	<u>130,595</u>	<u>34,481</u>	<u>39,632</u>

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### DISCUSSION OF SELECTED COMPONENTS OF OUR RESULTS OF OPERATIONS

#### Revenue

##### *Revenue by segments*

Our revenue is generated from the trading of animation derivative products, licensing of animation characters, establishment and operation of indoor animation amusement park and multimedia animation entertainment. The table below sets forth a breakdown of our revenue by operating segments during the Track Record Period and the five months ended 31 August 2013 and 2014:

	Year ended 31 March						Five months ended 31 August			
	2012		2013		2014		2013		2014	
	<i>HK\$'000</i>	<i>% of total revenue</i>	<i>HK\$'000</i>	<i>% of total revenue</i>	<i>HK\$'000</i>	<i>% of total revenue</i>	<i>HK\$'000 (unaudited)</i>	<i>% of total revenue</i>	<i>HK\$'000</i>	<i>% of total revenue</i>
Trading of animation derivative products	279,007	95.5	251,593	88.7	245,136	72.4	130,721	90.8	185,541	99.3
Licensing of animation characters	13,292	4.5	31,900	11.3	73,608	21.7	13,292	9.2	-	-
Establishment and operation of indoor animation amusement park	-	-	-	-	20,000	5.9	-	-	872	0.5
Multimedia animation entertainment	-	-	-	-	-	-	-	-	411	0.2
<b>Total revenue</b>	<b>292,299</b>	<b>100.0</b>	<b>283,493</b>	<b>100.0</b>	<b>338,744</b>	<b>100.0</b>	<b>144,013</b>	<b>100.0</b>	<b>186,824</b>	<b>100.0</b>

Trading of animation derivative products contributed significantly to our revenue during the Track Record Period, representing 95.5%, 88.7%, 72.4% and 99.3% of our total revenue for the three years ended 31 March 2014 and the five months ended 31 August 2014, respectively. We primarily supply animation derivative products, including general plastic toys and food-grade toys, to our customers that source such products for major toy companies and leading outdoor theme parks in Japan. During the Track Record Period, we also licensed some of our proprietary animation characters to Zing for licensing fees. We entered into three agreements (as amended and supplemented) with licensees, pursuant to which the licensees may sell products within a defined category that contain our proprietary animation characters in China. In addition to the non-refundable consultancy fees we receive from our licensees, we also charge an annual fee in an amount that equals the higher of a minimum and a certain percentage of their annual revenue from trading of the relevant products.

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We seek to expand our business in the indoor animation amusement park and multimedia animation entertainment segments. In March 2014, we received a non-refundable joining fee of HK\$20.0 million paid by Harvest Progress for and on behalf of Pingan Taisheng, which was recognised as revenue for establishment and operation of indoor animation amusement park. This one-off payment was made in consideration of our effort in securing the business opportunity to operate Shanghai Joypolis. For the five months ended 31 August 2014, we generated revenue of HK\$872,000 from the establishment and operation of indoor animation amusement park, which represented ticket sales for our exhibition at the Shenzhen Cartoon and Animation Festival 2014 (深圳動漫節2014) as a trial run of Shanghai Joypolis and as part of our marketing campaign. Our revenue from multimedia animation entertainment was HK\$411,000 for the five months ended 31 August 2014, which represented a revenue of approximately HK\$0.4 million from ticket sales for “Violet” (紫媽)’s concert we organised at the Shenzhen Cartoon and Animation Festival 2014 (深圳動漫節2014) and a revenue of approximately HK\$9,000 from our design and provision of animation-related emotion icons featuring our proprietary animation characters for use in computer software and mobile applications.

### Revenue by regions

	Year ended 31 March						Five months ended 31 August			
	2012		2013		2014		2013		2014	
	HK\$'000	% of total revenue	HK\$'000	% of total revenue	HK\$'000	% of total revenue	HK\$'000 (unaudited)	% of total revenue	HK\$'000	% of total revenue
Japan	260,254	89.0	271,718	95.8	311,533	92.0	140,905	97.8	174,183	93.2
Hong Kong	32,045	11.0	11,775	4.2	7,211	2.1	3,108	2.2	11,358	6.1
PRC	-	-	-	-	20,000	5.9	-	-	1,283	0.7
Total revenue	<u>292,299</u>	<u>100.0</u>	<u>283,493</u>	<u>100.0</u>	<u>338,744</u>	<u>100.0</u>	<u>144,013</u>	<u>100.0</u>	<u>186,824</u>	<u>100.0</u>

During the Track Record Period, revenue from Japan was the primary source of our revenue, which represented our trading of animation derivative products with Japanese customers and our licensing fee income from the licensing of our proprietary animation characters to Zing. Revenue from Hong Kong represents sales to the relevant Hong Kong entities of our Japanese customers primarily for, based on our understanding, onward sales to other Asian markets, including Singapore and Taiwan. Revenue from PRC for the year ended 31 March 2014 represented a non-refundable joining fee paid by Harvest Progress for and on behalf of Pingan Taisheng in consideration of our effort in securing the business opportunity to operate Shanghai Joypolis. Revenue from PRC for the five months ended 31 August 2014 represented revenue from the establishment and operation of indoor animation amusement park and multimedia animation entertainment segments. Please refer to “— Discussion of selected components of our results of operations — Revenue — Revenue by segments” above for further details of our revenue for each segment.

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### Cost of Sales and Services

Our cost of sales and services primarily consists of cost for purchasing manufactured animation derivative products from our suppliers, service fees for engaging research and development personnel as well as quality control personnel via service agreements, amortisation of our proprietary animation characters, staff costs for our employees who were primarily responsible for research and development and quality control work, animation fair expenses related to our establishment and operation of indoor animation amusement park and multimedia animation entertainment, and project cost primarily consisting of cost for the feasibility study and other due diligence work conducted in relation to Shanghai Joypolis.

The table below sets forth the components of our cost of sales and services and the components as a percentage of total cost of sales and services for the periods indicated:

	Year ended 31 March						Five months ended 31 August			
	2012		2013		2014		2013		2014	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(Unaudited)									
Cost of inventories	170,770	96.7	150,441	95.8	164,815	95.1	88,318	95.9	118,786	97.7
Service fees	5,520	3.1	4,520	2.9	4,630	2.7	2,643	2.9	-	-
Amortisation	297	0.2	900	0.5	1,010	0.6	421	0.4	475	0.4
Staff costs	-	-	1,246	0.8	2,067	1.2	724	0.8	1,447	1.2
Animation fair expenses	-	-	-	-	-	-	-	-	912	0.7
Project cost	-	-	-	-	771	0.4	-	-	-	-
	<u>176,587</u>	<u>100.0</u>	<u>157,107</u>	<u>100.0</u>	<u>173,293</u>	<u>100.0</u>	<u>92,106</u>	<u>100.0</u>	<u>121,619</u>	<u>100.0</u>

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The table below sets forth a breakdown of our gross profit and gross profit margins by operating segments for the periods indicated:

	Year ended 31 March			Five months ended 31 August	
	2012	2013	2014	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i>
<b>Trading of animation derivative products</b>					
Gross profit	104,910	98,163	76,816	40,673	66,008
Gross profit margin	37.6%	39.0%	31.3%	28.2%	35.6%
<b>Licensing of animation characters</b>					
Gross profit (loss)	10,802	28,223	69,406	11,239	(1,121)
Gross profit (loss) margin	81.3%	88.5%	94.3%	84.6%	–
<b>Establishment and operation of indoor animation amusement park</b>					
Gross profit (loss)	–	–	19,229	(5)	209
Gross profit (loss) margin	–	–	96.1%	–	24.0%
<b>Multimedia animation entertainment</b>					
Gross profit	–	–	–	–	109
Gross profit margin	–	–	–	–	26.5%
<b>Gross profit for the year/period</b>	115,712	126,386	165,451	51,907	65,205
<b>Gross profit margin for the year/period</b>	39.6%	44.6%	48.8%	36.0%	34.9%

### Selling and Distribution Expenses

Selling and distribution expenses primarily consist of transportation expenses for the shipping of our animation derivative products, handling charges we paid to our supplier in relation to our trading business, and promotion expenses representing fees we paid to Shenzhen Huaxia in connection with the multimedia trailers used for the promotion of “*Amazing UU*” (神奇的優悠).



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The table below sets forth the components of our selling and distribution expenses and the components as a percentage of total selling and distribution expenses during the period indicated:

	Year ended 31 March						Five months ended 31 August			
	2012		2013		2014		2013		2014	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
	(Unaudited)									
Transportation expenses	4,852	65.0	3,323	38.9	2,011	60.7	989	59.0	857	66.1
Handling charges	2,618	35.0	1,817	21.2	1,303	39.3	687	41.0	439	33.9
Promotion expenses	-	-	3,410	39.9	-	-	-	-	-	-
	<u>7,470</u>	<u>100.0</u>	<u>8,550</u>	<u>100.0</u>	<u>3,314</u>	<u>100.0</u>	<u>1,676</u>	<u>100.0</u>	<u>1,296</u>	<u>100.0</u>

### Administrative Expenses

Administrative expenses primarily consist of:

- depreciation expenses, which primarily consist of depreciation of leasehold improvements for our office in Shenzhen;
- staff costs, which primarily consist of salaries we paid to our administrative support employees, including staff welfare and our contributions to the social welfare fund;
- legal and professional fees, which primarily consist of fees we paid for legal services, valuation services, routine company secretarial work, tax consultancy services and other professional services;
- rent, which primarily consists of rental expenses for our offices in Shenzhen and Hong Kong;
- business trip expenses, which primarily consist of expenses for business trips in connection with our operating activities and business development;
- project management fees, which primarily consist of fees we paid to SEGA for its project management team in connection with our establishment and operation of Shanghai Joypolis;
- design fees, which primarily consist of fees we paid to Shenzhen Huaxia in relation to the China Shenzhen International Cultural Industry Fair to promote our proprietary animation characters, technologies and products; and
- other administrative expenses, which primarily consist of entertainment expenses, motor vehicle expenses, exchange rate losses and other general administrative expenses.

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The table below sets forth the major components of our administrative expenses and the components as a percentage of total administrative expenses during the periods indicated:

	Year ended 31 March						Five months ended 31 August			
	2012		2013		2014		2013		2014	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(Unaudited)									
Depreciation expenses	4,028	45.3	7,594	43.5	7,611	51.4	3,157	53.5	3,189	32.9
Staff salaries	-	-	671	3.8	1,607	10.9	473	8.0	1,503	15.5
Legal and professional fees	729	8.2	2,074	11.9	1,015	6.9	546	9.3	1,671	17.2
Rent	1,079	12.1	1,265	7.2	1,587	10.7	534	9.1	758	7.8
Business trip expenses	109	1.2	228	1.3	617	4.1	377	6.4	508	5.2
Project management fees	-	-	-	-	-	-	-	-	433	4.5
Design fees	1,800	20.2	3,325	19.0	250	1.7	-	-	-	-
Other administrative expenses	1,151	13.0	2,319	13.3	2,123	14.3	809	13.7	1,641	16.9
	<u>8,896</u>	<u>100.0</u>	<u>17,476</u>	<u>100.0</u>	<u>14,810</u>	<u>100.0</u>	<u>5,896</u>	<u>100.0</u>	<u>9,703</u>	<u>100.0</u>

### Listing expenses

Listing expenses comprise the expenses incurred in connection with the Global Offering and mainly include the professional fees we paid to reporting accountants, counsel and other professional parties. We commenced our preparation work for Listing in 2011 with the engagement of counsel and reporting accountants, followed by the appointment of other professional parties. Our preparation work for Listing has been on-going and adjusted to accommodate our continued business expansion in the animation-related industry, in particular our establishment and operation of indoor animation amusement park in China. For the three years ended 31 March 2014 and the five months ended 31 August 2014, we incurred listing expenses of HK\$2.4 million, HK\$1.2 million, HK\$5.6 million and HK\$3.8 million, respectively.

### Other expenses

For the five months ended 31 August 2014, we incurred other expenses of HK\$0.8 million, which represented the fees we paid to Yue Xing in connection with their payment of early termination charge under a lease agreement with a third party for the purpose of leasing us the premise for Shanghai Joypolis. We did not incur other expenses for the three years ended 31 March 2014.

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## FINANCIAL INFORMATION

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### Taxation

Taxation represents the tax provisions we have made for Hong Kong Profits Tax, which is calculated at 16.5% of the estimated assessable profit for the years ended 31 March 2012, 2013 and 2014 and the five months ended 31 August 2014.

Based on the tax advice from a third party tax adviser, no provision for the PRC EIT or Japan income tax has been made during the Track Record Period. Please refer to “ — Factors affecting our operating results and financial condition — Our tax treatments’ above, “Business — Taxation” and Note 4 of the Accountants’ Report as set forth in Appendix I to this prospectus for further details of our tax assessment and tax issues.

### Profit and normalised profit

The table below sets forth our profit and normalised profit, which is adjusted by removing non-recurring revenues and expenses, for the periods indicated:

	Year ended 31 March			Five months ended 31 August	
	2012	2013	2014	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)	
Profit for the year/period	82,031	85,207	130,602	34,538	39,704
Less: Deferred licensing income	–	–	(41,708)	–	
Add: Listing expenses	2,446	1,187	5,554	3,817	3,840
Normalised profit for the year/period	<u>84,477</u>	<u>86,394</u>	<u>94,448</u>	<u>38,355</u>	<u>43,544</u>

A one-off deferred licensing fee income received from Zing in the amount of HK\$41.7 million was recognised as revenue for the year ended 31 March 2014 out of the total payment of HK\$55.0 million paid by Zing as non-refundable licensing fee for the use of intellectual property rights of our proprietary animation characters for 10 years from November 2011 to October 2022 under the Trademark Licence Agreement. The licensing fee was originally recognised as deferred revenue and amortised over the licensing period. Upon termination of the Trademark Licence Agreement in March 2014, the unrecognised portion of the deferred revenue in the amount of HK\$41.7 million was recognised as our revenue for the year ended 31 March 2014.

## FINANCIAL INFORMATION

### SEGMENT RESULTS

During the Track Record Period, we managed our business by four operating segments — trading of animation derivative products, licensing of animation characters, establishment and operation of indoor animation amusement park and multimedia animation entertainment. We present segment profit as profit generated by the segment without allocation of certain administrative expenses, listing expenses and unallocated income. The table below sets forth our segment results for the periods indicated:

	Year ended 31 March			Five months ended 31 August	
	2012	2013	2014	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i>
<b>Trading of animation derivative products</b>					
Segment revenue	279,007	251,593	245,136	130,721	185,541
Segment profit	97,440	93,023	73,502	38,992	64,712
<b>Licensing of animation characters</b>					
Segment revenue	13,292	31,900	73,608	13,292	–
Segment profit (loss)	10,802	24,813	69,406	11,239	(1,121)
<b>Establishment and operation of indoor animation amusement park</b>					
Segment revenue	–	–	20,000	–	872
Segment profit (loss)	–	–	19,229	(5)	(1,286)
<b>Multimedia animation entertainment</b>					
Segment revenue	–	–	–	–	411
Segment profit	–	–	–	–	109
Total revenue for the year/period	292,299	283,493	338,744	144,013	186,824
Total segment profit for the year/period	108,242	117,836	162,137	50,226	62,414
Unallocated income	26	–	13	–	202
Unallocated expenses	(8,896)	(17,476)	(14,810)	(5,891)	(8,961)
Listing expenses	(2,446)	(1,187)	(5,554)	(3,817)	(3,840)
Profit before taxation	96,926	99,173	141,786	40,518	49,815
Taxation	(14,895)	(13,966)	(11,184)	(5,980)	(10,111)
Profit for the year/period	<u>82,031</u>	<u>85,207</u>	<u>130,602</u>	<u>34,538</u>	<u>39,704</u>

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## FINANCIAL INFORMATION

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### PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

#### Five months ended 31 August 2014 compared with five months ended 31 August 2013

##### *Revenue*

Our revenue increased by HK\$42.8 million, or 29.7%, from HK\$144.0 million for the five months ended 31 August 2013 to HK\$186.8 million for the five months ended 31 August 2014. The increase was primarily due to a revenue increase of HK\$54.8 million in the trading of animation derivative products, as well as a revenue of HK\$872,000 from the establishment and operation of indoor animation amusement park and HK\$411,000 from multimedia animation entertainment, respectively, which were partially offset by the absence of revenue from licensing of animation characters for the five months ended 31 August 2014 due to the termination of the Trademark Licence Agreement with Zing on 31 March 2014.

##### *Trading of animation derivative products*

Our revenue from trading of animation derivative products increased by 41.9% from HK\$130.7 million in the five months ended 31 August 2013 to HK\$185.5 million in the five months ended 31 August 2014 primarily due to an increase in sales volume, which primarily reflected increased sales to one of our major customers, A.C. Promotion. We also engaged new customers in the five months ended 31 August 2014.

##### *Licensing of animation characters*

Our revenue from licensing of animation characters was nil in the five months ended 31 August 2014 due to the termination of the Trademark Licence Agreement on 31 March 2014. However, we entered into three agreements (as amended and supplemented) with licensees, pursuant to which the licensees may sell products of a certain category that contain our proprietary animation characters in China. Please refer to “Business — Our core business during the Track Record Period — Licensing of animation characters” for further details of the terms of our agreements with the three licensees. We intend to continue to develop our licensing business and expand our revenue stream from this segment.

##### *Establishment and operation of indoor animation amusement park*

Our revenue from establishment and operation of indoor animation amusement park increased from nil in the five months ended 31 August 2013 to HK\$872,000 in the five months ended 31 August 2014, which primarily reflected ticket sales for our exhibition at the Shenzhen Cartoon and Animation Festival 2014 (深圳動漫節2014) as a trial run of Shanghai Joypolis and as part of our marketing campaign. Please refer to the section headed “Business — Extension of our core businesses in the animation-related industry — Indoor animation amusement park” for further details of our development in the indoor animation amusement park industry.

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### *Multimedia animation entertainment*

Our revenue from multimedia animation entertainment increased from nil in the five months ended 31 August 2013 to HK\$411,000 in the five months ended 31 August 2014, which represented a revenue of approximately HK\$0.4 million from ticket sales for “*Violet*” (紫嫣)’s concert we organised at the Shenzhen Cartoon and Animation Festival 2014 (深圳動漫節2014) and a revenue of approximately HK\$9,000 from our design and provision of animation-related emotion icons featuring our proprietary animation characters for use in computer software and mobile applications. Please refer to “Business — Extension of our core business in the animation-related industry — Multimedia animation entertainment” for further details of our development in movie, music, internet and mobile application within the multimedia animation entertainment segment.

### *Cost of sales and services*

Our cost of sales and services increased by HK\$29.5 million, or 32.0%, from HK\$92.1 million for the five months ended 31 August 2013 to HK\$121.6 million for the five months ended 31 August 2014, which was primarily due to (i) HK\$30.5 million increase in purchases of manufactured animation derivative products from our suppliers corresponding to increase in sales volume, (ii) the absence of service fee for the five months ended 31 August 2014 as compared with HK\$2.6 million service fee for the five months ended 31 August 2013 because the research and development personnel as well as quality control personnel we previously engaged via service agreements were transferred to Shenzhen Wald and reimbursements to them were recorded as staff costs under cost of sales and services for the five months ended 31 August 2014 in the amount of HK\$1.4 million, (iii) HK\$0.9 million animation fair expense incurred in relation to our exhibition and organisation of concerts for “*Violet*” (紫嫣) at the Shenzhen Cartoon and Animation Festival 2014 (深圳動漫節2014), (iv) HK\$0.7 million increase in staff costs resulting from the employment of research and development personnel as well as quality control personnel by Shenzhen Wald, and (v) HK\$54,000 increase in amortisation cost of animation characters. Our cost of sales and services as a percentage of revenue increased from 64.0% for the five months ended 31 August 2013 to 65.1% for the five months ended 31 August 2014, which we believe primarily related to increase in prices of animation derivative products we purchased from our suppliers resulting from higher manufacturing costs.

### *Gross profit and gross profit margin*

Our gross profit increased by HK\$13.3 million, or 25.6%, from HK\$51.9 million for the five months ended 31 August 2013 to HK\$65.2 million for the five months ended 31 August 2014. Our gross profit margin decreased from 36.0% for the five months ended 31 August 2013 to 34.9% for the five months ended 31 August 2014. The increases in gross profit was primarily due to increase in gross profit for the trading of animation derivative products in the five months ended 31 August 2014 compared to the corresponding period in 2013 for reasons discussed in detail below. The decrease in gross profit margin was primarily due to the absence of revenue from the licensing of animation characters segment, which had a higher gross profit margin.

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### *Trading of animation derivative products*

Our gross profit for trading of animation derivative products increased by HK\$25.3 million, or 62.2%, from HK\$40.7 million for the five months ended 31 August 2013 to HK\$66.0 million for the five months ended 31 August 2014. Our gross profit margin for trading of animation derivative products increased from 28.2% for the five months ended 31 August 2013 to 35.6% for the five months ended 31 August 2014. The increases in gross profit for this segment was primarily due to increase in sales volume of our animation derivative products in the five months ended 31 August 2014 compared to the corresponding period in 2013, which mainly reflected increased sales to one of our major customers, A.C. Promotion, due to increased sales of general toys in addition to popcorn cases which were previously the primary category of products we supplied to this customer, as well as the engagement of new customers. The increase in gross profit margin for this segment was primarily due to change in our product mix. We started to source from Best Toys certain products for President Japan Co. Ltd. targeted at end customers in the United States around May 2013, which had lower gross profit margins, and our product portfolio consisted a higher percentage of these products for the five months ended 31 August 2013 as compared to the five months ended 31 August 2014. We believe the supply of these products to President Japan Co. Ltd. will help us maintain our relationship with our major customer and benefit our business in trading of animation derivative products in the long run.

### *Licensing of animation characters*

Our gross profit for licensing of animation characters decreased by HK\$12.3 million from HK\$11.2 million for the five months ended 31 August 2013 to a gross loss of 1.1 million for the five months ended 31 August 2014. Our gross profit margin for licensing of animation characters decreased from 110% for the five months ended 31 August 2013 to nil for the five months ended 31 August 2014. The decreases in gross profit and gross profit margin primarily related to the absence of revenue from this segment for the five months ended 31 August 2014 due to the termination of the Trademark Licence Agreement on 31 March 2014.

### *Establishment and operation of indoor animation amusement park*

Our gross profit for establishment and operation of indoor animation amusement park increased from a gross loss of HK\$5,000 for the five months ended 31 August 2013 to HK\$0.2 million for the five months ended 31 August 2014, and our gross profit margin for this segment increased from nil for the five months ended 31 August 2013 to 24.0% for the five months ended 31 August 2014. The increases in gross profit and gross profit margin for this segment primarily reflected our revenue from ticket sales for our exhibition at the Shenzhen Cartoon and Animation Festival (深圳動漫節 2014) as a trial run of Shanghai Joypolis and as part of our marketing campaign.

### *Multimedia animation entertainment*

Our gross profit and gross profit margin for multimedia animation entertainment increased from nil for the five months ended 31 August 2013 to HK\$0.1 million for the five months ended 31 August 2014, and our gross profit margin for this segment increased from nil for the five months ended 31 August 2013 to 26.5% for the five months ended 31 August 2014. The gross profit and gross profit margin for this segment for the five months ended 31 August 2014 primarily reflected

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our revenue from ticket sales for “*Violet*” (紫嫣)’s concert we organised at the Shenzhen Cartoon and Animation Festival 2014 (深圳動漫節2014) and our revenue from our design and provision of animation-related emotion icons featuring our proprietary animation characters for use in computer software and mobile applications.

### *Selling and distribution expenses*

Our selling and distribution expenses decreased by HK\$0.4 million, or 23.5%, from HK\$1.7 million for the five months ended 31 August 2013 to HK\$1.3 million for the five months ended 31 August 2014. Our selling and distribution expenses as a percentage of revenue decreased from 1.2% for the five months ended 31 August 2013 to 0.7% for the five months ended 31 August 2014.

The decrease in selling and distribution expenses was due to HK\$0.2 million decrease in handling charges we paid to our supplier and HK\$0.1 million decrease in transportation expenses primarily because certain of our major customers elected to take shipping responsibilities for their new products.

### *Segment profit (loss)*

Segment profit represents profit generated by the segment without allocation of certain administrative expenses, listing expenses and unallocated income. Our aggregate segment profit increased by HK\$12.2 million, or 24.3%, from HK\$50.2 million in the five months ended 31 August 2013 to HK\$62.4 million in the five months ended 31 August 2014.

### *Trading of animation derivative products*

Our segment profit of trading of animation derivative products increased by HK\$25.7 million from HK\$39.0 million for the five months ended 31 August 2013 to HK\$64.7 million for the five months ended 31 August 2014, which was primarily due to the effect of HK\$54.8 million increase in segment revenue and decrease in selling and distribution expenses allocated to this segment. Our revenue increased mainly as a result of increase in sales volume in the five months ended 31 August 2014 compared to the corresponding period in 2013, which primarily reflected increased sales to one of our major customers, A.C. Promotion, as well as the engagement of new customers. Our selling and distribution expenses allocated to this segment decreased primarily due to decrease in transportation expenses and handling charges because certain of our major customers elected to take shipping responsibilities for their new products.

### *Licensing of animation characters*

Our segment profit of licensing of animation characters decreased by HK\$12.3 million from a segment profit of HK\$11.2 million in the five months ended 31 August 2013 to a segment loss of HK\$1.1 million in the five months ended 31 August 2014, primarily due to the absence of revenue from licensing of animation characters for the five months ended 31 August 2014 due to the termination of the licensing agreement with Zing on 31 March 2014.

### *Establishment and operation of indoor animation amusement park*

Our segment loss of establishment and operation of indoor animation amusement park increased HK\$1.3 million from a segment loss of HK\$5,000 in the five months ended 31 August



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2013 to a segment loss of HK\$1.3 million in the five months ended 31 August 2014, primarily due to costs of HK\$0.6 million related to our exhibition at the Shenzhen Cartoon and Animation Festival 2014 (深圳動漫節2014) that were allocated to this segment, as well as other expenses of HK\$0.8 million, which represented the fees we paid to Yue Xing in connection with their payment of early termination charge under a lease agreement with a third party for the purpose of leasing us the premise for Shanghai Joypolis.

### *Multimedia animation entertainment*

Our segment profit of multimedia animation entertainment increased by HK\$0.1 million from nil in the five months ended 31 August 2013 to HK\$0.1 million in the five months ended 31 August 2014, primarily due to revenue from ticket sales for “Violet” (紫媽)’s concert we organised at the Shenzhen Cartoon and Animation Festival 2014 (深圳動漫節2014) and revenue from our design and provision of animation-related emotion icons featuring our proprietary animation characters for use in computer software and mobile applications.

### *Administrative expenses*

Our administrative expenses increased by HK\$3.8 million, or 64.4%, from HK\$5.9 million for the five months ended 31 August 2013 to HK\$9.7 million for the five months ended 31 August 2014. Our administrative expenses as a percentage of revenue increased from 4.1% for the five months ended 31 August 2013 to 5.2% for the five months ended 31 August 2014.

The increase in administrative expenses was primarily due to (i) HK\$1.1 million increase in legal and professional fees as a result of our business expansion and the corresponding need for additional professional services, in particular in relation to the indoor animation amusement park industry, (ii) HK\$1.0 million increase in staff costs resulting from our employment of additional administrative personnel, (iii) HK\$0.8 million increase in other administrative expenses as a result of our business expansion in the animation-related industry, and (iv) HK\$0.4 million project management fees we incurred, which represented fees we paid to SEGA for its project management team in relation to our establishment and operation of Shanghai Joypolis.

### *Listing expenses*

Our listing expenses remained relatively stable at approximately HK\$3.8 million for the five months ended 31 August 2014 and the five months ended 31 August 2013.

### *Other expenses*

We incurred other expenses of HK\$0.8 million for the five months ended 31 August 2014 and did not incur other expenses for the five months ended 31 August 2013. Our other expenses represented the fees we paid to Yue Xing in connection with their payment of early termination charge under a lease agreement with a third party for the purpose of leasing us the premise for Shanghai Joypolis.

### *Taxation*

Taxation represents tax provisions we have made calculated at 16.5% of the estimated assessable profit for Hong Kong Profits Tax. On this basis, our taxation increased by HK\$4.1

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million, or 68.3%, from HK\$6.0 million for the five months ended 31 August 2013 to HK\$10.1 million for the five months ended 31 August 2014. The increase was consistent with the increase of our profit before taxation for the five months ended 31 August 2014 as compared with the corresponding period for 2013. Our effective tax rate, calculated as taxation divided by profit before tax, increased from 14.8% for the five months ended 31 August 2013 to 20.3% for the five months ended 31 August 2014, which primarily reflected the absence of licensing income from Zing for the five months ended 31 August 2014 as a result of the termination of the Trademark Licence Agreement in March 2014. We have lodged the offshore profits claim in respect of our licensing income from Zing under the Trademark Licence Agreement for Hong Kong Profits Tax purpose and such income was not included in our calculation of Hong Kong Profits Tax.

### *Profit for the period*

As a result of the foregoing, our profit for the period increased by HK\$5.2 million, or 15.1%, to HK\$39.7 million for the five months ended 31 August 2014 from HK\$34.5 million for the five months ended 31 August 2013.

### **Year ended 31 March 2014 compared with year ended 31 March 2013**

#### *Revenue*

Our revenue increased by HK\$55.2 million, or 19.5%, from HK\$283.5 million for the year ended 31 March 2013 to HK\$338.7 million for the year ended 31 March 2014. The increase was primarily due to a revenue increase of HK\$41.7 million in the licensing of animation characters segment, which resulted from the balance of a licensing fee we received in relation to the Trademark Licence Agreement with Zing being recognised as revenue upon termination of the agreement on 31 March 2014.

#### *Trading of animation derivative products*

Revenue from the trading of animation derivative products decreased by 2.6% from HK\$251.6 million in the year ended 31 March 2013 to HK\$245.1 million in the year ended 31 March 2014 primarily due to a decrease in sales orders from certain of our major customers. Decrease in revenue and sales volume from certain of our major customers were partially offset by the newly developed US market where we accepted orders to sell to President Japan Co. Ltd. for sale to the United States and by the addition of a new customer.

#### *Licensing of animation characters*

Revenue from licensing of animation characters increased by HK\$41.7 million from HK\$31.9 million in the year ended 31 March 2013 to HK\$73.6 million in the year ended 31 March 2014 resulting from the balance of a licensing fee in relation to the Trademark Licence Agreement with Zing of HK\$41.7 million being recognised as revenue upon termination of the agreement in March 2014.

#### *Establishment and operation of indoor animation amusement park*

Revenue from establishment and operation of indoor animation amusement park increased from nil in the year ended 31 March 2013 to HK\$20.0 million in the year ended 31 March 2014 due

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to the non-refundable joining fee paid by Harvest Progress for and on behalf of Pingan Taisheng in consideration of our effort in securing the business opportunity to operate Shanghai Joypolis being recognised as revenue. This one-off payment was made in consideration of our effort in securing the business opportunity to operate Shanghai Joypolis and our preliminary planning, market research and feasibility study conducted in respect of the indoor animation amusement park, in addition to the capital contribution payable by Pingan Taisheng to the joint venture. We have been actively seeking opportunities for the expansion of this segment and envisage it to become a significant driver our future growth. For further details please refer to the section headed “Business — Extension of our core businesses in the animation-related industry — Indoor animation amusement park”.

### *Multimedia animation entertainment*

Revenue from multimedia animation entertainment remained nil for the years ended 31 March 2013 and 2014.

### *Cost of sales and services*

Our cost of sales and services increased by HK\$16.2 million, or 10.3%, from HK\$157.1 million for the year ended 31 March 2013 to HK\$173.3 million for the year ended 31 March 2014, which was principally due to (i) HK\$14.4 million increase in purchases of manufactured animation derivative products from our suppliers related to the relative high purchase price from Best Toys for products targeted at the newly developed US market and an increase in purchase price from Sino Action which we believe resulted from its increased manufacturing cost, (ii) HK\$0.8 million increase in staff costs because additional research and development personnel as well as quality control personnel we previously engaged via service agreements were transferred to Shenzhen Wald, (iii) HK\$0.1 million increase in amortisation resulting from the full year amortisation of the animation characters we acquired, and (iv) HK\$0.1 million increase in service fees primarily due to increased research and development work performed by Shenzhen Huaxia in connection with our development of animation characters. Our cost of sales and services as a percentage of revenue decreased from 55.4% for the year ended 31 March 2013 to 51.2% for the year ended 31 March 2014, which primarily related to increase in revenue from licensing of animation characters and establishment and operation of indoor animation amusement park, coupled with the relatively low level of cost of sales and services associated with these business segments.

### *Gross profit and gross profit margin*

Our gross profit increased by HK\$39.1 million, or 30.9%, from HK\$126.4 million for the year ended 31 March 2013 to HK\$165.5 million for the year ended 31 March 2014. Our gross profit margin increased from 44.6% for the year ended 31 March 2013 to 48.8% for the year ended 31 March 2014. The increases in our gross profit and gross profit margin were principally due to revenue growth in the licensing of animation characters segment and establishment and operation of indoor animation amusement park segment, which reflected our receipt of the balance of a licensing fee in relation to the Trademark Licence Agreement being recognised as revenue upon termination of the agreement, and a non-refundable joining fee paid by Harvest Progress for and on behalf of Pingan Taisheng in consideration for our effort in securing the business opportunity to operate Shanghai Joypolis, respectively.

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### *Trading of animation derivative products*

Our gross profit for trading of animation derivative products decreased by HK\$21.3 million, or 21.7%, from HK\$98.2 million for the year ended 31 March 2013 to HK\$76.8 million for the year ended 31 March 2014. Our gross profit margin for trading of animation derivative products decreased from 39.0% for the year ended 31 March 2013 to 31.3% for the year ended 31 March 2014. Our gross profit and gross profit margin for this segment decreased primarily because we started to source from Best Toys certain products for President Japan Co. Ltd. targeted at end customers in the United States around May 2013, which had lower profit margins. We believe the supply of these products to President Japan Co. Ltd. will help us maintain our relationship with our major customer and benefit our business in trading of animation derivative products in the long run.

### *Licensing of animation characters*

Our gross profit for licensing of animation characters increased by HK\$41.2 million, or 145.9%, from HK\$28.2 million for the year ended 31 March 2013 to HK\$69.4 million for the year ended 31 March 2014. Our gross profit margin for licensing of animation characters increased from 88.5% for the year ended 31 March 2013 to 94.3% for the year ended 31 March 2014. The increases in gross profit and gross profit margin primarily resulted from the balance of a licensing fee in relation to the Trademark Licence Agreement of HK\$41.7 million being recognised as revenue upon termination of the agreement in March 2014.

### *Establishment and operation of indoor animation amusement park*

Our gross profit for establishment and operation of indoor animation amusement park increased from nil for the year ended 31 March 2013 to HK\$19.2 million for the year ended 31 March 2014, and our gross profit margin for this segment increased from nil for the year ended 31 March 2013 to 96.1% for the year ended 31 March 2014. The increases in gross profit and gross profit margin for this segment primarily reflected our receipt of a non-refundable joining fee paid by Harvest Progress for and on behalf of Pingan Taisheng in consideration for our effort in securing the business opportunity to operate Shanghai Joypolis in March 2014.

### *Multimedia animation entertainment*

Our gross profit and gross profit margin for multimedia animation entertainment remained nil for the years ended 31 March 2013 and 2014.

### *Selling and distribution expenses*

Our selling and distribution expenses decreased by HK\$5.3 million, or 61.6%, from HK\$8.6 million for the year ended 31 March 2013 to HK\$3.3 million for the year ended 31 March 2014. Our selling and distribution expenses as a percentage of revenue decreased from 3.0% for the year ended 31 March 2013 to 1.0% for the year ended 31 March 2014.

The decrease in selling and distribution expenses was primarily due to (i) the absence of HK\$3.4 million promotion expenses consisting of fees we paid to Shenzhen Huaxia in connection with the multimedia trailers used for the promotion of “Amazing UU” (神奇的優悠), (ii) HK\$1.3

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million decrease in transportation expense resulting from an increase in the proportion of sales to President Japan Co. Ltd. for the newly developed US market where the customer arranged for their own delivery, and (iii) HK\$0.5 million decrease in handling charges to our supplier in line with the decrease in sales volume of products for the Japanese market.

### *Segment profit (loss)*

Segment profit represents profit generated by the segment without allocation of certain administrative expenses, listing expenses and unallocated income. Our aggregate segment profit increased by HK\$44.3 million, or 37.6%, from HK\$117.8 million for the year ended 31 March 2013 to HK\$162.1 million for the year ended 31 March 2014.

### *Trading of animation derivative products*

Our segment profit of the trading of animation derivative products decreased by HK\$19.5 million from HK\$93.0 million for the year ended 31 March 2013 to HK\$73.5 million for the year ended 31 March 2014, which was primarily due to the increase in cost of sales and services and decrease in revenue for this segment. Increase in cost of sales and services was primarily due to the relative high purchase price from Best Toys for products targeted at the newly developed US market and an increase in purchase price from Sino Action which we believe resulted from its increased manufacturing cost. Decrease in revenue was primarily due to decreased sales orders from certain of our major customers.

### *Licensing of animation characters*

Our segment profit of licensing of animation characters increased by HK\$44.6 million from HK\$24.8 million for the year ended 31 March 2013 to HK\$69.4 million for the year ended 31 March 2014, primarily due to our receipt of the balance of a licensing fee in relation to the Trademark Licence Agreement with Zing being recognised as revenue upon termination of the agreement on 31 March 2014.

### *Establishment and operation of indoor animation amusement park*

Our segment profit of establishment and operation of indoor animation amusement park increased by HK\$19.2 million from a segment profit of nil in the year ended 31 March 2013 to a segment profit of HK\$19.2 million in the year ended 31 March 2014, primarily due to a non-refundable joining fee of HK\$20.0 million paid to us by Harvest Progress for and on behalf of Pingan Taisheng in consideration of our effort in securing the business opportunity to operate Shanghai Joypolis.

### *Multimedia animation entertainment*

Our segment profit of multimedia animation entertainment remained nil for the years ended 31 March 2013 and 2014.

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### *Administrative expenses*

Our administrative expenses decreased by HK\$2.7 million, or 15.4%, from HK\$17.5 million for the year ended 31 March 2013 to HK\$14.8 million for the year ended 31 March 2014. Our administrative expenses as a percentage of revenue decreased from 6.2% for the year ended 31 March 2013 to 4.4% for the year ended 31 March 2014.

The decrease in administrative expenses was primarily due to (i) HK\$3.1 million decrease in design fees resulting from reduced fees we paid to Shenzhen Huaxia in relation to the China Shenzhen International Cultural Industry Fair for the year ended 31 March 2014, and (ii) HK\$1.1 million decrease in legal and professional fees primarily because we no longer engaged external accounting firm for the provision of financial advisory and accountancy services for the year ended 31 March 2014, partially offset by (i) HK\$0.9 million increase in staff costs resulting from our recruitment of additional administrative personnel, (ii) HK\$0.4 million increase in business trip expenses as a result of increased travelling by our personnel for the development of Shanghai Joypolis, (iii) HK\$0.3 million increase in rent resulting from relocation of our office in Hong Kong, and (iv) HK\$0.2 million decrease in other administrative expenses.

### *Listing expenses*

Our listing expenses increased by HK\$4.4 million, or 366.7%, from HK\$1.2 million for the year ended 31 March 2013 to HK\$5.6 million for the year ended 31 March 2014, which was primarily attributable to increase in progress payments to professional parties.

### *Taxation*

Taxation represents tax provisions we have made calculated at 16.5% of the estimated assessable profit for Hong Kong Profits Tax. On this basis, our taxation decreased by HK\$2.8 million, or 20.0%, from HK\$14.0 million for the year ended 31 March 2013 to HK\$11.2 million for the year ended 31 March 2014. Our effective tax rate, calculated as taxation divided by profit before tax, decreased from 14.1% for the year ended 31 March 2013 to 7.9% for the year ended 31 March 2014. The decreases in our taxation and effective tax rate primarily reflected the significant increase in the proportion of our income from the licensing of animation characters as well as our receipt of a non-refundable joining fee paid by Harvest Progress for and on behalf of Pingan Taisheng, because we have lodged the offshore profits claim in respect of such income for Hong Kong Profits Tax purpose and such income was not included in our calculation of Hong Kong Profits Tax. As a percentage of total revenue, our licensing income increased from 11.3% for the year ended 31 March 2013 to 21.7% for year ended 31 March 2014, which resulted from the balance of a licensing fee in relation to the Trademark Licence Agreement being recognised as revenue upon termination of the agreement in March 2014.

### *Profit for the year*

As a result of the foregoing, our profit for the year increased by HK\$45.4 million, or 53.3%, to HK\$130.6 million for the year ended 31 March 2014 from HK\$85.2 million for the year ended 31 March 2013.

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### Year ended 31 March 2013 compared with year ended 31 March 2012

#### *Revenue*

Our revenue decreased by HK\$8.8 million, or 3.0%, from HK\$292.3 million for the year ended 31 March 2012 to HK\$283.5 million for the year ended 31 March 2013. The decrease was primarily due to a decrease of HK\$27.4 million in revenue from our trading of animation derivative products, partially offset by an increase of HK\$18.6 million in revenue from licensing of animation characters because only five months of licensing fees were charged for the year ended 31 March 2012 after we completed the acquisition of the animation characters in November 2011, while full year licensing fees were charged for the year ended 31 March 2013.

#### *Trading of animation derivative products segment*

Revenue from trading of animation derivative products decreased by 9.8% from HK\$279.0 million for the year ended 31 March 2012 to HK\$251.6 million for the year ended 31 March 2013 primarily due to a decrease in sales orders from Kuwagata for the year ended 31 March 2013 which we believe resulted from decreased demand from their customers.

#### *Licensing of animation characters segment*

Revenue from licensing of animation characters increased by 139.8% from HK\$13.3 million in the year ended 31 March 2012 to HK\$31.9 million in the year ended 31 March 2013 because only five months of licensing fees were charged in the year ended 31 March 2012 after we completed the acquisition of the animation characters in November 2011, while full year licensing fees were charged in the year ended 31 March 2013.

#### *Establishment and operation of indoor animation amusement park segment*

Revenue from establishment and operation of indoor animation amusement park remained nil for the years ended 31 March 2012 and 2013.

#### *Multimedia animation entertainment*

Revenue from multimedia animation entertainment remained nil for the years ended 31 March 2012 and 2013.

#### *Cost of sales and services*

Our cost of sales and services decreased by HK\$19.5 million, or 11.0%, from HK\$176.6 million for the year ended 31 March 2012 to HK\$157.1 million for the year ended 31 March 2013, which was principally due to (i) HK\$20.3 million decrease in purchases of manufactured animation derivative products from our suppliers resulting from decreased product demand. In particular, our purchases for products sold to Kuwagata decreased for the year ended 31 March 2013 which we believe was due to decreased demand from their customers, and (ii) HK\$1.0 million decrease in service fees primarily resulting from the transfer of research and development personnel as well as quality control personnel we previously engaged via service agreements to Shenzhen Wald. The

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decreases was partially offset by HK\$1.2 million increase in staff costs resulting from the employment of research and development personnel as well as quality control personnel by Shenzhen Wald and HK\$0.6 million increase in amortisation resulting from the full year amortisation of animation characters acquired in the year ended 31 March 2012.

### *Gross profit and gross profit margin*

Our gross profit increased by HK\$10.7 million, or 9.2%, from HK\$115.7 million for the year ended 31 March 2012 to HK\$126.4 million for the year ended 31 March 2013. Our gross profit margin increased from 39.6% for the year ended 31 March 2012 to 44.6% for the year ended 31 March 2013. The increases in our gross profit and gross profit margin were principally due to the increase in revenue from licensing of animation characters by 139.8% from HK\$13.3 million for the year ended 31 March 2012 to HK\$31.9 million for the year ended 31 March 2013, coupled with the relatively low level of cost of sales and services associated with this business segment.

### *Trading of animation derivative products*

Our gross profit for trading of animation derivative products decreased by HK\$6.7 million, or 6.4%, from HK\$104.9 million for the year ended 31 March 2012 to HK\$98.2 million for the year ended 31 March 2013, primarily due to decrease in sales orders from Kuwagata for the year ended 31 March 2013 which we believe resulted from decreased demand from their customers. Our gross profit margin for trading of animation derivative products increased from 37.6% for the year ended 31 March 2012 to 39.0% for the year ended 31 March 2013, which we believe primarily related to a decrease in Wah Shing's manufacturing cost resulting from a decrease in its raw material cost. During the year ended 31 March 2013, we directed Wah Shing to change a major raw material for our products to one which we believed had similar quality with lower prices.

### *Licensing of animation characters*

Our gross profit for licensing of animation characters increased by HK\$17.4 million, or 161.3%, from HK\$10.8 million for the year ended 31 March 2012 to HK\$28.2 million for the year ended 31 March 2013. Our gross profit margin for licensing of animation characters increased from 81.3% for the year ended 31 March 2012 to 88.5% for the year ended 31 March 2013. Our gross profit for this segment increased mainly because only five months of licensing fees were charged in the year ended 31 March 2012 after we completed the acquisition of the animation characters in November 2011, while full year licensing fees were charged in the year ended 31 March 2013. Our gross profit margin for this segment decreased mainly because full-year service fees we paid to Shenzhen Huaxia were recorded as cost of sales and services for the year ended 31 March 2012, while only four months of licensing revenue was recorded.

### *Establishment and operation of indoor animation amusement park*

Our gross profit and gross profit margin for establishment and operation of indoor animation amusement park remained nil for the years ended 31 March 2012 and 2013.

### *Multimedia animation entertainment*

Our gross profit and gross profit margin for multimedia animation entertainment remained nil for the years ended 31 March 2012 and 2013.



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### *Selling and distribution expenses*

Our selling and distribution expenses increased by HK\$1.1 million, or 14.7%, from HK\$7.5 million for the year ended 31 March 2012 to HK\$8.6 million for the year ended 31 March 2013. Our selling and distribution expenses as a percentage of revenue increased from 2.6% for the year ended 31 March 2012 to 3.0% for the year ended 31 March 2013.

The increase in selling and distribution expenses was primarily due to the incurrence of HK\$3.4 million promotion expenses for the year ended 31 March 2013, which consisted of fees we paid to Shenzhen Huaxia in connection with the multimedia trailers used for the promotion of “Amazing UU” (神奇的優悠), partially offset by HK\$1.5 million decrease in transportation expenses and HK\$0.8 million decrease in handling charges paid to our supplier in line with decrease in sales volume.

### *Segment profit (loss)*

Segment profit represents profit generated by the segment without allocation of administrative expenses, listing expenses and unallocated income. Our aggregate segment profit increased by HK\$9.6 million, or 8.9%, from HK\$108.2 million in the year ended 31 March 2012 to HK\$117.8 million in the year ended 31 March 2013.

### *Trading of animation derivative products*

Our segment profit of the trading of animation derivative products decreased by HK\$4.4 million from HK\$97.4 million in the year ended 31 March 2012 to HK\$93.0 million for the year ended 31 March 2013, which was primarily due to the effect of decrease in revenue resulting from decrease in sales orders from Kuwagata which we believe resulted from the decreased demand from their customers.

### *Licensing of animation characters*

Our segment profit of licensing of animation characters increased by HK\$14.0 million from HK\$10.8 million for the year ended 31 March 2012 to HK\$24.8 million for the year ended 31 March 2013, primarily due to the full year licensing fee charged in the year ended 31 March 2013 compared to the four-month fee charged in the year ended 31 March 2012 upon completion of the acquisition of the animation characters.

### *Establishment and operation of indoor animation amusement park*

Our segment profit of establishment and operation of indoor animation amusement park remained nil for the years ended 31 March 2012 and 2013.

### *Multimedia animation entertainment*

Our segment profit of multimedia animation entertainment remained nil for the years ended 31 March 2012 and 2013.

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### *Administrative expenses*

Our administrative expenses increased by HK\$8.6 million, or 96.6% from HK\$8.9 million for the year ended 31 March 2012 to HK\$17.5 million for the year ended 31 March 2013. Our administrative expenses as a percentage of revenue increased from 3.0% for the year ended 31 March 2012 to 6.2% for the year ended 31 March 2013.

The increase in administrative expenses was primarily due to (i) HK\$3.6 million increase in depreciation expenses resulting from the effect of full year depreciation for leasehold improvements for our office in Shenzhen for the year ended 31 March 2013 compared to partial depreciation charged for the year ended 31 March 2012, (ii) HK\$1.5 million increase in design fees resulting from increased fees we paid to Shenzhen Huaxia in relation to the China Shenzhen International Cultural Industry Fair for the year ended 31 March 2013, (iii) HK\$1.3 million increase in legal and professional fees primarily as a result of additional fee we paid in connection with the provision of financial advisory services in addition to accountancy services provided by an external accounting firm, (iv) HK\$1.2 million increase in other administrative expenses primarily as a result of exchange rate losses, and (v) HK\$0.7 million staff costs we incurred as a result of our employment of administrative personnel.

### *Listing expenses*

Our listing expenses decreased by HK\$1.2 million, or 50.0%, from HK\$2.4 million for the year ended 31 March 2012 to HK\$1.2 million for the year ended 31 March 2013, which was primarily attributable to first down payments made to certain professional parties for the year ended 31 March 2012.

### *Taxation*

Taxation represents tax provisions we have made calculated at 16.5% of the estimated assessable profit for Hong Kong Profits Tax. On this basis, our taxation decreased by HK\$0.9 million, or 6.0%, from HK\$14.9 million for the year ended 31 March 2012 to HK\$14.0 million for the year ended 31 March 2013. Our effective tax rate, calculated as taxation divided by profit before tax, decreased from 15.4% for the year ended 31 March 2012 to 14.1% for the five months ended 31 March 2013. The decrease in our taxation and effective tax rate primarily reflected the increase in the proportion of our income from the licensing of animation characters under the Trademark Licence Agreement because we have lodged the offshore profits claim in respect of such income for Hong Kong Profits Tax purpose and such income was not included in our calculation of Hong Kong Profits Tax. As a percentage of total revenue, our licensing income increased from 4.5% for the year ended 31 March 2012 to 11.3% for year ended 31 March 2013 because only five months of licensing fees were charged for the year ended 31 March 2012 after we completed the acquisition of animation characters in November 2011, while full year licensing fees were charged for the year ended 31 March 2013.

### *Profit for the year*

As a result of the foregoing, our profit for the year increased by HK\$3.2 million, or 3.9%, to HK\$85.2 million for the year ended 31 March 2013 from HK\$82.0 million for the year ended 31 March 2012.

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### LIQUIDITY AND CAPITAL RESOURCES

#### Cash flow

We have historically mainly financed our operations primarily through cash generated from our operations and repayments from Mr. ZHUANG.

The following table sets forth our cash flows for the periods indicated:

	Year ended 31 March			Five months ended 31 August	
	2012	2013	2014	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i>
Net cash from operating activities	104,724	137,550	119,311	74,185	37,618
Net cash (used in)/from investing activities	(44,024)	(59,478)	40,661	(2,968)	(73,277)
Net cash (used in)/from financing activities	(60,699)	(87,820)	(78,422)	(50,764)	53,910
Net (decrease)/increase in cash and cash equivalents	1	(9,748)	81,550	20,453	18,251
Cash and cash equivalents at beginning of the year/period	14,246	14,261	4,477	4,477	86,020
Cash and cash equivalents at the end of the year/period	14,261	4,477	86,020	24,873	104,199

#### Net cash from operating activities

Our cash flow from operating activities primarily comprises our profit before taxation adjusted for non-cash items such as depreciation and amortisation, and the effect of changes in trade and other receivables and payables.

For the five months ended 31 August 2014, our net cash from operating activities was HK\$37.6 million, reflecting cash generated from operations of HK\$42.2 million, net of income tax paid of HK\$4.6 million. Our cash generated from operations for the five months ended 31 August 2014 was HK\$42.2 million, while our profit before taxation was HK\$49.8 million. The difference represents positive adjustments for depreciation of property, plant and equipment and amortisation of intangible assets in the amount of HK\$3.8 million and negative working capital adjustments in the amount of HK\$11.4 million. Our negative working capital adjustments primarily included (i) increase in trade receivables of HK\$24.4 million primarily related to increase in our revenue from the trading of animation derivative products and (ii) increase in other receivables of HK\$8.4 million as a result of the rental deposit and earnest money we paid in order to reserve the premises for rental for Shanghai Joypolis and the deposit for the design fee of Shanghai Joypolis, partially offset by (i) increase in trade payables of HK\$19.2 million as a result of increased purchases from our suppliers corresponding to increased sales of animation derivative products and our management's intention to retain cash longer and (ii) increase in other payables and accruals of HK\$2.2 million as a result of

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increase in professional fees in connection with the preparation for our Listing and increase in advance payment deposits made by our customers for animation derivative products in line with our sales growth.

For the five months ended 31 August 2013, our net cash from operating activities was HK\$74.2 million, reflecting cash generated from operations of HK\$74.2 million, net of nil income tax paid. Our cash generated from operations for the five months ended 31 August 2013 was HK\$74.2 million, while our profit before taxation was HK\$40.5 million. The difference represents positive adjustments for depreciation of property, plant and equipment and amortisation of intangible assets in the amount of HK\$3.6 million and positive working capital adjustments in the amount of HK\$30.0 million. Our positive working capital adjustments primarily included (i) increase in trade payables of HK\$27.1 million primarily related to our management's intention to retain cash longer, (ii) decrease in trade receivables of HK\$5.6 million primarily related to significant sales orders we received in March 2013 and (iii) increase in other payables and accruals of HK\$0.2 million, partially offset by (i) decrease in deferred income of HK\$2.3 million as a result of the recognition of deferred revenue in relation to the Trademark Licence Agreement as revenue for the five months ended 31 August 2013 and (ii) increase in other receivables of HK\$0.5 million primarily related to rental prepayment for our office in Hong Kong.

For the year ended 31 March 2014, our net cash from operating activities was HK\$119.3 million, reflecting cash generated from operations of HK\$119.3 million, net of nil income tax paid. Our cash generated from operations for the year ended 31 March 2014 was HK\$119.3 million, while our profit before taxation was HK\$141.8 million. The difference represents positive adjustments for depreciation of property, plant and equipment and amortisation of intangible assets in the amount of HK\$8.8 million and negative working capital adjustments in the amount of HK\$31.2 million. Our negative working capital adjustments primarily included (i) decrease in deferred income of HK\$47.2 million resulting from the termination of the Trademark Licence Agreement in March 2014, (ii) decrease in other payables and accruals of HK\$0.2 million primarily due to our settlement of professional fees payable which was partially offset by customer deposits and (iii) increase in other receivables of HK\$0.2 million primarily resulting from deposit payment for our Hong Kong office, partially offset by (i) decrease in trade receivables of HK\$8.8 million primarily resulting from significant sales orders we received in March 2013 and (ii) increase in trade payables of HK\$7.6 million primarily due to our management's intention to retain cash longer.

For the year ended 31 March 2013, our net cash from operating activities was HK\$137.6 million, reflecting cash generated from operations of HK\$137.6 million, net of nil income tax paid. Our cash generated from operations for the year ended 31 March 2013 was HK\$137.6 million, while our profit before taxation was HK\$99.2 million. The difference represents positive adjustments for depreciation of property, plant and equipment and amortisation of intangible assets in the amount of HK\$8.6 million and positive working capital adjustments in the amount of HK\$29.8 million. Our positive working capital adjustments primarily included (i) increase in deferred income of HK\$47.2 million resulting from a licensing fee paid in relation to the Trademark Licence Agreement entered into in October 2011 and (ii) increase in trade payables of HK\$2.1 million generally in line with the aggregated increase in sales, partially offset by (i) increase in trade receivables of HK\$18.6 million primarily resulting from a significant sales order received in March 2013 and (ii) decrease in other payables and accruals of HK\$1.0 million primarily due to our delivery of products to customers who made advance payment deposits.

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For the year ended 31 March 2012, our net cash from operating activities was HK\$104.7 million, reflecting cash generated from operations of HK\$104.7 million, net of nil income tax paid. Our cash generated from operations for the year ended 31 March 2012 was HK\$104.7 million, while our profit before taxation was HK\$96.9 million. The difference represents positive adjustments for depreciation of property, plant and equipment and amortisation of intangible assets in the amount of HK\$4.3 million and positive working capital adjustments in the amount of HK\$3.5 million. Our positive working capital adjustments primarily included (i) increase in trade payables of HK\$10.0 million in line with increase in the trading of animation derivative products and (ii) increase in other payables and accruals of HK\$6.2 million primarily due to increase in professional fees payable and advance payment deposits made by our customers, partially offset by increase in trade receivables of HK\$12.7 million primarily resulting from the commencement of our licensing business after we entered to the Trademark Licence Agreement in October 2011 and increase in the sale of animation derivative products.

### **Net cash used in/from investing activities**

Our cash used in investing activities primarily related to deposits paid for and purchase of property, plant and equipment, purchase of intangible assets, advances to Mr. ZHUANG and repayments from Mr. ZHUANG.

For the five months ended 31 August 2014, our net cash used in investing activities was HK\$73.3 million, which was mainly attributable to (i) cash outflow of HK\$60.0 million in deposit payment for purchasing equipment from SEGA for Shanghai Joypolis and payment for purchasing equipment in connection with our exhibition and organisation of concerts at the Shenzhen Cartoon and Animation Festival 2014 (深圳動漫節2014), (ii) advances to Mr. ZHUANG of HK\$16.5 million, and (iii) cash outflow of HK\$2.3 million primarily reflected the purchase of brandname pursuant to the SEGA Licence Agreement in relation to Shanghai Joypolis, partially offset by repayments from Mr. ZHUANG of HK\$5.6 million.

For the five months ended 31 August 2013, our net cash used in investing activities was HK\$3.0 million, which was mainly attributable to advances to Mr. ZHUANG of HK\$4.3 million, partially offset by repayments from Mr. ZHUANG of HK\$1.3 million.

For the year ended 31 March 2014, our net cash from investing activities was HK\$40.7 million, which was mainly attributable to repayments from Mr. ZHUANG of HK\$81.5 million, partially offset by (i) advances to Mr. ZHUANG of HK\$40.7 million and (ii) cash outflow of HK\$0.1 million in purchasing office equipment, furniture and fixtures for our Hong Kong office.

For the year ended 31 March 2013, our net cash used in investing activities was HK\$59.5 million, which was mainly attributable to (i) advances to Mr. ZHUANG of HK\$57.5 million, (ii) cash outflow of HK\$3.6 million primarily for our investment of HK\$1.8 million in the movie tentatively known as “(七號公館) (House No. 7)”, the acquisition of intellectual property rights and rights to use related augmented reality (AR) and mixed reality (MR) technologies, as well as the development of the songs of “*Violet*” (紫嫣) and (iii) cash outflow of HK\$24,000 in purchasing office equipment, furniture and fixtures for our office in Shenzhen, partially offset by repayments from Mr. ZHUANG of HK\$1.7 million.

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For the year ended 31 March 2012, our net cash used in investing activities was HK\$44.0 million, which was mainly attributable to (i) cash outflow of HK\$75.1 million in purchasing office equipment, furniture and fixtures for our office in Shenzhen, (ii) advances to Mr. ZHUANG of HK\$14.0 million and (iii) cash outflow of HK\$3.9 million for the acquisition of “*Han Ba Gui*” (憨八龜), “*The Amazing UU*” (神奇的優悠) and “*Animal Conference on the Environment*” (動物環境會議) in November 2011, partially offset by repayments from Mr. ZHUANG of HK\$48.9 million.

### **Net cash used in/from financing activities**

Our net cash used in financing activities mainly related to advances from Mr. ZHUANG, repayments to Mr. ZHUANG, proceeds from issue of shares and dividends paid.

For the five months ended 31 August 2014, our net cash from financing activities was HK\$53.9 million, which was mainly attributable to (i) proceeds of HK\$68.4 million from issue of shares to Pre-IPO Investors Phillip Ventures and Sun Smart and (ii) advances of HK\$12.0 million from Mr. ZHUANG, partially offset by dividends distributed of HK\$25.0 million and repayments of HK\$1.5 million made to Mr. ZHUANG. We expect to settle all advances from Mr. ZHUANG prior to Listing.

For the five months ended 31 August 2013, our net cash used in financing activities was HK\$50.8 million, which was mainly attributable to dividends distributed of HK\$53.0 million and repayments to Mr. ZHUANG of HK\$20,000, partially offset by advances from Mr. ZHUANG of HK\$1.3 million and proceeds from issue of shares of HK\$1.0 million.

For the year ended 31 March 2014, our net cash used in financing activities was HK\$78.4 million, which was mainly attributable to dividends paid to Mr. ZHUANG of HK\$83.2 million and repayments to Mr. ZHUANG of HK\$1.0 million, partially offset by advances from Mr. ZHUANG of HK\$4.8 million and proceeds from issue of shares of HK\$1.0 million.

For the year ended 31 March 2013, our net cash used in financing activities was HK\$87.8 million, which was mainly attributable to dividends paid to Mr. ZHUANG of HK\$85.0 million and repayments to Mr. ZHUANG of HK\$15.3 million, partially offset by advances from Mr. ZHUANG of HK\$12.4 million.

For the year ended 31 March 2012, our net cash used in financing activities was HK\$60.7 million, which was mainly attributable to dividends paid to Mr. ZHUANG of HK\$75.0 million and repayments to Mr. ZHUANG of HK\$3.6 million, partially offset by advances from Mr. ZHUANG of HK\$17.9 million.

### **Working capital**

Our working capital analysis is based on the historical financial ratios during the Track Record Period, signed letter of intent and contracts to support our major sources of revenue and feasibility study prepared by SEGA in relation to Shanghai Joypolis.

Taking into account the financial resources available to us, including estimated net proceeds from the Global Offering, and in the absence of unforeseen circumstances, our Directors are of the view that we will meet our working capital requirements for at least 12 months from the date of this prospectus.

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The following are some of our major bases and assumptions in our base case scenario for the 19 months ending 31 March 2016:

- contribution margin of our trading of animation derivative products is assumed to be 33%;
- sales volume of our animation derivative products is based on letter of intent provided by our customers; and
- number of visitors and the total budgeted capital expenditure and pre-opening costs for Shanghai Joypolis are based on the feasibility study conducted by SEGA.

For reference and illustration purposes only, the following is an extract of a highly hypothetical stress analysis by assuming all other factors remain constant, and taking into account the financial resources available to us, including the expected proceeds from the Global Offering based on the low end of the indicative Offer Price range and assuming the Over-allotment Option is not exercised, the expected future cash flows to be generated from our operations, and in the absence of unforeseeable circumstances, the possible impact on our working capital for the 19 months ending 31 March 2016 due to changes in either one of the four key parameters, namely contribution margin of our trading of animation derivative products, sales volume of our animation derivative products, the number of visitors to Shanghai Joypolis and the total amount of capital expenditure and pre-opening costs for Shanghai Joypolis (the “**Key Parameters**”):

	<b>Decrease of working capital as of 31 March 2016<sup>(1)</sup></b>	<b>Whether our working capital requirements can be met</b>
	<u>(HK\$'000)</u>	
<i>Trading business</i>		
Movement in contribution margin of our trading of animation derivative products from 1 January 2015 to 31 March 2016 <sup>(2)</sup>		
— Decrease by 10%	18,761	Yes
— Decrease by 20%	37,522	Yes
Movement in sales volume of our animation derivative products from 1 January 2015 to 31 March 2016 <sup>(2)</sup>		
— Decrease by 5%	27,879	Yes
— Decrease by 10%	55,758	Yes
<i>Shanghai Joypolis</i>		
Movement in the number of visitors to Shanghai Joypolis from 1 January 2015 to 31 March 2016 <sup>(2)</sup>		
— Decrease to nil	30,683	Yes
Movement in the total amount of capital expenditure and pre-opening costs for Shanghai Joypolis to be spent from 1 January 2015 to 31 March 2016 <sup>(2)</sup>		
— Increase by 20%	11,169	Yes

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*Notes:*

- (1) The amount is the decrease of working capital as of March 2016 as a result of changes in either one of the Key Parameters, any material decrease of such amount may result in shortfall in working capital to satisfy the Group's capital expenditure commitments and payment obligations and/or to maintain a sufficient positive cash balance to stay solvent.
- (2) Although the stress tests were only performed for the period from 1 January 2015 to 31 March 2016, we incorporated the unaudited financial information from 1 September 2014 to 31 December 2014 in estimating the working capital for the 19 months ending 31 March 2016.

According to the hypothetical sensitivity analysis built on the above Key Parameters, and taking into account the financial resources available to us, including the expected proceeds from the Global Offering based on the low end of the indicative Offer Price range and the Over-allotment Option is not exercised, the expected future cash flows to be generated from our operations, and in the absence of unforeseeable circumstances, we would still be able to satisfy the working capital of our Group's present requirements for the 19 months ending 31 March 2016 after taking into account the volatility of our key business drivers, in particular in connection with our operation of indoor animation amusement parks. **The stress tests only reflect our current intention and estimation of the budget for Shanghai Joypolis that are subject to significant uncertainties and risks, and there is no assurance that our actual spending will not deviate from our current budget plans. In addition, the stress tests are based on a series of assumptions that may not reflect actual circumstances and there is no assurance that the analysis accurately represents our ability to meet our working capital requirements. Please refer to "Risk Factors — We have no proven record in operating indoor animation amusement park in China" for further details of the risks associated therewith.**

When faced with situations that may materially and adversely affect our working capital or business performance, our management will consider making various adjustments to our business plans, including but not limited to, delaying or suspending our capital expenditure plans, adjusting the ticket price and opening hours of Shanghai Joypolis and increasing our debt and/or equity fund raising. These adjustments of business strategy depend on the judgment of our management, and the exercise of which requires a matrix of consideration the intricacy and uncertainty of which simply cannot be measured or taken into account by this hypothetical analysis. We are therefore confident that with the experience and leadership of our Board including our investment committee our Group will be able to meet its working capital requirements up to 31 March 2016. In the event of material change in circumstances or our business plans, in compliance with Rule 13.09 of the Listing Rules, we will make announcements as and when appropriate if our business might be materially or adversely affected.

### INDEBTEDNESS

We did not have any bank borrowing as of 31 December 2014, being the latest practicable date for the purpose of this indebtedness statement. As of 31 December 2014, we had unsecured amount due to a Director, being Mr. ZHUANG, of HK\$33.1 million, which we expect to settle prior to Listing.



## FINANCIAL INFORMATION

### Contingent liabilities

Our contingent liabilities primarily relate to possible penalty that may be imposed by the IRD on our Group, if any, arising from our late notification of chargeable profits for the assessment years from 2008/09 to 2012/13 by our Group. Please refer to Note 6 of the Accountants' Report as set out in Appendix I to this prospectus for further details of our historical tax filings and treatment.

After seeking professional advice, we were given to understand that possible penalty, if any, is likely to be based on 50% of the amount of tax undercharged, being HK\$2.3 million as of 31 December 2014.

However, based on the relevant facts and circumstances and taking into account professional advice, we believe that it is not probable that such penalty will be imposed on our Group. Consequently, we have not made any provision against such potential penalty.

Except as disclosed above, we did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding as of 31 December 2014. Our Directors confirm that there has been no material change in the indebtedness and contingent liabilities of our Group since 31 December 2014 and up to the Latest Practicable Date.

As of the Latest Practicable Date, we did not have any definitive plan to raise material external financing except for the Global Offering.

### SUMMARY OF FINANCIAL RATIOS

The following table sets forth certain financial ratios as of the dates indicated:

	As of/for the year ended 31 March			As of/for the five months ended 31 August	
	2012	2013	2014	2013	2014
	%	%	%	%	%
Return on equity <sup>(1)</sup>	226.7	234.4	154.1	183.4	23.8
Return on total assets <sup>(2)</sup>	75.2	50.6	67.3	18.9	12.7
Current ratio <sup>(3)</sup>	46.5	109.4	119.6	93.8	132.5
Gross profit margin <sup>(4)</sup>	39.6	44.6	48.8	36.0	34.9
Net profit margin <sup>(5)</sup>	28.1	30.1	38.6	24.0	21.3

*Notes:*

- (1) Return on equity ratio is profit for the year/period as a percentage of total equity as of year/period end.
- (2) Return on total assets ratio is profit for the year/period as a percentage of total assets as of year/period end.
- (3) Current ratio is total current assets as of year/period end as a percentage total current liabilities as of year/period end.
- (4) Gross profit margin is gross profit for the year/period as a percentage of total revenue for the year/period.

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- (5) Net profit margin is net profit for the year/period as a percentage of total revenue for the year/period.
- (6) Gearing ratio is not included in the analysis because the Group did not incur any borrowing during the Track Record Period.

### **Return on Equity**

As of 31 March 2012, 2013 and 2014, our return on equity was 226.7%, 234.4% and 154.1%, respectively. As of 31 August 2013 and 2014, our return on equity was 183.4% and 23.8%, respectively. The increase in our return on equity for the year ended 31 March 2013 primarily reflected increase in profits as compared to the year ended 31 March 2012. The significant decrease in our return on equity for the year ended 31 March 2014 primarily reflected our increased total equity resulting from decrease in dividend payout ratio from 99.8% for the year ended 31 March 2013 to 63.7% for the year ended 31 March 2014. The significant decrease in our return on equity for the five months ended 31 August 2014 reflected increase in total equity primarily as a result of the issue of shares to Pre-IPO Investors and decrease in dividends distributed for the five months ended 31 August 2014 as compared to the five months ended 31 August 2013.

### **Return on total assets**

As of 31 March 2012, 2013 and 2014, our return on total assets was 75.2%, 50.6% and 67.3%, respectively. As of 31 August 2013 and 2014, our return on total assets was 18.9% and 12.7%, respectively. The decrease in our return on total assets for the year ended 31 March 2013 reflected our increased total assets mainly attributable to increase in trade receivables and amount due from Mr. ZHUANG. Amount due from Mr. ZHUANG increased as a result of our advances to him for his personal investment. We expect to settle the remaining balance due from Mr. ZHUANG prior to Listing. The increase in our return on total assets for the year ended 31 March 2014 primarily reflected our increased profits for the year, partially offset by our increased total assets for the same period mainly attributable to increase in bank balances and cash primarily from net cash from operating activities and repayments from Mr. ZHUANG. The decrease in our return on total assets for the five months ended 31 August 2014 primarily reflected proceeds we received from the issue of shares to Pre-IPO Investors.

### **Current ratio**

As of 31 March 2012, 2013 and 2014, our current ratio was 46.5%, 109.4% and 119.6%, respectively. As of 31 August 2013 and 2014, our current ratio was 93.8% and 132.5%, respectively. Please refer to “Discussion of selected components of our financial position — Net current assets/liabilities” below for further details of changes in our current assets and current liabilities during the Track Record Period.

### **Gross profit margin**

For the three years ended 31 March 2014, our gross profit margin was 39.6%, 44.6% and 48.8%, respectively. For the five months ended 31 August 2013 and 2014, our gross profit margin was 36.0% and 34.9%, respectively. Please refer to “— Period to period comparison of results of operations — Five months ended 31 August 2014 compared with five months ended 31 August 2013 — Gross profit and gross profit margin”, “— Period to period comparison of results of operations — Year ended 31 March 2014 compared with year ended 31 March 2013 — Gross profit and gross profit margin”, and “— Period to period comparison of results of operations — Year ended 31 March

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2013 compared with year ended 31 March 2012 — Gross profit and gross profit margin” above for further details of changes in our gross profit margin during the Track Record Period.

### Net profit margin

For the three years ended 31 March 2014, our net profit margin was 28.1%, 30.1% and 38.6%, respectively. For the five months ended 31 August 2013 and 2014, our net profit margin was 24.0% and 21.3%, respectively. Please refer to “— Period to period comparison of results of operations — Five months ended 31 August 2014 compared with five months ended 31 August 2013”, “— Period to period comparison of results of operations — Year ended 31 March 2014 compared with year ended 31 March 2013”, and “— Period to period comparison of results of operations — Year ended 31 March 2013 compared with year ended 31 March 2012” above for further details of changes in our net profit during the Track Record Period.

### CAPITAL EXPENDITURE

For the three years ended 31 March 2014 and the five months ended 31 August 2014, our capital expenditures, which include purchases of property, plant and equipment and intangible assets and deposits for property, plant and equipment, were HK\$79.5 million, HK\$3.0 million, HK\$2.4 million and HK\$60.0 million, respectively. We have historically funded our capital expenditures primarily through cash generated from our operations. Our capital expenditures during the Track Record Period primarily consisted of leasehold improvement of our office in Shenzhen, purchase of equipment for Shanghai Joypolis, acquisition of intellectual property rights for our animation characters, acquisition of brandname pursuant to the SEGA Licence Agreement and purchase of equipment in relation to animation fair. The higher level of capital expenditures for the year ended 31 March 2012 and the five months ended 31 August 2014 primarily reflected leasehold improvement of our office in Shenzhen and purchase of equipment for Shanghai Joypolis, respectively.

The total capital expenditure and pre-opening costs for the establishment of Shanghai Joypolis up to its grand opening is expected to be approximately RMB173.8 million and RMB25.4 million, respectively. As of 31 August 2014, capital expenditure in the amount of RMB47.3 million for Shanghai Joypolis has been settled. As Huajiatai PRC, operator of Shanghai Joypolis, is owned as to 49.0%, 2.0% and 49.0% by China Theme Park HK, Shenzhen Wald and Pingan Taisheng, respectively, we (through China Theme Park HK and Shenzhen Wald) and Pingan Taisheng shall contribute 51% and 49% of the total investment in Shanghai Joypolis respectively. Barring unforeseeable circumstances, we (through China Theme Park HK and Shenzhen Wald for investment in Shanghai Joypolis) expect to incur total capital expenditures of approximately HK\$217.2 million for the years ending 31 March 2015 and 2016, primarily for the establishment and operation of Shanghai Joypolis. Please refer to “Business — Extension of our core business in the animation-related industry — Indoor animation amusement park — Shanghai Joypolis — Budget plans for Shanghai Joypolis” for further details of our capital expenditure plan in relation to Shanghai Joypolis. We expect to finance our capital expenditures through a combination of operating cash flows and net proceeds from the Global Offering. We may adjust our capital expenditures for any given period according to our development plans or in light of market conditions and other factors we believe to be appropriate.

### CONTRACTUAL AND CAPITAL COMMITMENTS

Our capital commitments, operating lease commitments and other commitments are set forth in Note 27, Note 29 and Note 28 to the Accountants’ Report included in Appendix I to this prospectus, respectively.

## FINANCIAL INFORMATION

### DISCUSSION OF SELECTED COMPONENTS OF OUR FINANCIAL POSITION

#### Net current assets/liabilities

The following table sets forth details of our current assets and liabilities for the dates indicated:

	As of 31 March			As of 31 August	As of 31 December
	2012	2013	2014	2014	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (unaudited)
<b>Current assets</b>					
Trade receivables	19,655	38,281	29,531	53,948	77,156
Other receivables	–	–	175	8,617	10,323
Amount due from a director	12	55,866	15,061	26,011	26,011
Bank balances and cash	14,261	4,477	86,020	104,199	47,645
	<u>33,928</u>	<u>98,624</u>	<u>130,787</u>	<u>192,775</u>	<u>161,135</u>
<b>Current liabilities</b>					
Trade payables	11,255	13,383	21,031	40,266	28,106
Other payables and accruals	6,392	5,435	7,473	7,427	13,780
Deferred income	–	5,500	–	–	–
Amount due to a director	14,313	11,493	15,271	26,663	33,130
Amount due to a related company	600	–	–	–	–
Tax payable	40,414	54,380	65,564	71,109	78,859
	<u>72,974</u>	<u>90,191</u>	<u>109,339</u>	<u>145,465</u>	<u>153,875</u>
<b>Net current (liabilities)/assets</b>	<u>(39,046)</u>	<u>8,433</u>	<u>21,448</u>	<u>47,310</u>	<u>7,260</u>

As of 31 August 2014, our net current assets increased to HK\$47.3 million, from net current assets of HK\$21.4 million as of 31 March 2014. The increase was primarily due to (i) increase in trade receivables of HK\$24.4 million primarily related to increase in our revenue from the trading of animation derivative products, (ii) increase in bank balances and cash of HK\$18.2 million, (iii) increase in amount due from Mr. ZHUANG of HK\$11.0 million, and (iv) increase in other receivables of HK\$8.4 million primarily as a result of the rental deposit and earnest money we paid in order to reserve the premises for rental for Shanghai Joypolis and the deposit for the design fee of

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Shanghai Joypolis. These increases were partially offset by (i) increase in trade payables of HK\$19.2 million primarily as a result of increased purchases from our suppliers corresponding to increased sales of animation derivative products and our management's intention to retain cash longer, (ii) increase in amount due to Mr. ZHUANG of HK\$11.4 million, and (iii) increase in tax payable of HK\$5.5 million in line with increase in our revenue.

As of 31 March 2014, our net current assets increased to HK\$21.4 million, from net current asset of HK\$8.4 million as of 31 March 2013. The increase was primarily due to the significant increase in bank balances and cash of HK\$81.5 million, partially offset by (i) decrease in amount due from Mr. ZHUANG of HK\$40.8 million, (ii) increase in tax payable of HK\$11.2 million, (iii) decrease in trade receivables of HK\$8.8 million, and (iv) increase in trade payable of HK\$7.6 million. The significant increase in bank balances and cash was primarily due to repayment from Mr. ZHUANG.

As of 31 March 2013, our net current asset increased to HK\$8.4 million from net current liabilities of HK\$39.0 million as of 31 March 2012. The increase was primarily due to increase in amount due from Mr. ZHUANG of HK\$55.9 million and increase in trade receivables of HK\$18.6 million resulting from significant sales orders received in March 2013, partially offset by increase in tax payable of HK\$14.0 million and decrease in bank balances and cash of HK\$9.8 million primarily due to dividends and repayments to Mr. ZHUANG.

As of 31 December 2014, being the latest practicable date for the purpose of our net current asset position, our net current assets decreased from HK\$47.3 million as of 31 August 2014 to HK\$7.3 million as of 31 December 2014. The decrease was primarily due to (i) decrease in bank balances and cash of HK\$56.6 million primarily as a result of deposits we made for property, plant and equipment in relation to Shanghai Joypolis, (ii) increase in tax payable of HK\$7.8 million as a result of additional provision we made for Hong Kong Profits Tax, (iii) increase in amount due to Mr. ZHUANG of HK\$6.5 million and (iv) increase in other payables and accruals of HK\$6.3 million primarily due to incurrence of listing expenses. These were partially offset by (i) increase in trade receivables of HK\$23.2 million primarily due to the recognition of a non-refundable joining fee of HK\$25.0 million in revenue, (ii) decrease in trade payables of HK\$12.2 million primarily related to payments to Sino Action for purchase of animation derivative products and (iii) increase in other receivables of HK\$1.7 million primarily related to rental prepayment for Shanghai Joypolis.

### **Trade Receivables**

Our trade receivables primarily represent the balances due from our customers for the trading of animation derivative products as well as the licensing fee due from Zing in relation to the licensing of animation characters. On average, we generally grant our customers of animation derivative products credit terms of 30 days. We take into consideration a number of factors in determining the credit term of a customer including its previous payment history. Before engaging in new customers, we assess their credit quality and set credit limit for each customer. We review credit limits granted to customers periodically.

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The following table sets forth the total amounts of our trade receivables as of the balance sheet dates indicated and the average trade receivables turnover days for the periods indicated:

	As of 31 March			As of 31 August
	2012	2013	2014	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	19,655	38,281	29,531	53,948
				<b>Five months ended</b>
				<b>31 August</b>
	2012	2013	2014	2014
Average trade receivables turnover days <sup>(1)</sup>	16.6	37.3	36.5	34.0

*Note:*

- (1) Calculated using the average of the beginning and ending trade receivables balances of the period, divided by revenue for the period and multiplied by 365 days for a year and 152 days for the five months ended 31 August 2014.

Our trade receivables balances as of 31 March 2012, 2013 and 2014 and 31 August 2014 were HK\$19.7 million, HK\$38.3 million, HK\$29.5 million and HK\$53.9 million. The increase in our trade receivables balances in the year ended 31 March 2013 and the decrease in trade receivables balance in the year ended 31 March 2014 were primarily related to significant sales orders we received in March 2013. The increase in our trade receivables balance in the five months ended 31 August 2014 was primarily related to increase in our revenue from the trading of animation derivative products.

For the three years ended 31 March 2014 and the five months ended 31 August 2014, our trade receivables turnover days were 16.6 days, 37.3 days, 36.5 days and 34.0 days, respectively. The increase in the year ended 31 March 2013 primarily reflected (i) only five months of licensing fees were charged in the year ended 31 March 2012 after we completed the acquisition of the animation characters in November 2011, while full year licensing fees were charged in the year ended 31 March 2013, and (ii) early payments made by President Japan Co. Ltd. in March 2012. The decrease in the year ended 31 March 2014 primarily reflected significant sales orders received in March 2013 and our management's intention to accelerate our collection of receivables. The decrease in the five months ended 31 August 2014 primarily reflected our management's intention to accelerate our collection of receivables. We seek to maintain control over outstanding receivables and ensure overdue balances are regularly reviewed. We seek to run ageing analysis of our trade receivables every month and report to management outstanding trade receivables that need to be followed up. We also classify our customers into different categories and review our relationship with them every year, including reviewing their credit history.

## FINANCIAL INFORMATION

The following table sets forth the ageing analysis of our trade receivables as of the balance sheet dates indicated, based on the invoice dates:

	As of 31 March			As of 31 August
	2012	2013	2014	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	9,635	26,181	8,753	32,249
31 to 60 days	1,071	5,150	4,447	2,973
61 to 180 days	8,949	6,740	9,700	3,326
Over 180 days	–	210	6,631	15,400
	<u>19,655</u>	<u>38,281</u>	<u>29,531</u>	<u>53,948</u>

Trade receivables that were neither past due nor not impaired relate to customers with good repayment history and with whom we have long-term relationship.

The following table sets forth the ageing analysis of our trade receivables which were past due but not impaired as of the balance sheet dates indicated, based on the invoice dates:

	As of 31 March			As of 31 August
	2012	2013	2014	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Over 30 days	<u>10,020</u>	<u>12,100</u>	<u>20,778</u>	<u>21,699</u>

We do not hold any collateral over these balances.

### Trade Payables

Our trade payables primarily consist of the balances due to our suppliers of animation derivative products. Our average credit period on purchases of products is 30 days and we seek to ensure that all trade payables are settled within the credit period.

## FINANCIAL INFORMATION

The following table sets forth the total amounts of our trade payables as of the balance sheet dates indicated and the average trade payables turnover days for the periods indicated:

	As of 31 March			As of 31 August
	2012	2013	2014	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	11,255	13,383	21,031	40,266
	Year ended 31 March			Five months ended 31 August
	2012	2013	2014	2014
Average trade payables turnover days <sup>(1)</sup>	12.9	28.6	36.2	38.3

*Note:*

- (1) Calculated using the average of the beginning and ending trade payables balances of the period, divided by cost of sales and services for the period and multiplied by 365 days for a year and 152 days for the five months ended 31 August 2014.

Our trade payables balances as of 31 March 2012, 2013 and 2014 and the five months ended 31 August 2014 were HK\$11.3 million, HK\$13.4 million, HK\$21.0 million and HK\$40.3 million, respectively. The increase in the year ended 31 March 2013 primarily reflected significant sales orders received in March 2013. The increase in the year ended 31 March 2014 primarily reflected our management's intention to retain cash longer. The increase in the five months ended 31 August 2014 primarily reflected increased purchases from our suppliers corresponding to increased sales of animation derivative products and our management's intention to retain cash longer.

For the three years ended 31 March 2014 and the five months ended 31 August 2014, our trade payables turnover days were 12.9 days, 28.6 days, 36.2 days and 38.3 days, respectively. The increases primarily reflected our management's intention to retain cash longer.



## FINANCIAL INFORMATION

The following table sets forth the ageing analysis of our trade payables as of the balance sheet dates indicated, based on the invoice dates:

	At 31 March			At 31 August
	2012	2013	2014	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	11,255	13,383	8,122	28,654
31 to 60 days	–	–	12,909	5,631
61 to 90 days	–	–	–	5,981
	<u>11,255</u>	<u>13,383</u>	<u>21,031</u>	<u>40,266</u>

### OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

We have not entered into any off-balance sheet arrangements or commitments to guarantee the payment obligations of any third parties.

### RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into the following transactions with related parties:

Related party	Description of transaction	Year ended 31 March			Five months ended 31 August	
		2012	2013	2014	2013	2014
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Zing <sup>(1)</sup>	Trading of animation derivative products	15,780	–	–	–	–
	Licensing of animation characters	13,292	–	–	–	–
Synergy Creation Limited <sup>(2)</sup>	Trading of animation derivative products	193	–	–	–	–

(unaudited)

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Related party	Description of transaction	Year ended 31 March			Five months ended 31 August	
		2012	2013	2014	2013	2014
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
						(unaudited)
Shenzhen Huaxia	Acquisition of intellectual property rights for animation characters	4,452	650	–	–	–
	Fees for research and development services	2,193	2,193	2,221	1,282	–
	Design fees in relation to the China Shenzhen International Cultural Industry Fair	1,800	3,325	250	–	–
	Fees for multimedia trailers for the promotion of “Amazing UU” (神奇的優悠)	–	3,410	–	–	–
	Commission income for providing platform for Shenzhen Huaxia’s sale of products at the Shenzhen Cartoon and Animation Festival 2014	–	–	–	–	202
Pingan Taisheng	Joining fee for Shanghai Joypolis	–	–	20,000	–	–
Mr. ZHUANG	Fees for leasing motor vehicle	76	130	130	54	54
	Fees for leasing premises for our office in Shenzhen	823	955	962	406	403

*Notes:*

- (1) Mr. ZHUANG was a director of Zing and resigned in June 2011.
- (2) Mr. ZHUANG was a director of Synergy Creation Limited and resigned in August 2012.

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Our Directors confirm that these transactions were conducted in the ordinary and usual course of business and on normal commercial terms between the relevant parties.

As of 31 August 2014, we had amount due to Mr. ZHUANG in the amount of HK\$26.7 million and amount due from Mr. ZHUANG in the amount of HK\$26.0 million. The balance of HK\$26.7 million amount due to Mr. ZHUANG as of 31 August 2014 primarily reflected the lending of his personal funds in Renminbi to Shenzhen Wald for its payment for purchase of equipment, rental expenses, staff costs, as well as other miscellaneous expenses in connection with its operations in the PRC. Shenzhen Wald was not engaged in active operation during the Track Record Period, and consequently, had limited funds to support our business expansion in the PRC. In order to facilitate Shenzhen Wald's operation in the PRC and to ensure our business plans are carried out smoothly, Mr. ZHUANG loaned his personal funds to Shenzhen Wald. The balance of HK\$26.0 million amount due from Mr. ZHUANG as of 31 August 2014 primarily reflected the funds our Group advanced to Mr. ZHUANG for his personal investments. We expect to settle the outstanding balances due to and due from Mr. ZHUANG prior to Listing. Please refer to Notes 15, 16 and 21 of the Accountants' Report set out in Appendix I to this prospectus for further details of the outstanding balances with related parties as of 31 March 2012, 2013 and 2014 and 31 August 2014.

We expect that our lease of premises from Mr. ZHUANG for our office in Shenzhen, our lease of motor vehicle from Mr. ZHUANG and our engagement of Shenzhen Huaxia for the provision of certain ancillary and supportive services will continue after the Listing. Please refer to "Exempted Continuing Connected Transactions" for further details these transactions.

### MARKET RISKS

Our activities expose us to a variety of market risks: currency risk, interest rate risk, credit risk and liquidity risk. Our management monitors these exposures and seeks to minimise potential adverse effects on our financial performance.

#### Currency risk

Our reporting currency is Hong Kong dollar. Our currency risk mainly relates to fluctuations in exchange rates of Hong Kong dollar against US dollar of our bank balances and trade receivables denominated in US dollar. The Directors are of the opinion that our exposure to changes in exchange rates of foreign currencies is insignificant. Our Group does not use any derivative financial instruments to hedge our exposure to currency risk. Our management continuously monitors our foreign exchange exposure and will consider hedging foreign currency risk should the need arise.

#### Interest rate risk

Our cash flow interest rate risk primarily relates to the floating-rate bank balances. We do not have an interest rate hedging policy. However, our management will consider hedging significant interest rate risk should the need arise.

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### **Credit risk**

Our credit risk is primarily attributable to our trade receivables. We have concentration of credit risk. As of 31 March 2012, 2013 and 2014 and 31 August 2014, trade receivables due from our five largest customers accounted for 60.4%, 88.6%, 87.5% and 61.6% of total trade receivables, respectively. Other than the above, we do not have significant concentration of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statements of financial position.

To manage and minimise credit risk, we assess potential customers' credit quality and defines credit limits by each customer. Limits attributed to customers are reviewed once a year. Our management has also delegated a team responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, we review the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, Directors of the Company consider that our credit risk is significant reduced.

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

### **Liquidity risk**

We monitor our shortage of funds from time to time and maintain a level of cash and cash equivalents deemed adequate by our management to finance our operations to mitigate the effects of fluctuations in cash flow.

### **LISTING EXPENSES**

Assuming an Offer Price of HK\$4.10 per Share (being the mid-point of the indicative offer price range stated in this prospectus) and the Over-allotment Option is not exercised, the total estimated listing expenses in relation to the Global Offering is HK\$88.2 million, of which HK\$13.0 million were charged to profit or loss during the Track Record Period. For the remaining expenses, we expect to charge HK\$35.3 million to our profit or loss for the year ending 31 March 2015 and the balance of HK\$39.9 million to be capitalised.

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### DIVIDEND PAID DURING THE TRACK RECORD PERIOD AND DIVIDEND POLICY

During the Track Record Period, our Company did not declare and pay any dividends. During the three years ended 31 March 2014, China Animation BVI declared and paid dividends to Bright Rise, being the sole shareholder of China Animation BVI, of HK\$75.0 million, HK\$85.0 million and HK\$83.2 million representing a dividend pay-out ratio of 91.4%, 99.8% and 63.7%, respectively. During the five months ended 31 August 2014, China Animation BVI declared and paid dividend to Bright Rise of HK\$25.0 million representing a dividend pay-out ratio of 63.0%. The principal reasons for the high dividend levels of China Animation BVI during the Track Record Period were as follows:

- (1) We intended to acquire land and buildings strategically situated at Longgang, Shenzhen, the PRC, which required significant modifications and improvements. However, the relevant land and buildings do not have the required the property ownership certificates. Mr. ZHUANG therefore decided to use part of the dividends to purchase such land and buildings and on modification and improvements.
- (2) The dividend payments during the Track Record Period were intended to compensate Mr. ZHUANG for his efforts and contribution to the business development of our Group, and represented part of the return on his investment in China Animation BVI through Bright Rise.

Following the Listing, our future dividend levels will be different from our dividend levels during the Track Record Period and the dividend levels declared and paid by China Animation BVI. After completion of the Global Offering and the Capitalisation Issue, our Shareholders will be entitled to receive dividends declared by our Company. Any amount of dividends to be declared and paid by our Company will be at the discretion of our Directors taking into consideration our future operations and earnings, our business development, capital requirements and surplus, general financial conditions, contractual restrictions and such other factors as our Directors consider appropriate. Any declaration and payment as well as the amount of dividends will be subject to the Articles of Association and the Companies Law. No dividend shall be declared or paid except out of our distributable profit and lawfully available for distribution under the Companies Law.

As we are a holding company, our ability to declare and pay dividends will depend on the availability of dividends received from our subsidiaries, particularly those in the PRC. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including HKFRS. PRC laws also require foreign-invested enterprises, such as all of our subsidiaries in China, to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future.

### DISTRIBUTABLE RESERVES

The distributable reserves of our Company as of 31 August 2014 were HK\$98.5 million.

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### UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of our Group, which has been prepared in accordance with Rule 4.29 of the Listing Rules, is for illustrative purposes only, and is set forth to illustrate the effect of the Global Offering on our consolidated net tangible assets as of 31 August 2014 as if the Global Offering had taken place on 31 August 2014.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets as of 31 August 2014 or any future date following the Global Offering. It is prepared based on our audited consolidated financial information as of 31 August 2014 as set forth in the Accountants' Report in Appendix I to this prospectus, and adjusted as described below. This unaudited pro forma statement of adjusted net tangible assets does not form part of the Accountant's Report as set forth in Appendix I to this prospectus.

	Audited consolidated net tangible assets attributable to equity holders of our Company as of 31 August 2014	Add: Estimated net proceeds received by our Company from the Global Offering	Unaudited pro forma adjusted net tangible assets attributable to equity holders of our Company	Unaudited pro forma adjusted consolidated net tangible assets per Share
	<i>HK\$'000</i> <i>(Note 1)</i>	<i>HK\$'000</i> <i>(Note 2)</i>	<i>HK\$'000</i> <i>(Note 4)</i>	<i>HK\$</i> <i>(Notes 3 and 4)</i>
Based on an Offer Price of HK\$4.56 per Offer Share	160,203	410,547	570,750	1.33
Based on an Offer Price of HK\$3.65 per Offer Share	160,203	319,763	479,966	1.12

*Notes:*

- (1) The audited consolidated net tangible liabilities of our Group attributable to owners of our Company as of 31 August 2014 is extracted from the Accountants' Report included in Appendix I to this prospectus, which is based on the audited consolidated net assets of our Group attributable to owners of our Company as of 31 August 2014 of HK\$166.9 million less the intangible assets of the Group of 31 August 2014 of HK\$6.7 million.
- (2) The estimated net proceeds from the Global Offering are based on 107,280,000 Offer Shares of an indicative Offer Prices of HK\$4.56 and HK\$3.65 per Offer Share, respectively (after deducting the total listing expenses which have not been reflected in the financial statements of the Group in the Track Record Period), and takes no account of any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandates.
- (3) The pro forma adjusted net tangible assets of our Group attributable to owners of our Company as of 31 August 2014 per Share is arrived at after the adjustments referred to in note 2 in the preceding paragraph and on the basis that 429,108,000 Shares were in issue assuming the Global Offering and the Capitalisation Issue had been completed on 31 August 2014. It takes no account of any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandates.

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## FINANCIAL INFORMATION

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- (4) No adjustment has been made to the pro forma adjusted net tangible assets of our Group attributable to owners of our Company as of 31 August 2014 to reflect any trading result or other transaction of our Group entered into subsequent to 31 August 2014.

### RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Since 31 August 2014, being the date to which the latest audited financial statements of our Group are prepared, and up to the Latest Practicable Date, our business has undergone developments including the following aspects:

- (1) On 18 November 2014, we entered into an agreement with Shenzhen Cultural Industry in relation to the music animation concert of “*Violet*” (紫嫣). On 31 December 2014, our virtual artist “*Violet*” (紫嫣) appeared as a guest and performed in a new year countdown show held in an outdoor theme park in Shenzhen, which was also broadcasted on a television channel in Guangdong Province, the PRC. The first large scale animation concert of “*Violet*” (紫嫣) was performed on 1 February 2015.
- (2) On 23 December 2014, we entered into a legally binding agreement with Someno Films, Studio Comet and Zing for the production of an animated movie featuring our animation characters “*Violet*” (紫嫣) and “*Han Ba Gui*” (憨八龜) and other animation characters from time to time agreed by the relevant parties. The total production cost for the movie is expected to be JPY200.0 million, of which we would contribute JPY50.0 million by way of cash and JPY100.0 million in kind.
- (3) On 27 November 2014, China Theme Park HK entered into a letter agreement with Harvest Progress, a wholly-owned subsidiary of Mr. LI, the father of Mr. LI Jian, pursuant to which Harvest Progress agrees to pay us a non-refundable joining fee of HK\$25.0 million for and on behalf of Pingan Taisheng, an entity controlled by Mr. LI Jian. The amount of the non-refundable joining fee was paid in consideration of our effort in securing the business opportunity from SEGA to establish and operate the next Joypolis. The receipt of the non-refundable joining fee in the amount of HK\$25.0 million from Harvest Progress would not require any approval from SEGA. As of the Latest Practicable Date, we have not entered into any licensing agreement with SEGA for the operation of another Joypolis in the PRC.
- (4) Phase 1 opening of Shanghai Joypolis took place on 30 December 2014. During the period from 1 January 2015 to 31 January 2015, based on our internal record and unaudited management accounts, (a) the number of visitors of Wonder Forest (being one of the two major attractions in phase 1 of Shanghai Joypolis) was recorded to be approximately 7,000 and Wonder Forest recorded income in the amount of RMB0.6 million; and (b) the number of turns of the photo-taking machines in P+Closet (being another major attraction in phase 1 of Shanghai Joypolis) paid by visitors was recorded to be approximately 900 turns and the income from selling of token and income from rental of apparel or accessory items were approximately RMB0.1 million and RMB14,000.0 respectively.

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## FINANCIAL INFORMATION

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- (5) Our profit for the year ending 31 March 2015 is expected to be adversely affected by: (a) the absence of the one-off deferred licensing income of HK\$41.7 million from Zing which was recognised as revenue for the year ended 31 March 2014; and (b) the recognition of the estimated listing expenses of HK\$38.6 million (assuming that the Offer Price is HK\$3.65, being the low end of the indicative range of the Offer Price, and the Over-allotment Option is not exercised) for the year ending 31 March 2015. Although our Directors believe that, on a normalised basis without taking into account the one-off deferred licensing income and non-recurring expenses, there will not be material adverse change to our financial performance for the year ending 31 March 2015 as compared to the year ended 31 March 2014, our net profit for the year ending 31 March 2015 could be significantly lower than the net profit for the year ended 31 March 2014. Please refer to “Risk factor — Our historical performance may not reflect our future profitability and our net profit for the year ending 31 March 2015 could be significantly lower than our net profit for the year ended 31 March 2014”.

Our Directors confirm that since 31 August 2014, (being the date to which the latest audited consolidated financial statements of our Group are prepared) and up to the Latest Practicable Date, there had been no material adverse change in our business, financial condition and market condition in the industry in which we operate which could materially affect the information shown in our consolidated financial statements included in the accountants’ report set forth in Appendix I to this prospectus.

### **DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES**

Our Directors confirm that, as of the Latest Practicable Date, there was no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.



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## FUTURE PLANS AND USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

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### FUTURE PLANS

Please refer to the section headed section “Business — Our Strategies” in this prospectus for a detailed description of our future plans.

### USE OF NET PROCEEDS

Assuming the Offer Price is HK\$4.10, being the mid-point of the indicative range of the Offer Price of HK\$3.65 to HK\$4.56 per Share, and that the Over-allotment Option is not exercised, we estimate that the net proceeds from the Global Offering (after deducting underwriting commission and estimated expenses incurred for the Listing) will be HK\$364.7 million. If the Over-allotment Option is exercised in full the net proceeds from the Global Offering are expected to be HK\$426.0 million based on the Offer Price of HK\$4.10, being the mid-point of the indicative range of the Offer Price.

We intend to use the net proceeds of HK\$364.7 million from the Global Offering for the following purposes assuming the Offer Price is HK\$4.10, being the mid-point of the indicative range of the Offer Price, and that the Over-allotment Option is not exercised:

- (1) as to 40% of the net proceeds, or HK\$145.9 million, for our contribution (in the percentage of 51%, the other 49% is to be contributed by Pingan Taisheng) for the capital expenditure (in the amount of HK\$54.5 million) and the working capital for Shanghai Joypolis and for utilisation for use in planning the next Joypolis, subject to the approval by SEGA (in the amount of HK\$91.4 million). As of the Latest Practicable Date, we have not entered into any licensing agreements with SEGA for the operation of further Joypolis project in addition to Shanghai Joypolis in the PRC;
- (2) as to 30% of the net proceeds, or HK\$109.4 million, for possible investment in, acquisition of, and/or formation of strategic cooperations with, domestic or international companies which operate animation-related businesses, including without limitation, animation-related event organisers, mobile and internet applications developers and animation-related multi-media platforms. As of the Latest Practicable Date, we did not identified any such targets to be invested or acquired or to form strategic cooperations with nor have we commenced any due diligence process in relation to the same, but we intend to explore investment, acquisition or cooperation targets that can enhance, extend and cross sell our existing businesses or that have the potentials to enable us to further penetrate into and increase our share in the markets in which we operate. We intend to identify potential targets through market research and/or referral by our business partners. Upon identification of the target, we will take into account, among other things, whether the business of the target is established, profitable, sustainable, complementary to our Group’s business and/or in line with our Group’s business strategies from time to time and the applicable legal and regulatory requirements in determining whether to proceed with the proposal. Currently, we do not set any thresholds or limits for potential targets in the event that financing is required, we may raise fund by equity financing or external borrowing as and when appropriate. The investment committee of our Board and/or our Board will review and approve any such proposal which, if approved, will take place in compliance with relevant rules and regulations including the Listing Rules;

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## FUTURE PLANS AND USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

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- (3) as to 20% of the net proceeds, or HK\$72.9 million, for the development, production and technical enhancement of our music animation concerts and the related promotional and marketing activities and the development of our consignment sales business; and
- (4) as to the remaining balance of 10% of the net proceeds, or HK\$36.5 million, for our working capital and general corporate purposes.

To the extent that the net proceeds from the Global Offering received by us are not immediately required for the above purposes, our Directors intend that such proceeds be placed on short-term deposits with licensed banks or financial institutions and/or invested into money market instruments in Hong Kong and/or the PRC.

In the event that the Offer Price is determined at the higher end of the indicative Offer Price range of HK\$4.56 and that the Over-allotment Option is not exercised, the estimated net proceeds from the Global Offering will be approximately HK\$410.5 million, and HK\$478.8 million, assuming that the Over-allotment Option is exercised in full, respectively. Our Directors intend to apply such additional net proceeds in the same proportions as set forth above.

In the event that the Offer Price is determined at the lower end of the indicative Offer Price range of HK\$3.65 and that the Over-allotment Option is not exercised, the estimated net proceeds from the Global Offering will be approximately HK\$319.8 million, and HK\$374.4 million, assuming that the Over-allotment Option is exercised in full, respectively. Our Directors intend to apply the reduced net proceeds in the same proportions as set forth above.

## CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

### OUR CONTROLLING SHAREHOLDERS

The following sets forth the information on our Controlling Shareholders on the basis that the Over-allotment Option is not exercised in full and without taking into consideration our Shares that may be taken up by investors under the Global Offering:

<b>Name of our Shareholders<sup>(5)</sup></b>	<b>Beneficial owners</b>	<b>Number of Shares<sup>(5)</sup></b>	<b>Shareholding percentage<sup>(4)</sup></b>
Bright Rise <sup>(1)</sup>	Mr. ZHUANG, Ms. LI and their children <sup>(1), (2) and (3)</sup>	179,583,000	41.85
Fortress Strength	Ms. LI <sup>(3)</sup>	8,046,000	1.88
Dragon Year	Mr. IKEDA	25,140,000	5.86
Mr. IKEDA	N/A	6,000,000	1.40
Bonville	Mr. TING <sup>(2)</sup>	6,450,000	1.50
East Jumbo	Ms. OR	14,829,000	3.46

*Notes:*

- (1) All the issued share capital of Bright Rise is held by Newgate (PTC) Limited. Newgate (PTC) Limited is a company incorporated in the BVI on 12 September 2014 and acts as the trustee of the trust created in the Cayman Islands by Mr. ZHUANG on 18 November 2014, namely The Fortune Trust. The beneficiaries of The Fortune Trust currently include Mr. ZHUANG and his family members.
- (2) Mr. ZHUANG and Mr. TING are our executive Directors.
- (3) Ms. LI is the spouse of Mr. ZHUANG.
- (4) The number of Shares and the Shareholding percentages are based on the assumptions that the Over-allotment Option is not exercised in full and that no Shares have been issued or allotted pursuant to the exercise of any option that may be granted under the Share Option Scheme.
- (5) All Controlling Shareholders are Concert Parties by virtue of the Concert Party Agreement, a summary of its terms is set forth in the paragraphs under “Summary of the Concert Party Agreement” below.

Immediately after completion of the Global Offering and the Capitalisation Issue, our Controlling Shareholders (who are Concert Parties) will be acting together in the control of the exercise of the voting rights of more than 30% of the Shares. As of the Latest Practicable Date, except for their respective interests in our Group, none of our Controlling Shareholders or any of their respective associates had interests in any other companies which may compete with our business directly or indirectly.

### OUR SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Global Offering and the Capitalisation Issue, except for our Controlling Shareholders, our Company has no other Substantial Shareholders without taking into consideration our Shares that may be taken up by investors under the Global Offering.

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## **CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS**

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### **INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS**

Having considered the matters described above and the following factors, our Directors believe that we are capable of carrying on the business independently of our Controlling Shareholders and their respective associates following completion of the Global Offering and the Capitalisation Issue.

#### **Management independence**

Our Board comprises three executive Directors and three independent non-executive Directors. Mr. ZHUANG, our Controlling Shareholder, is the chairman of our Board and an executive Director. No member of our Group shares common management with our Controlling Shareholders.

Each of our Directors is aware of his or her fiduciary duties as a director of a Hong Kong listed company which require, among other things, that he or she acts for the benefit and in the best interest of our Company and does not allow any conflict between his or her duties as a Director and his or her personal interest. If there is any potential conflict of interest arising out of any transaction to be entered into between our Directors and us or their respective associates, the interested Director(s) shall abstain from voting at the meeting of our Board in respect of such transaction. In addition, we have an independent senior management team to carry out our business decisions, further information on which is set forth in the section headed “Directors, senior management and employees” in this prospectus. Our Directors are satisfied that our senior management team is capable to perform their roles independently and that we are capable of managing our business independently from our Controlling Shareholders following completion of the Global Offering and the Capitalisation Issue.

#### **Operational independence**

We have established our own organisational structure which consists of various departments, each department is assigned with specific responsibilities. We have independent access to the source of supplies as well as customers. We have also established various internal control procedures to facilitate the effective business operations. Our business operations do not rely on any third party including, but without limitation to, Shenzhen Huaxia and Sino Action. All the required staff for the development of our proprietary animation characters have been working with us under legally binding employment agreements. In particular, we have our quality control teams to ensure that all the animation derivative products produced by our suppliers satisfy the quality standards prescribed by our customers.

We have minimal transactions with our connected persons. Our Directors confirm that, save as disclosed in the section headed “Exempted continuing connected transactions” in this prospectus, we will not enter into any other transactions of similar nature with our connected persons and their associates after the Listing that will affect our operational independence. The lease of the premises comprising the China Animation Creative Industry Park from Mr. ZHUANG constitutes exempted continuing connected transactions for our Company. The rental level is determined with reference to the then prevailing market rates of comparable properties within the region.

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## CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

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The SEGA Licence Agreement is vital to the operations of Shanghai Joypolis, but Our Directors do not consider that we unduly rely on SEGA. According to the Frost & Sullivan Report, we are the first operator of Joypolis in China licensed by SEGA. With our experience in the animation industry in China, our Directors believe that we will continue to operate Joypolis in accordance with the standards and requirements of SEGA. All terms and conditions of the SEGA Licence Agreement are negotiated with SEGA on an arm's length basis.

### **Financial independence**

We have an independent financial system and make financial decisions according to our own business needs. Our Directors confirm that all financial assistance, including amounts due to, and loans or guarantees provided by, our Controlling Shareholders to us, will be repaid or released or otherwise settled in full prior to the Listing Date. We also have no bank loans or banking facilities secured or guaranteed by any of our Controlling Shareholders or other connected persons of our Company. Hence, we are not financially depending on the financial resources provided by our Controlling Shareholders.

### **DEED OF NON-COMPETITION**

Each of our executive Directors and our Controlling Shareholders (collectively, the “**Covenantors**”) has entered into the Deed of Non-Competition in favour of our Company, pursuant to which each of the Covenantors has undertaken to us (for ourselves and on behalf of our subsidiaries) that the Covenantors would not and would procure that their associates (except any members of our Group) would not, during the period that the Deed of Non-Competition remains effective, directly or indirectly, either on such Covenantor's own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may be in competition with the business of any member of our Group from time to time (the “**Restricted Business**”).

The above undertaking does not apply where:

- (a) the holding by any of the Covenantors of interests in the shares of a company other than our Group which are listed on a recognised stock exchange provided that:–
  - (i) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than five per cent. of that company's consolidated turnover or consolidated assets, as shown in that company's latest audited accounts; or
  - (ii) the total number of the Shares held by the Covenantors and/or their respective associates in aggregate does not exceed five per cent. of the issued shares of that class of the company in question and the Covenantors and/or their respective associates are not entitled to appoint a majority of the directors of that company and at any time there should exist at least another shareholder of that company whose shareholdings in that company should be more than the total number of shares held by the Covenantors and their respective associates in aggregate; and

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## CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

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- (b) any opportunity to invest, participate, be engaged in and/or operate any Restricted Business has first been offered or made available by any of the Covenantors and/or its/his/her associates to us, and after decision by our independent non-executive Directors and approval by our Board and/or Shareholders as required under the relevant laws and regulations (including but not limited to the Listing Rules) and in accordance with our Articles of Association, has declined in writing such opportunity to invest, participate, be engaged in or operate the Restricted Business, and that the principal terms by which the Covenantors (or its/his/her associates) subsequently invests, participates, engages in or operates the Restricted Business are no more favourable than those offered to the member of our Group.

Pursuant to the Deed of Non-Competition, the above restrictions would cease to have effect if our Shares cease to be listed on the Stock Exchange.

### CORPORATE GOVERNANCE MEASURES

We have adopted or will adopt the following measures to manage any conflict of interests arising from the competing business of our Controlling Shareholders and to safeguard the interests of our Shareholders:

- (a) our independent non-executive Directors will review, at least on an annual basis, the compliance with the undertaking given by our Controlling Shareholders under the Deed of Non-Competition;
- (b) our Controlling Shareholders have undertaken to provide all information requested by our Company which is necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-Competition;
- (c) the decision on whether to exercise the rights under the Deed of Non-Competition will be made by our independent non-executive Directors only without the need for approval by our other Directors;
- (d) our Company will disclose factors or matters reviewed and considered by our independent non-executive Directors relating to compliance and exercise of the Deed of Non-Competition, including, but not limited to, whether there has been any opportunity in Restricted Business being referred by our Controlling Shareholders to us, the prospects of such opportunity and the potential implications to our operations if we have taken up the same, in the annual reports of our Company;
- (e) our independent non-executive Directors may engage external professional advisers to assist them in deciding whether to exercise our Company's rights under the Deed of Non-Competition. All costs incurred for the professional advisers shall be borne by us; and
- (f) our Controlling Shareholders will make an annual declaration in relation to compliance with the Deed of Non-Competition in the annual reports of our Company.

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## CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

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### SUMMARY OF THE CONCERT PARTY AGREEMENT

On 25 November 2014, all the Concert Parties enter into the Concert Party Agreement with the following terms and conditions:

#### **Voting at general meetings of our Shareholders**

- (a) All the Concert Parties (except for Bright Rise) have agreed to vote according to the instructions from Bright Rise or Mr. ZHUANG at the time of exercising the voting right of our Company and vote consistently with the vote of Bright Rise at general meetings of our Company.
- (b) Any Concert Party who is not able to attend any general meeting in person shall authorise Bright Rise to exercise the voting right at general meetings as its or his or her proxy and shall authorise Bright Rise to complete the relevant procedures for voting at general meetings.

#### **Voting at meetings of the Board**

Any Concert Party or its beneficial owner who is a Director but is not able to attend any meeting of the Board in person shall authorise and appoint Mr. ZHUANG to exercise the voting right at the relevant meeting of the Board as an alternate Director to the appointing Director.

#### **Share transfers**

If any Concert Party would like to dispose of its or his or her Shares held by it or him or her on the Listing Date, the relevant Concert Party shall first inform the other Concert Parties on whether any of them is interested to purchase all or any of the Shares proposed to be sold. Following the receipt of the written notification, the other Concert Parties shall have the right to purchase all or any of the Shares by replying the notification within three Business Days at the Agreed Price (as defined below). The prices set forth in the notification (the “**Agreed Price**”) shall be no less than the average closing prices for each Share quoted on the Stock Exchange for a period of seven consecutive Business Days prior to the date of the written notification with a discount of no more than five per cent.

If there is more than one Concert Party indicating that it or he or she is interested to purchase the Shares in the written notification, the interested Concert Parties shall have the right to purchase all the Shares on a pro rata basis at the Agreed Price. If there is no Concert Party indicating that it or he or she is interested to purchase the Shares, the Concert Party issuing the written notification may proceed to sell all or any of the Shares to other third parties at such price not less than the Agreed Price within a period of 15 Business Days from the expiry date of the period during which the other Concert Parties may rely to the written notification of sales. If there is no sale of the Shares during the relevant period, any subsequent sales by the relevant Concert Party shall be subject to re-issue the written notification set forth above before proceeding to any sale.

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## EXEMPTED CONTINUING CONNECTED TRANSACTIONS

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### CONNECTED PERSONS

Mr. ZHUANG is a connected person of our Company as he is an executive Director and a Controlling Shareholder.

### LEASE OF OFFICES

We lease premises from Mr. ZHUANG. The premises include selected floors of the buildings 9 and 10, China Animation Creative Industry Park, Youyi Road, Longcheng Street, Longgang District, Shenzhen, the PRC, and are currently used by us as our offices and research and development centre in Shenzhen. As the premises and all other buildings comprising the industry park are structures with no property ownership certificates granted to Mr. ZHUANG, 深圳市龍崗區龍城街道處理歷史遺留違法建築領導小組辦公室 (The Office of the Leadership Group in Handling Historical Unauthorised Structures in the area of Longcheng Street, Longgang District, Shenzhen City\*) has issued a reply, upon the request of Mr. ZHUANG, confirming that the registered name of the premises has been changed to Mr. ZHUANG. As advised by our PRC Legal Adviser, Mr ZHUANG does not possess the title ownership certificates for the Shenzhen Properties.



## EXEMPTED CONTINUING CONNECTED TRANSACTIONS

The table below sets forth (1) the term of the lease agreements entered into between us and Mr. ZHUANG; (2) the annual rent paid by us to Mr. ZHUANG during the Track Record Period; and (3) the maximum contractual annual rent payable by us for the two years ending 31 March 2016:

Lessor	Lessee	Date of lease	Term	Properties	Usage	Gross floor area <i>(m<sup>2</sup>)</i>	Annual rental <i>(RMB'000)</i>	Historical transaction amount				Maximum contractual annual rent		
								Year ended 31 March			Five months ended 31 August	Year ending 31 March		
								2012	2013	2014	2014	2015	2016	
Mr. ZHUANG	Shenzhen Wald	1 August 2014	1 August 2014 to 31 March 2016	1st, 2nd, 3rd and 5th Floor of Building No. 9 China Animation Creative Industry Park Youyi Road Longcheng Street Longgang District Shenzhen PRC	Offices and research and development centre	8,022	1,155.2	<i>(RMB'000)</i>				777.6	1,155.2	
								399.5 <sup>(1)</sup>	460.1 <sup>(1)</sup>	460.1 <sup>(1)</sup>	191.7 <sup>(1)</sup>			
								<i>(HK\$'000)</i>						
								491.9	570.9	575.0	240.6	889.5	1,605.7	
Mr. ZHUANG	Shenzhen Wald	1 August 2014	1 August 2014 to 31 March 2016	1st, 2nd, 3rd and 5th Floor of Building No.10, China Animation Creative Industry Park Youyi Road Longcheng Street Longgang District Shenzhen PRC	Offices and research and development centre	5,400	777.6	<i>(RMB'000)</i>				669.6	994.7	
								267.7 <sup>(1)</sup>	309.7 <sup>(1)</sup>	309.7 <sup>(1)</sup>	129.1 <sup>(1)</sup>			
								<i>(HK\$'000)</i>						
								331.2	384.3	387.1	161.9	727.6	1,080.9	
								<i>(RMB'000)</i>						
								<b>Total:</b>	<b>667.2</b>	<b>769.8</b>	<b>769.8</b>	<b>320.8</b>	<b>1,447.2</b>	<b>2,149.9</b>
								<i>(HK\$'000)</i>						
								<b>Total:</b>	<b>823.1</b>	<b>955.2</b>	<b>962.1</b>	<b>402.5</b>	<b>1,626.1</b>	<b>2,686.6</b>

*Note:*

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

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## EXEMPTED CONTINUING CONNECTED TRANSACTIONS

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As shown in the table above, the annual rent payable to Mr. ZHUANG for the two years ending 31 March 2016 falls within the *de minimis* threshold set forth in Rule 14A.76 of the Listing Rules. As such, the transactions are exempted from the reporting, announcement requirements and the independent Shareholders' approval requirements. Our Directors, including our independent non-executive Directors, confirm that the lease agreements are entered into on normal commercial terms and in the interest of our Shareholders as a whole.

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

### LEASE OF MOTOR VEHICLE

We lease a motor vehicle from Mr. ZHUANG. The annual rent payable to Mr. ZHUANG for the three years ended 31 March 2014 was HK\$0.08 million, HK\$0.13 million and HK\$0.13 million, respectively. During the five months ended 31 August 2013 and 2014, the rent payable to Mr. ZHUANG was HK\$0.05 million and HK\$0.05 million, respectively. Our Directors anticipate that the amount of annual rent payable under the lease of motor vehicle will fall within the *de minimis* threshold set forth in Rule 14A.76 of the Listing Rules. As such, the transaction is exempted from the reporting, announcement requirements and the independent Shareholders' approval requirements. Our Directors, including our independent non-executive Directors, confirm that the lease of motor vehicle is entered into on normal commercial terms and in the interests of the Shareholders as a whole.

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## SHARE CAPITAL

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### AUTHORISED AND ISSUED SHARE CAPITAL

The following is a description of the authorised and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately before and after completion of the Global Offering and the Capitalisation Issue (without taking into account Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any option that may be granted under the Share Option Scheme):

		<i>HK\$</i>
Authorised share capital:		
<u>1,000,000,000</u>		<u>100,000,000</u>
Shares issued and to be issued, full paid or credited as fully paid upon completion of the Global Offering and the Capitalisation Issue (assuming that the Over-allotment Option is not exercised):		
1,072,760	Shares in issue as of the date of this prospectus	107,276
320,755,240	Shares to be issued under the Capitalisation Issue	32,075,524
107,280,000	Shares to be issued under the Global Offering (assuming that the Over-allotment Option is not exercised)	10,728,000
<u>429,108,000</u>	Total issued share capital (assuming that the Over-allotment Option is not exercised)	<u>42,910,800</u>

Shares issued and to be issued, full paid or credited as fully paid upon completion of the Global Offering and the Capitalisation Issue (assuming that the Over-allotment Option is exercised in full):

1,072,760	Shares in issue as of the date of this prospectus	107,276
320,755,240	Shares to be issued under the Capitalisation Issue	32,075,524
123,372,000	Shares to be issued under the Global Offering (assuming that the Over-allotment Option is exercised in full)	12,337,200
<u>445,200,000</u>	Total issued share capital (assuming that the Over-allotment Option is exercised in full)	<u>44,520,000</u>

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## SHARE CAPITAL

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### ASSUMPTIONS

The above table assumes that the Capitalisation Issue and the Global Offering become unconditional and the issue of Shares pursuant thereto is made as described herein. It does not take into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option and pursuant to the exercise of any options that may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the General Mandate and the Repurchase Mandate.

### RANKING

The Offer Shares will rank equally with all our Shares now in issue or to be issued and will qualify for all dividends, income and other distributions and any other rights and benefits attaching or accruing to our Shares after the completion of the Global Offering.

### CAPITALISATION ISSUE

Pursuant to the resolutions passed by our Shareholders in the general meeting held on 16 February 2015 and subject to the conditions set out therein, our Directors were authorised to allot and issue a total of 320,755,240 new Shares credited as fully paid at par to the Shareholders whose names appear on the register of members of our Company at close of business on 16 February 2015 by way of capitalisation, and the Shares to be allotted and issued under this resolution shall rank pari passu in all respects with the existing issued Shares. Detailed information is set forth in the paragraphs under “Further Information about our Company — 3. Resolutions passed by our Shareholders in the general meeting held on 16 February 2015” in Appendix IV to this prospectus.

### SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme on 16 February 2015. Under the Share Option Scheme, the eligible participants of the scheme, including not limited to directors, full-time or part-time employees of and consultants to our Company or our subsidiaries may be granted options which entitle them to subscribe for Shares, when aggregated with options granted under any other scheme, representing initially not more than 10% of the Shares in issue on the Listing Date. Detailed information is set forth in the paragraphs under “Share Option Scheme” in Appendix IV to this prospectus.

### GENERAL MANDATE

Assuming the Global Offering becomes unconditional, our Directors have been granted a general mandate to allot, issue and deal with Shares with a total nominal value of not more than 20.0% of the total nominal amount of our share capital in issue immediately following the completion of Global Offering and the Capitalisation Issue (excluding Shares which may be allotted and issued pursuant to the exercise of any option that may be under the Share Option Scheme and the total amount of our share capital repurchased by us (if any) pursuant to the Repurchase Mandate).

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## SHARE CAPITAL

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The General Mandate is in addition to the powers of our Directors to allot, issue or deal with Shares under any rights issue, scrip dividend scheme or similar arrangement providing for the allotment and issue of Shares in lieu of the whole or part of a dividend in accordance with the Articles of Association, or pursuant to the exercise of any subscription rights attached to any warrants which may be issued by us from time to time, or upon the exercise of options that may be granted under Share Option Scheme. The General Mandate does not include any Shares to be issued pursuant to the exercise of the options that may be granted under the Share Option Scheme.

The General Mandate will expire:

- at the end of our next annual general meeting;
- at the end of the period within which we are required by any applicable law or the Articles of Association to hold our next annual general meeting; or
- when varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

### REPURCHASE MANDATE

Subject to the conditions stated in the section headed “Structure of the Global Offering — Conditions of the Global Offering” in this prospectus, our Directors have been granted a general mandate to exercise all our powers to repurchase Shares with a total nominal value of not more than 10.0% of the aggregate nominal value of our share capital in issue immediately following the completion of the Global Offering, excluding any Shares which may be issued pursuant to the exercise of any option that may be granted under the Share Option Scheme.

The Repurchase Mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and made in accordance with all applicable laws and the requirements of the Listing Rules.

The Repurchase Mandate will expire:

- at the end of our next annual general meeting;
- at the end of the period within which we are required by any applicable law or the Articles of Association to hold our next annual general meeting; or
- when varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

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## UNDERWRITING

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### HONG KONG UNDERWRITERS

BNP Paribas Securities (Asia) Limited

Ping An Securities Limited

Shenyin Wanguo Securities (H.K.) Limited

GF Securities (Hong Kong) Brokerage Limited

Oriental Patron Securities Limited

### INTERNATIONAL UNDERWRITERS

BNP Paribas Securities (Asia) Limited

Ping An Securities Limited

Shenyin Wanguo Securities (H.K.) Limited

GF Securities (Hong Kong) Brokerage Limited

Oriental Patron Securities Limited

### THE HONG KONG PUBLIC OFFERING

#### Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is initially offering 10,728,000 Hong Kong Offer Shares for subscription by members of the public in Hong Kong at the Offer Price on the terms and subject to the conditions set forth in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

Subject to (i) the Listing Committee granting listing of, and permission to deal in, our Shares in issue, and our Shares to be issued pursuant to the Global Offering and the Capitalisation Issue (including any additional Shares which may be allotted and issued under the Over-allotment Option) on the Main Board of the Stock Exchange and (ii) certain other conditions set forth in the Hong Kong Underwriting Agreement (including, among others, the Sole Global Coordinator (on behalf of the Underwriters) and us agreeing on the Offer Price), the Hong Kong Underwriters have severally but not jointly agreed to subscribe or procure subscribers for their respective applicable proportions (set forth in the Hong Kong Underwriting Agreement) of the Hong Kong Offer Shares now being offered that are not taken up under the Hong Kong Public Offering, on the terms and subject to the conditions set forth in this prospectus, the related Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been signed, becoming unconditional and not having been terminated.

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## UNDERWRITING

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### *Grounds for termination*

The obligations of the Hong Kong Underwriters to subscribe or to procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination by notice (orally or in writing) to our Company from the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) if, prior to 8:00 a.m. on the Listing Date:

- (a) there shall develop, occur, exist or come into effect:
  - (i) any events or series of events or circumstance in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of disease, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism) in or affecting any of the Relevant Jurisdictions; or
  - (ii) any change, or any development involving a prospective change, or any event or circumstance likely to result in any change or development involving a prospective change, in any local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets) in or affecting any of the Relevant Jurisdictions; or
  - (iii) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or
  - (iv) any moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent authority), New York (imposed at Federal or New York State level or other competent authority), London or any of the other Relevant Jurisdictions, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in or affecting any of the Relevant Jurisdictions; or
  - (v) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, or affecting any of the Relevant Jurisdictions; or
  - (vi) any new laws, statutes, ordinances, legal codes, regulations or rules (the “**Laws**”), or any change or development involving a prospective change in the Laws, or any change or development involving a prospective change in the interpretation or application by any court or other competent authority of the Laws, in each case, in or affecting any of the Relevant Jurisdictions; or

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## UNDERWRITING

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- (vii) a change or development involving a prospective change in taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies), or the implementation of any exchange control, in or affecting any of the Relevant Jurisdictions; or
- (viii) any litigation or claim of any third party being threatened or instigated against any member of our Group, any Controlling Shareholder, any Director or the chief executive officer or the chief financial officer of our Company; or
- (ix) any Director or the chief executive officer or the chief financial officer of our Company being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (x) any Director or the chairman, the chief executive officer or the chief financial officer of our Company vacating his or her office; or
- (xi) an authority or a political body or organisation in any relevant jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any member of our Group, any Controlling Shareholder, any Director or the chief executive officer or the chief financial officer of our Company; or
- (xii) a prohibition by a competent authority on our Company for whatever reason from offering, allotting, issuing or selling any of our Shares (including Shares to be allotted and issued under the Over-allotment Option) pursuant to the terms of the Global Offering; or
- (xiii) a contravention by any member of our Group of the Listing Rules or other applicable Laws; or
- (xiv) any non-compliance with this prospectus (or any other documents used in connection with the contemplated offer and sale of our Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable Laws; or
- (xv) the issue or requirement to issue by our Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated offer and sale of our Shares) pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (xvi) an order or petition for the winding up of any member of our Group or any composition or arrangement made by any member of our Group with our creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding-up of any member of our Group or the appointment of a provisional



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## UNDERWRITING

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liquidator, receiver or manager over all or part of the material assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group,

which, individually or in the aggregate, in the sole and absolute opinion of the Sole Global Coordinator (1) has or will have or may have a material adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of our Group as a whole; or (2) has or will have or may have a material adverse impact on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or (3) makes or will make or may make it inadvisable or inexpedient or impracticable for any part of the Hong Kong Public Offering or the Global Offering to be performed or implemented or proceed as envisaged or to deliver our Offer Shares on the terms and in the manner contemplated by this prospectus or to market the Global Offering; or (4) has or will have or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

- (b) there has come to the notice of the Sole Global Coordinator:
- (i) that any statement contained in this prospectus, the Application Forms and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect or misleading in any respect, or that any forecast, estimate, expression of opinion, intention or expectation contained in this prospectus, the Application Forms and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest based on reasonable grounds or, where applicable, based on reasonable assumptions; or
  - (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission from any of this prospectus, the Application Forms and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or
  - (iii) any breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than upon any of the Hong Kong Underwriters or the International Underwriters); or

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## UNDERWRITING

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- (iv) any adverse change or development involving a prospective adverse change in the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of any member of our Group; or
- (v) any event, act or omission which gives or is likely to give rise to any liability of any of the Company, Warranting Shareholders and Warranting Directors pursuant to the indemnification provisions under the Hong Kong Underwriting Agreement; or
- (vi) any breach of, or any event or circumstance rendering untrue or incorrect in any respect, any of the warranties in the Hong Kong Underwriting Agreement; or
- (vii) approval by the Listing Committee the listing of, and permission to deal in, our Shares to be issued or sold (including any additional Shares that may be allotted and issued pursuant to the exercise of the Over-Allotment Option) under the Global Offering is refused or not granted (other than subject to customary conditions) on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (viii) we withdraw this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering.

For the purpose of the termination clause set forth above, the "Relevant Jurisdictions" refers to Hong Kong, the British Virgin Islands, the Cayman Islands, the PRC, Japan, the United States, the United Kingdom, the European Union (or any member thereof), Singapore or any jurisdiction relevant to any member of our Group or the Global Offering.

### **Undertakings under the Hong Kong Underwriting Agreement**

#### *(A) Undertaking by our Company*

Pursuant to the Hong Kong Underwriting Agreement, our Company has undertaken to each of the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, except for the offer of Offer Shares pursuant to the Global Offering (including pursuant to the Over-allotment Option), the Capitalisation Issue and the issue of any Shares pursuant to the exercise of the options to be granted under the Share Option Scheme, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the "**First Six-Month Period**"), our Company will not and will procure each other member of our Group not to, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other

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## UNDERWRITING

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securities of our Company or any shares or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of the Group, as applicable), or deposit any Shares or other securities of our Company or any shares or other securities of such other member of our Group, as applicable, with a depositary in connection with the issue of depositary receipts; or

- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any shares or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of the Group, as applicable); or
- (c) enter into any transaction with the same economic effect as any transaction specified in paragraphs (a) or (b) above; or
- (d) offer to or agree to or announce any intention to enter into, or other effect any transaction specified in paragraphs (a), (b) or (c) above,

in each case, whether any of the transactions specified in paragraphs (a), (b) or (c) above is to be settled by delivery of Shares or other securities of our Company or shares or other securities of such other member of our Group, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-Month Period).

In the event that, during the period of six months commencing on the date on which the First Six-Month Period expires (the “**Second Six-Month Period**”), our Company enters into any of the transactions specified in paragraphs (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company. Each of the Warranting Shareholders and Warranting Directors undertake to each of the Sole Sponsor, Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters to procure our Company to comply with the above undertakings.

*(B) Undertaking by our Controlling Shareholders*

Pursuant to the Hong Kong Underwriting Agreement, each of the Controlling Shareholders has undertaken to each of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, except pursuant to the Stock Borrowing Agreement, unless with the prior written consent of the Sole Sponsor and the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and in compliance with the requirements of the Listing Rules:

- (a) it or he or she shall not, at any time during the First Six-Month Period,
  - (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase

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## UNDERWRITING

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any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or deposit any Shares or other securities of our Company with a depositary in connection with the issue of depositary receipts, or

- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or
- (iii) enter into any transaction with the same economic effect as any transaction specified in sub-paragraph (i) or (ii) above, or
- (iv) offer to or agree to or announce any intention to effect any transaction specified in sub-paragraph (i), (ii) or (iii) above,

in each case, whether any of the transactions specified in sub-paragraph (i), (ii) or (iii) above is to be settled by delivery of Shares or other securities of our Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period);

- (b) it or he or she shall not, during the Second Six-Month Period, enter into any of the transactions specified in paragraphs (a)(i), (ii) or (iii) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, the Controlling Shareholders will cease to be a “controlling shareholder” (as the term is defined in the Listing Rules) of our Company; and
- (c) until the expiry of the Second Six-Month Period, in the event that it enters into any of the transactions specified in paragraph (a)(i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

### *(C) Indemnity*

Each of our Company, the Warranting Shareholders and the Warranting Directors has agreed to jointly and severally indemnify the Hong Kong Underwriters for certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by our Company of the Hong Kong Underwriting Agreement.

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## UNDERWRITING

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*(D) Other lock-up undertakings*

Pursuant to the Hong Kong Underwriting Agreement, each of (i) Phillip Ventures; (ii) Sun Smart; (iii) BWEBS and Mr WONG; (iv) Harvest Progress International Limited and Mr LI Hanfa; (v) Quarterpound Limited and Mr WM LAM; (vi) Singapore Zhongxin and Mr LAI; (vii) Kitlin and Ms HUANG; (viii) Jiashun and Ms ZENG; and (ix) Newgate (PTC) Limited has undertaken to each of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Underwriters not to, among other things, sell or otherwise transfer or dispose of, or create any encumbrance over, any Shares or other securities of the Company or any interest therein during the First Six Month Period.

### **Undertakings to the Stock Exchange under the Listing Rules**

*(A) Undertaking by our Company*

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that no further Shares or securities convertible into our equity securities (whether or not of a class already listed) will be issued or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or our securities will be completed within six months from the Listing Date) except pursuant to the Global Offering (including pursuant to the exercise of the Over-allotment Option) or for the circumstances provided under Rule 10.08 of the Listing Rules.

*(B) Undertaking by our Controlling Shareholders*

In accordance with Rule 10.07(1)(a) of the Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange and our Company that except pursuant to the Global Offering and the Stock Borrowing Agreement:

- (a) it or he or she will not and will procure that the relevant registered holders will not, at any time during the period commencing from the Latest Practicable Date and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interest or encumbrances in respect of, any of the Shares in respect of which it/he is shown by this prospectus to be the beneficial owners; and
- (b) it or he or she will not and will procure that the relevant registered holders will not, at any time during the period of six months from the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interest or encumbrances in respect of, any of our Shares referred to in paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interest or encumbrances, it or he or she will then cease to be a controlling shareholder of our Company.

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## UNDERWRITING

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Note (2) of Rule 10.07(2) of the Listing Rules provides that the rule does not prevent a controlling shareholder from using our Shares owned by it as securities (including a charge or a pledge) in favour of an authorised institution (as defined in the Banking Ordinance) for a bona fide commercial loan.

Pursuant to note 3 of Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders has further undertaken to the Stock Exchange and our Company that it or he or she will, from the Latest Practicable Date and ending on the date which is 12 months from the Listing Date, immediately inform us of:

- (a) any pledges or charges of any Shares or other securities of our Company beneficially owned by him/it in favour of any authorized institution as permitted under the Listing Rules, and the number of such Shares or securities of our Company so pledged or charged; and
- (b) any indication received by him/it, whether verbal or written, from any pledgee or chargee of any Shares or other securities of our Company pledged or charged that any of such Shares or other securities will be disposed of.

We will also inform the Stock Exchange as soon as we have been informed of the above matters (if any) by any of our Controlling Shareholders and disclose such matters by way of an announcement as soon as possible after being so informed by any of our Controlling Shareholders.

### **Commission**

Pursuant to the Hong Kong Underwriting Agreement, the Company shall pay a commission of 3.0% of the aggregate Offer Price of all the Hong Kong Offer Shares (less any unsubscribed Hong Kong Offer Shares reallocated to the International Offering and excluding any Hong Kong Offer Shares reallocated from the International Offering due to over-subscription).

For any unsubscribed Hong Kong Offer Shares reallocated to the International Offering, the underwriting commission will not be paid in accordance with the Hong Kong Underwriting Agreement but will instead be paid in accordance with the International Underwriting Agreement.

Our Company may also in its sole discretion pay the Underwriter(s) an additional incentive fee in aggregate of up to 3.0% of the proceeds from the Offer Shares (including any Shares allotted and issued pursuant to the exercise of the Over-allotment Option).

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## UNDERWRITING

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### THE INTERNATIONAL OFFERING

In connection with the International Offering, it is expected that our Company, the Warranting Shareholders and the Warranting Directors will enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement, it is expected that the International Underwriters would, subject to certain conditions, severally but not jointly, agree to subscribe for or purchase, or to procure subscribers to subscribe for or purchasers to purchase, their respective applicable proportions (set forth in the International Underwriting Agreement) of the International Offer Shares being offered pursuant to the International Offering.

Under the International Underwriting Agreement, our Company intends to grant to the Sole Global Coordinator the Over-allotment Option, pursuant to which the Sole Global Coordinator may, for up to 30 days from the last day for the lodging of applications under the Hong Kong Public Offering, require our Company to allot and issue up to 16,092,000 additional Shares, representing 15% of the initial number of our Offer Shares. These Shares will be allotted and issued at the Offer Price per Share (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% of the Offer Price) and will be for the purpose of, among other things, covering over-allotments, if any, in the International Offering.

### TOTAL COMMISSIONS AND EXPENSES FOR THE GLOBAL OFFERING

Assuming that the Offer Price is HK\$4.10 per Share (being the mid-point of the indicative Offer Price range stated in this prospectus) and the Over-allotment Option is not exercised, the aggregate commissions and fees, together with the Stock Exchange listing fee, SFC transaction levy and Stock Exchange trading fee, legal and other professional fees, printing and other expenses relating to the Global Offering, are estimated to amount in aggregate to be HK\$88.2 million in total.

### UNDERWRITERS' INTERESTS IN OUR COMPANY

Except for their respective obligations under the Hong Kong Underwriting Agreement and the International Underwriting Agreement, none of the Underwriters has any shareholding interests in our Company or any of our subsidiaries or any right or options (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

### SOLE SPONSOR'S INDEPENDENCE

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set forth in Rule 3A.07 of the Listing Rules.

### ACTIVITIES BY SYNDICATE MEMBERS

We describe below a variety of activities that underwriters of the Hong Kong Public Offering and the International Offering, together referred to as “**Syndicate Members**”, may each individually undertake, and which do not form part of the underwriting or the stabilizing process.

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## UNDERWRITING

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The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the Shares and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have the Shares as their or part of their underlying assets. Those activities may require hedging activity by those entities involving, directly or indirectly, buying and selling the Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their or part of their underlying assets, whether on the Stock Exchange or on any other stock exchange, the rules of the relevant exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases. All of these activities may occur both during and after the end of the stabilizing period described under the section headed “Structure of the Global Offering — Stabilization”. These activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of their share price, and the extent to which this occurs from day to day cannot be estimated.

When engaging in any of these activities, it should be noted that the Syndicate Members are subject to restrictions, including the following:

- (a) under the agreement among the Syndicate Members, all of them (except for the Sole Global Coordinator and its affiliates as the stabilizing manager) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) all of them must comply with all applicable laws, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.



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## STRUCTURE OF THE GLOBAL OFFERING

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### THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. BNP Paribas is the Sole Global Coordinator of the Global Offering. The Global Offering comprises:

- (a) the Hong Kong Public Offering of initially 10,728,000 Shares (subject to reallocation) in Hong Kong as described below in “— The Hong Kong Public Offering” in this section; and
- (b) the International Offering of initially 96,552,000 Shares (subject to reallocation and exclusive of the Over-Allotment Option) outside the United States in offshore transactions in reliance on Regulation S as described below in “— The International Offering” in this section.

Investors may either apply for Hong Kong Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest for International Offer Shares under the International Offering, but may not do both.

The Offer Shares will represent approximately 25% of the issued share capital of the Company immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 27.71% of the issued share capital of the Company immediately following the completion of the Global Offering.

### THE HONG KONG PUBLIC OFFERING

The Hong Kong Public Offering is a fully underwritten public offering (subject to agreement as to pricing and satisfaction or waiver of the other conditions provided in the Hong Kong Underwriting Agreement and described in the paragraph headed “Conditions of the Global Offering” below) for the subscription in Hong Kong of, initially, 10,728,000 Offer Shares at the Offer Price (representing 10% of the total number of the Offer Shares initially available under the Global Offering). Subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering described below, the Hong Kong Offer Shares will represent approximately 90% of our enlarged issued share capital immediately after completion of the Global Offering. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors.

#### Allocation

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary depending on the number of Hong Kong Offer Shares validly applied for by applicants. The allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares and that those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

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## STRUCTURE OF THE GLOBAL OFFERING

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The total number of the Offer Shares available under the Hong Kong Public Offering is to be divided equally into two pools for allocation purposes:

- Pool A: The Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate subscription price of HK\$5,000,000 (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy payable) or less; and
- Pool B: The Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate subscription price of more than HK\$5,000,000 (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy payable) and up to the value of pool B.

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in that pool and be allocated accordingly. For the purpose of this subsection only, the “subscription price” for the Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined).

Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools. We will reject multiple applications between the two pools and reject multiple applications within pool A or pool B. In addition, any application for more than 50% of the 10,728,000 Offer Shares initially included in the Hong Kong Public Offering (that is, 5,364,000 Offer Shares) will be rejected. Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him or her that he or she and any person(s) for whose benefit he or she is making the application have not indicated an interest for or taken up and will not indicate an interest for or take up any Offer Shares under the International Offering, and such applicant’s application will be rejected if the said undertaking and/or confirmation is breached and/or untrue, as the case may be. We and the Hong Kong Underwriters will take reasonable steps to identify and reject applications under the Hong Kong Public Offering from investors who have indicated interest in or have received Offer Shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have applied for or have received Offer Shares in the Hong Kong Public Offering.

### **Reallocation**

The allocation of our Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. Currently, we have allocated 10,728,000 Shares to the Hong Kong Public Offering, representing 10% of our Shares initially available in the Global Offering.

If the number of Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Offer Shares available for subscription under the Hong Kong Public Offering, then our Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering so that the total number of our Offer Shares available under the Hong Kong

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## STRUCTURE OF THE GLOBAL OFFERING

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Public Offering will be increased to 32,184,000 Shares (in the case of (i)), 42,912,000 Shares (in the case of (ii)) and 53,640,000 Shares (in the case of (iii)), respectively, representing 30%, 40% and 50%, respectively, of the total number of Offer Shares available under the Global Offering (before any exercise of the Over-allotment Option). In addition, the Sole Global Coordinator has the discretion to reallocate our Shares offered in the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed, the Sole Global Coordinator may, in their discretion, reallocate to the International Offering all or any unsubscribed Shares offered in the Hong Kong Public Offering in such amount as they deem appropriate.

### THE INTERNATIONAL OFFERING

The number of the Offer Shares to be initially offered for subscription and sale under the International Offering will be 96,552,000 Offer Shares, representing 90% of the Offer Shares initially available under the Global Offering and approximately 22.5% of our enlarged issued share capital immediately after completion of the Global Offering.

#### Allocation

Pursuant to the International Offering, the International Offer Shares will be conditionally placed on our behalf by the International Underwriters or through selling agents appointed by them. International Offer Shares will be placed with certain professional and institutional investors and other investors anticipated to have a sizeable demand for the International Offer Shares in Hong Kong and other jurisdictions outside the United States in offshore transactions in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Allocation of the International Offer Shares to investors under the International Offering will be determined by the Sole Global Coordinator and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not the relevant investor is likely to buy further, and/or hold or sell its International Offer Shares after the listing of our Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the International Offer Shares on a basis which would lead to the establishment of an appropriate shareholder base to our benefit and the benefit of our shareholders as a whole.

The Sole Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Global Coordinator so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that such investor is excluded from any application of Hong Kong Offer Shares under the Hong Kong Public Offering. The International Offering is subject to the Hong Kong Public Offering becoming unconditional.

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## STRUCTURE OF THE GLOBAL OFFERING

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### OVER-ALLOTMENT OPTION

In connection with the Global Offering, our Company intends to grant the Over-allotment Option to the Sole Global Coordinator. The Over-allotment Option gives the Sole Global Coordinator the right, exercisable at any time from the day on which trading of our Shares commences on the Stock Exchange within 30 days from the last day for lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 16,092,000 additional Shares, representing in aggregate 15% of the initial size of the Global Offering at the Offer Price to cover, among other things, over-allocations in the International Offering, if any. In the event that the Over-allotment Option is exercised, we will make an announcement.

The Sole Global Coordinator may cover any over-allocations by using Shares purchased by the Stabilizing Manager, its affiliates or any person acting for it in the secondary market, exercising the Over-allotment Option in full or in part, or through the stock borrowing arrangements mentioned below or by a combination of these means. Any such secondary market purchase will be made in compliance with all applicable laws, rules and regulations in place in Hong Kong, including in relation to stabilization, the Securities and Futures (Price Stabilizing) Rules, as amended, made under the SFO. The number of Shares which can be over-allocated will not exceed the number of Shares which may be sold under the Over-allotment Option, namely 16,092,000 Shares, representing 15% of the Shares available under the Global Offering.

### STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public offer price of the securities. In Hong Kong and certain other jurisdictions, the stabilization price is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager, its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate or effect any other transactions with a view to stabilizing or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period which begins on the commencement of trading of the Shares on the Stock Exchange and ends on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. The stabilizing period is expected to expire on Saturday, 4 April 2015. However, there is no obligation on the Stabilizing Manager, or its affiliates or any person acting for it to do this. Such stabilizing action, if taken, may be discontinued at any time, and must be brought to an end after a limited period. The number of Shares which can be over-allocated will not exceed the number of Shares which may be sold under the Over-allotment Option, namely 16,092,000 Shares, which is 15% of the Shares available under the Global Offering. For purposes of covering such over-allocations, the Stabilizing Manager may borrow from Bright Rise in the aggregate up to 16,092,000 Shares, which is equivalent to the maximum number of Shares to be allotted and issued upon exercise of the Over-allotment Option in full, pursuant to the Stock Borrowing Agreement.

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## STRUCTURE OF THE GLOBAL OFFERING

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Stabilizing action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules includes (a) primary stabilization, including purchasing, or agreeing to purchase, any of the Shares or offering or attempting to do so for the purpose of preventing or minimizing any reduction in the market price of the Shares, and (b) ancillary stabilization in connection with any primary stabilizing action, including: (i) over-allocation for the purpose of preventing or minimizing any reduction in the market price; (ii) selling or agreeing to sell Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price; (iii) purchasing or agreeing to purchase Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) selling or agreeing to sell Shares to liquidate a long position held as a result of those purchases or subscriptions; and (v) offering or attempting to do anything described in (ii), (iii) or (iv). The Stabilizing Manager may take any one or more of the stabilizing actions described above.

Prospective applicants for and investors in the Offer Shares should note that:

- the Stabilizing Manager or any person acting for it may, in connection with the stabilizing action, maintain a long position in our Shares;
- there is no certainty as to the extent to which and the time or period for which the Stabilizing Manager or any person acting for it will maintain such a long position;
- liquidation of any such long position by the Stabilizing Manager or any person acting for it and selling in the open market, may have an adverse impact on the market price of our Shares;
- no stabilizing action can be taken to support the price of our Shares for longer than the stabilization period, which will begin on the Listing Date, and is expected to expire on the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for our Shares, and therefore the price of our Shares, could fall;
- the price of our Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and
- stabilizing bids or transactions effected in the course of the stabilizing action may be made at any price at or below the Offer Price and can, therefore, be done at a price below the price paid by applicants for, or investors in, the Offer Shares.

The Company will ensure to procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilization period.

### STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over-allocations in connection with the International Offering, the Stabilizing Manager may choose to borrow Shares from Bright Rise under the Stock Borrowing Agreement, or acquire Shares from other sources.

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## STRUCTURE OF THE GLOBAL OFFERING

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The stock borrowing arrangement will only be effected by the Stabilizing Manager, its affiliates or any person acting for it for settlement of over-allocations in the International Offering and such arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are complied with. The same number of Shares so borrowed must be returned to Bright Rise or its nominees on or before the third Business Day following the earlier of (a) the last day on which the Over-allotment Option may be exercised; or (b) the day on which the Over-allotment Option is exercised in full and the relevant Offer Shares subject to the Over-allotment Option have been issued. The stock borrowing arrangement will be effected in compliance with all applicable laws, rules and regulatory requirements. No payment will be made to Bright Rise by the Stabilizing Manager, its affiliates or any person acting for it in relation to such stock borrowing arrangement.

### PRICING

#### Determination of Offer Price

We expect the Offer Price to be fixed by agreement among us and the Sole Global Coordinator (on behalf of the Underwriters) on the Price Determination Date when market demand for the Offer Shares will be determined. We expect the Price Determination Date to be on or around Thursday, 5 March 2015 and in any event, no later than Wednesday, 11 March 2015. The Offer Price will not be more than HK\$4.56 per Offer Share and is expected to be not less than HK\$3.65 per Offer Share. You should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

Prospective professional, institutional and other investors will be required to specify the number of the Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to the Price Determination Date.

The Sole Global Coordinator, on behalf of the Underwriters, may, where considered appropriate based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process reduce the number of Offer Shares and/or the indicative Offer Price range below that described in this prospectus prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will as soon as practicable following the decision to make such reduction and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering publish a notice in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) of the reduction in the number of Offer Shares and/or the indicative Offer Price range. Such notice will also be available at the websites of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company at [www.animatechina.com](http://www.animatechina.com).

Upon issue of such a notice, the revised number of Offer Shares and/or offer price range will be final and conclusive and the Offer Price, if agreed upon among the Sole Global Coordinator (on behalf of the Underwriters) and us will be fixed within such revised offer price range. In this notice, we will also confirm or revise, as appropriate, the working capital statement as currently disclosed in “Financial Information — Working capital” in this prospectus, the offering statistics as currently disclosed in the section headed “Summary” in this prospectus, the use of proceeds in the section

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## STRUCTURE OF THE GLOBAL OFFERING

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headed “Future Plans and Use of Net Proceeds from the Global Offering” and any other financial information which may change as a result of such reduction. If you have already submitted an application for Hong Kong Offer Shares before the last day for lodging applications under the Hong Kong Public Offering, you will not be allowed to subsequently withdraw your application, even if the number of Offer Shares and/or the offer price range is reduced. If we do not publish a notice in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) of a reduction in the number of Offer Shares and/or the indicative Offer Price range stated in this prospectus on or before the morning of the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, if agreed upon by us, will be within the indicative Offer Price range as stated in this prospectus.

If we are unable to reach an agreement with the Sole Global Coordinator (on behalf of the Underwriters) on the Offer Price by Wednesday, 11 March 2015, the Global Offering will not proceed and will lapse.

We expect to publish an announcement of the Offer Price, together with the level of interest in the International Offering and the level of applications and the basis of allocation of the Hong Kong Offer Shares, on Wednesday, 11 March 2015.

### **Price Payable on Application**

The Offer Price will not be more than HK\$4.56 and is expected to be not less than HK\$3.65, unless otherwise announced by no later than the morning of the last day for lodging applications under the Hong Kong Public Offering as further explained below. If you apply for the Offer Shares under the Hong Kong Public Offering, you must pay the maximum Offer Price of HK\$4.56 per Offer Share plus a 1.0% brokerage fee, 0.005% Stock Exchange trading fee and 0.0027% SFC transaction levy. This means that, for every board lot of 1,000 Offer Shares, you should pay HK\$4.56 at the time of your application.

If the Offer Price is lower than HK\$4.56, we will refund the respective difference, including the brokerage fee, Stock Exchange trading fee and SFC transaction levy attributable to the surplus application monies. We will not pay interest on any refunded amounts. You may find further details in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus.

### **UNDERWRITING**

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters and the International Offering is expected to be fully underwritten by the International Underwriters. The Hong Kong Public Offering and the International Offering are subject to the conditions described in the section headed “Underwriting” in this prospectus. In particular, we and the Sole Global Coordinator (on behalf of the Underwriters), must agree on the Offer Price for the Global Offering. The Hong Kong Underwriting Agreement was entered into on 27 February 2015 and, is subject to an agreement on the Offer Price between the Sole Global Coordinator (on behalf of the Underwriters) and us for purposes of the Hong Kong Public Offering. The International Underwriting Agreement (including the agreement on the Offer Price among us and the Sole Global Coordinator (on behalf of the International Underwriters for purposes of the International Offering) is expected to be entered into on Thursday, 5 March 2015, being the Price Determination Date. The Hong Kong Underwriting Agreement and the International Underwriting Agreement are inter-conditional upon each other.

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## STRUCTURE OF THE GLOBAL OFFERING

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### CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares will be conditional on, among other things:

- the Listing Committee granting the listing of and permission to deal in our Shares in issue and to be issued as described in this prospectus (including any additional Shares issuable pursuant to the exercise of the Over-allotment Option), and such listing and permission not having been subsequently revoked prior to the commencement of dealings in our Shares on the Stock Exchange;
- the Offer Price having been duly determined and the execution and delivery of the International Underwriting Agreement on or about the Price Determination Date; and
- the obligations of the Underwriters under the Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Sole Global Coordinator, on behalf of the Underwriters) and such obligations not being terminated in accordance with the terms of the respective agreements,

in each case, on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date that is 30 days after the date of this prospectus.

The consummation of each of the International Offering and the Hong Kong Public Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will not proceed and will lapse and the Stock Exchange will be notified immediately. We will publish a notice of the lapse of the Global Offering in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the day after such lapse. In such situation, we will return all application monies to the applicants, without interest and on the terms described in the section headed “How to Apply for Hong Kong Offer Shares — 13. Refund of application monies” in this prospectus. In the meantime, we will hold all application monies in a separate bank account or separate bank accounts with the receiving bankers or other banks licensed under the Banking Ordinance.

We expect to despatch share certificates for the Offer Shares on or before Wednesday, 11 March 2015. However, these share certificates will only become valid certificates of title at 8:00 a.m. on Thursday, 12 March 2015 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed “Underwriting” in this prospectus has not been exercised.

### DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, 12 March 2015, it is expected that dealings in our Shares on the Stock Exchange will commence at 9:00 a.m. on Thursday, 12 March 2015. The Shares will be traded in board lots of 1,000 shares each.



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form:
- apply online via the **White Form eIPO** service at [www.eipo.com.hk](http://www.eipo.com.hk); or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### 2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the US Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator may accept it at its discretion and on any conditions it thinks fit, including evidence of the attorney's authority.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you:

- are an existing beneficial owner of shares in the Company and/or any its subsidiaries;
- are a Director or chief executive officer of the Company and/or any of its subsidiaries;
- are an associate (as defined in the Listing Rules) of any of the above;
- are a connected person (as defined in the Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

### 3. APPLYING FOR HONG KONG OFFER SHARES

#### Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through [www.eipo.com.hk](http://www.eipo.com.hk).

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

#### Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours between 9:00 a.m. to 1:00 p.m. on Saturday, 28 February 2015, between 9:00 a.m. to 5:00 p.m. from Monday, 2 March 2015 to Wednesday, 4 March 2015 and between 9:00 a.m. to 12:00 noon on Thursday, 5 March 2015 from:

- (i) any of the following offices of the Hong Kong Underwriters:

<b>BNP Paribas Securities (Asia) Limited</b>	62/F, Two International Finance Centre 8 Finance Street, Central Hong Kong
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<b>Ping An Securities Limited</b>	15/F, 122 QRC 122 Queen's Road Central Hong Kong
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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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<b>Shenyin Wanguo Securities (H.K.) Limited</b>	Level 19, 28 Hennessy Road Hong Kong
<b>GF Securities (Hong Kong) Brokerage Limited</b>	29-30/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
<b>Oriental Patron Securities Limited</b>	27/F, Two Exchange Square 8 Connaught Place Central, Hong Kong

(ii) any of the branches of the following receiving bank:

### **Standard Chartered Bank (Hong Kong) Limited**

	<b>Branch</b>	<b>Address</b>
Hong Kong Island	Des Voeux Road Branch	Standard Chartered Bank Building, 4–4A, Des Voeux Road Central, Central
	Wanchai Southern Branch	Shop C2 on G/F and 1/F to 2/F, Lee Wing Building, No. 156–162 Hennessy Road, Wanchai
	Quarry Bay Branch	G/F, Westlands Gardens, 1027 King’s Road, Quarry Bay
	Aberdeen Branch	Shop 4A, G/F and Shop 1, 1/F, Aberdeen Centre Site 5, No.6–12 Nam Ning Street, Aberdeen
Kowloon	68 Nathan Road Branch	Basement, Shop B1, G/F Golden Crown Court, 66–70 Nathan Road, Tsimshatsui
	Kwun Tong Hoi Yuen Road	G/F, Fook Cheong Building, No. 63 Hoi Yuen Road, Kwun Tong
	Mei Foo Manhattan Branch	Shop Nos. 07 & 09, Ground Floor, Mei Foo Plaza, Mei Foo Sun Chuen, Mei Foo
New Territories	Tuen Mun Town Plaza Branch	Shop No. G047–G052, Tuen Mun Town Plaza Phase I, Tuen Mun
	Tsuen Wan Branch	Shop C, G/F & 1/F, Jade Plaza, 298 Sha Tsui Road, Tsuen Wan
	Tai Po Branch	G/F shop No. 2, 23–25 Kwong Fuk Road, Tai Po Market, Tai Po

You can collect a **YELLOW** Application Form and a copy of this prospectus from 9:00 a.m. until 1:00 p.m. on Saturday, 28 February 2015 and during normal business hours from 9:00 a.m. on Monday, 2 March 2015 until 12:00 noon on Thursday, 5 March 2015 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Horsford Nominees Limited — China Animation Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

<b>Saturday, 28 February 2015</b>	<b>— 9:00 a.m. to 1:00 p.m.</b>
<b>Monday, 2 March 2015</b>	<b>— 9:00 a.m. to 5:00 p.m.</b>
<b>Tuesday, 3 March 2015</b>	<b>— 9:00 a.m. to 5:00 p.m.</b>
<b>Wednesday, 4 March 2015</b>	<b>— 9:00 a.m. to 5:00 p.m.</b>
<b>Thursday, 5 March 2015</b>	<b>— 9:00 a.m. to 12:00 noon</b>

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, 5 March 2015, the last application day or such later time as described in "10. Effect of Bad Weather on the Opening of the Application Lists" in this section.

#### 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise the Company and/or the Sole Global Coordinator (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles;
- (ii) agree to comply with the Companies Law, the Companies Ordinance, and the memorandum of association of the Company and the Articles;
- (iii) confirm that you have read the terms and conditions and application procedures set forth in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of the Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- (viii) agree to disclose to the Company, our Hong Kong Share Registrar, receiving banks, the Sole Global Coordinator, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Sole Global Coordinator and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the US Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (xvii) understand that the Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider by you or by anyone as your agent or by any other person: and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as his agent.

### **Additional Instructions for YELLOW Application Form**

You may refer to the **YELLOW** Application Form for details.

## **5. APPLYING THROUGH WHITE FORM eIPO SERVICE**

### **General**

Individuals who meet the criteria in “Who can apply” section, may apply through the **White Form eIPO** Service for the Offer Shares to be allotted and registered in their own names through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorise the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO**.

### **Time for Submitting Applications under the White Form eIPO**

You may submit your application to the **White Form eIPO** service at [www.eipo.com.hk](http://www.eipo.com.hk) (24 hours daily, except on Thursday, 5 March 2015, the last application day) from 9:00 a.m. on Saturday, 28 February 2015 until 11:30 a.m. on Thursday, 5 March 2015 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, 5 March 2015 or such later time under the “10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### No Multiple Applications

If you apply by means of **White Form eIPO** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

### Section 40 of the Companies Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies Ordinance (as applied by Section 342E of the Companies Ordinance).

### Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 per each “CHINA ANIMATION CHARACTERS COMPANY LIMITED” **White Form eIPO** application submitted via [www.eipo.com.hk](http://www.eipo.com.hk) to support the funding of “Source of Dong Jiang Hong Kong Forest” project initiated by Friends of the Earth (HK).

## 6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

### General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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HKSCC can also input **electronic application instructions** for you if you go to:

**Hong Kong Securities Clearing Company Limited**

Customer service centre  
1/F, One & Two Exchange Square  
8 Connaught Place  
Central, Hong Kong

and complete an input request form.

You can also collect a copy of this prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Sole Global Coordinator and our Hong Kong Share Registrar.

### **Giving Electronic Application Instructions to HKSCC via CCASS**

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
  - declare that only one set of **electronic application instructions** has been given for your benefit;
  - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as his agent;



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- confirm that you understand that the Company, the Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorise the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set forth in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set forth in any supplement to this prospectus;
- agree that none of the Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to the Company, our Hong Kong Share Registrar, receiving banks, the Sole Global Coordinator, the Underwriters and/or their respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the expiration of 30 days after the date of this prospectus, such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the expiration of 30 days after the date of this prospectus, except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the expiration of 30 days after the date of this prospectus if a person responsible for this prospectus under Section 40 of the Companies Ordinance (as applied by Section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Law, the Companies Ordinance, and the memorandum of association of the Company and the Articles; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

### Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

### Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 1,000 Hong Kong Offer Shares. Instructions for more than 1,000 Hong Kong Offer Shares must be in one of the numbers set forth in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

<b>Saturday, 28 February 2015</b>	—	<b>9:00 a.m. to 1:00 p.m.<sup>(1)</sup></b>
<b>Monday, 2 March 2015</b>	—	<b>8:00 a.m. to 8:30 p.m.<sup>(1)</sup></b>
<b>Tuesday, 3 March 2015</b>	—	<b>8:00 a.m. to 8:30 p.m.<sup>(1)</sup></b>
<b>Wednesday, 4 March 2015</b>	—	<b>8:00 a.m. to 8:30 p.m.<sup>(1)</sup></b>
<b>Thursday, 5 March 2015</b>	—	<b>8:00 a.m.<sup>(1)</sup> to 12:00 noon</b>

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*Note:* (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Saturday, 28 February 2015 until 12:00 noon on Thursday, 5 March 2015 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Thursday, 5 March 2015, the last application day or such later time as described in “10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

### No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

### Section 40 of the Companies Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies Ordinance (as applied by Section 342E of the Companies Ordinance).

### Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by the Company, the Hong Kong Share Registrar, the receiving bankers, the Sole Global Coordinator, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Sole Global Coordinator and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon, Thursday, 5 March 2015.

### 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO**, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company.

then the application will be treated as being for your benefit.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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“Unlisted company” means a company with no equity securities listed on the Stock Exchange.  
“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### 9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set forth in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** Service Provider in respect of a minimum of 1,000 Hong Kong Public Offer Shares. Each application or **electronic application instruction** in respect of more than 1,000 Hong Kong Public Offer Shares must be in one of the numbers set forth in the table in the Application Form, or as otherwise specified on the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure of the Global Offering — Pricing”.

### 10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning.

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 5 March 2015. Instead they will open between 11:45 a.m. and 12:00 noon, on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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If the application lists do not open and close on Thursday, 5 March 2015 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable”, an announcement will be made in such event.

### 11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Wednesday, 11 March 2015 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the Company’s website at [www.animatechina.com](http://www.animatechina.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company’s website at [www.animatechina.com](http://www.animatechina.com) and the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than Wednesday, 11 March 2015;
- from the designated results of allocations website at [www.iporeresults.com.hk](http://www.iporeresults.com.hk) with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Wednesday, 11 March 2015 to 12:00 midnight on Tuesday, 17 March 2015;
- by telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Wednesday, 11 March 2015 to Saturday, 14 March 2015;
- in the special allocation results booklets which will be available for inspection during opening hours from Wednesday, 11 March 2015 to Friday, 13 March 2015 at all the receiving bank branches and sub-branches.

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering”.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

**(i) If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the expiration of 30 days from the date of this prospectus. This agreement will take effect as a collateral contract with the Company, and to become binding when you lodge your Application Form or give **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider and an application has been made by HKSCC Nominees or **White Form eIPO** Service Provider on your behalf accordingly. This collateral contract will be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the expiration of 30 days from the date of this prospectus, except by means of one of the procedures referred to in this prospectus.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before the expiration of 30 days from the date of this prospectus if a person responsible for this prospectus under Section 40 of the Companies Ordinance (as applied by Section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

**(ii) If the Company or its agents exercise their discretion to reject your application:**

The Company, the Sole Global Coordinator, our Hong Kong Share Registrar the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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**(iii) If the allotment of Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

**(iv) If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Sole Global Coordinator believe that by accepting your application, it would violate applicable securities or other laws, rules or regulations;  
or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

### 13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$4.56 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with “Structure of the Global Offering — Conditions of the Global Offering” in this prospectus or if any application is revoked, the



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Wednesday, 11 March 2015.

### 14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or before Wednesday, 11 March 2015. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Thursday, 12 March 2015 provided that the Global Offering has become unconditional and the right of termination described in the "Underwriting" section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### Personal Collection

#### *(i) If you apply using a WHITE Application Form*

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Hong Kong Share Registrar at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, Computershare Hong Kong Investor Services Limited, from 9:00 a.m. to 1:00 p.m. on Wednesday, 11 March 2015 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation’s chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Wednesday, 11 March 2015 by ordinary post and at your own risk.

#### *(ii) If you apply using a YELLOW Application Form*

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Wednesday, 11 March 2015 by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant’s stock account as stated in your Application Form on Wednesday, 11 March 2015 or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- **If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)**

For Hong Kong Public Offer Shares credited to your designated CCASS Participant’s stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offer Shares allotted to you with that CCASS participant.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- **If you are applying as a CCASS Investor Participant**

The Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m., Wednesday, 11 March 2015 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

*(iii) If you apply through the White Form eIPO service*

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Share Registrar at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, Computershare Hong Kong Investor Services Limited, from 9:00 a.m. to 1:00 p.m. on Wednesday, 11 March 2015, or such other date as notified by the Company in the newspapers as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on **White Form eIPO** Service Provider on or before Wednesday, 11 March 2015 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

*(iv) If you apply via Electronic Application Instructions to HKSCC*

*Allocation of Hong Kong Offer Shares*

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### *Deposit of Share Certificates into CCASS and Refund of Application Monies*

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Wednesday, 11 March 2015, or, on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 11 March 2015 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, 11 March 2015. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 11 March 2015.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.



德勤·關黃陳方會計師行  
香港金鐘道88號  
太古廣場一座35樓

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

28 February 2015

The Directors  
China Animation Characters Company Limited

BNP Paribas Securities (Asia) Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) relating to China Animation Characters Company Limited (the “Company”, formerly known as China Animation Group (Holding) Limited) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 March 2014 and the five months ended 31 August 2014 (the “Track Record Period”) for inclusion in the prospectus of the Company dated 28 February 2015 (the “Prospectus”) in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 25 September 2013. Pursuant to a corporate reorganisation, as more fully explained in the section headed “History, Development and Reorganisation — Reorganisation” to the Prospectus (the “Reorganisation”), the Company became the holding company of the companies comprising the Group on 6 August 2014. Pursuant to the written resolutions of the shareholders passed on 16 February 2015, the name of the Company was changed from China Animation Group (Holding) Limited to China Animation Characters Company Limited.

At the end of each reporting period and the date of this report, the Company has equity interests in the following subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Group				At date of this report	Principal activities
			As of 31 March		As of 31 August			
			2012	2013	2014	2014		
			%	%	%	%	%	
<b>Directly held</b>								
China Animation Holding (BVI) Limited (“China Animation Holding”) 華夏動漫集團(英屬處女島)有限公司	British Virgin Islands (“BVI”) 24 June 2014	United States dollar (“US\$”) 1	N/A	N/A	N/A	100	100	Investment holding

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Group				At date of this report	Principal activities
			As of 31 March		As of 31 August			
			2012	2013	2014	2014		
			%	%	%	%	%	
<b>Indirectly held</b>								
China Animation Group Limited ("China Animation BVT") 華夏動漫集團有限公司	BVI 27 September 2007	Hong Kong dollar ("HK\$") 1,000,000	100	100	100	100	100	Investment holding and trading of animation derivative products and licensing of animation characters
China Animation Group (HK) Limited 華夏動漫集團(香港)有限公司 (previously known as "Animate China Technology Inc. Limited 華夏動漫科技有限公司")	Hong Kong 15 November 2010	HK\$1	100	100	100	100	100	Investment holding
Network China Technology Limited 華夏網路科技有限公司	BVI 20 June 2014	US\$1	N/A	N/A	N/A	100	100	Investment holding
Network China Technology Limited 華夏網絡科技有限公司	Hong Kong 15 November 2010	HK\$1	100	100	100	100	100	Investment holding
深圳華爾德動漫科技有限公司 Shenzhen Wald Animation Technology Company Ltd* ("Shenzhen Wald")#	The People's Republic of China (the "PRC") 19 May 2011	Renminbi ("RMB") 500,000	100	100	100	100	100	Animation derivative product design, trading of animation derivative products and multimedia animation entertainment###
China Theme Park Limited 中国主题乐园有限公司	BVI 21 September 2012	US\$1	N/A	100	100	100	100	Investment holding
China Theme Park Incorporation Limited 華夏樂園有限公司	Hong Kong 16 October 2012	HK\$1	N/A	100	100	100	100	Investment holding
Animate China Technology Limited 華夏動漫科技有限公司	BVI 20 June 2014	US\$1	N/A	N/A	N/A	100	100	Investment holding

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Group				At date of this report	Principal activities
			As of 31 March		As of 31 August			
			2012	2013	2014	2014		
			%	%	%	%	%	
Animate China Technology (HK) Limited ("Animate HK") 華夏動漫科技(香港)有限公司	Hong Kong 1 August 2014	HK\$1	N/A	N/A	N/A	100	100	Investment holding
China Animation IP Limited 中國動漫知識產權有限公司	BVI 20 June 2014	US\$1	N/A	N/A	N/A	100	100	Inactive
華嘉泰(上海)兒童室內遊樂有限公司 Huajiatai (Shanghai) Children Indoor Playground Company Limited ("Huajiatai PRC")*##	PRC 26 September 2014	RMB1,000,000	N/A	N/A	N/A	N/A	51	Operation of indoor theme park

\* The English name is for identification purpose only.

# Established in the PRC in the form of wholly foreign-owned enterprise.

## Established in the PRC in the form of sino-foreign equity joint venture. The registered capital of Huajiatai PRC is RMB11 million but only RMB1 million was paid at the date of the report.

### Not yet commence business up to the date of this report.

Except for Shenzhen Wald and Huajiatai PRC which have adopted 31 December as their financial year end date, all companies now comprising the Group have adopted 31 March as their financial year end date.

The Company's subsidiaries, other than Shenzhen Wald and Huajiatai PRC which operate in the PRC, operate in Hong Kong.

No audited statutory financial statements have been prepared for the Company and its subsidiaries incorporated in Cayman Islands and BVI, respectively, since their respective dates of incorporation as there are no statutory audit requirements in the Cayman Islands and BVI.

No audited statutory financial statements have been prepared for Animate HK, as it has not reached its first financial year end since its date of incorporation.

The statutory financial statements of other subsidiaries incorporated in Hong Kong for the Track Record Period, or since their respective dates of incorporation, where this is a shorter period, were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and audited by W.K. Pang & Co., Certified Public Accountants.

The statutory financial statements of Shenzhen Wald established in the PRC for the period from 19 May 2011 (date of establishment) to 31 December 2012 and for the year ended 31 December 2013



were prepared in accordance with the relevant accounting principles and financial regulations applicable in the PRC and audited by 深圳聯杰會計師事務所, certified public accountants registered in the PRC.

For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of the Group for the Track Record Period in accordance with HKFRSs issued by the HKICPA (the “Underlying Financial Statements”). We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing by the HKICPA.

We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The Financial Information of the Group for the Track Record Period set out in this report has been prepared from the Underlying Financial Statements, on the basis set out in Note 1 of Section A below. No adjustments are considered necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of the Company who approve their issue. The directors of the Company are also responsible for the contents of the Prospectus in which this report is included. It is our responsibilities to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in Note 1 of Section A below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company at 31 March 2014 and 31 August 2014 and of the Group as of 31 March 2012, 2013 and 2014 and 31 August 2014 and of the consolidated results and cash flows of the Group for the Track Record Period.

The comparative consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity of the Group for the five months ended 31 August 2013 together with the notes thereon have been extracted from the Group’s unaudited consolidated financial information for the same period (the “August 2013 Financial Information”) which was prepared by the directors of the Company solely for the purpose of this report. We conducted our review on the August 2013 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. Our review of the August 2013 Financial Information consists of making enquiries, primarily of persons responsible for the financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion on the August 2013 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the August 2013 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with HKFRSs.

## A. FINANCIAL INFORMATION

## Consolidated statements of profit or loss and other comprehensive income

	Notes	Year ended 31 March			Five months ended 31 August	
		2012 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000 (unaudited)	2014 HK\$'000
Revenue	5	292,299	283,493	338,744	144,013	186,824
Cost of sales and services		(176,587)	(157,107)	(173,293)	(92,106)	(121,619)
Gross profit		115,712	126,386	165,451	51,907	65,205
Other income		26	–	13	–	202
Selling and distribution expenses		(7,470)	(8,550)	(3,314)	(1,676)	(1,296)
Administrative expenses		(8,896)	(17,476)	(14,810)	(5,896)	(9,703)
Listing expenses		(2,446)	(1,187)	(5,554)	(3,817)	(3,840)
Other expense		–	–	–	–	(753)
Profit before taxation		96,926	99,173	141,786	40,518	49,815
Taxation	6	(14,895)	(13,966)	(11,184)	(5,980)	(10,111)
Profit for the year/period	7	82,031	85,207	130,602	34,538	39,704
Other comprehensive income (expense)						
Item that may be reclassified subsequently to profit or loss:						
Exchange difference arising on translation of foreign subsidiary		14	(36)	(7)	(57)	(72)
Total comprehensive income for the year/period attributable to owners of the Company		<u>82,045</u>	<u>85,171</u>	<u>130,595</u>	<u>34,481</u>	<u>39,632</u>
Earnings per share	10					
— Basic (HK\$)		<u>0.27</u>	<u>0.28</u>	<u>0.44</u>	<u>0.12</u>	<u>0.13</u>

## Consolidated statements of financial position

	Notes	The Group			The Company		
		At 31 March 2012 HK\$'000	At 31 March 2013 HK\$'000	At 31 March 2014 HK\$'000	At 31 August 2014 HK\$'000	At 31 March 2014 HK\$'000	At 31 August 2014 HK\$'000
<b>Non-current assets</b>							
Property, plant and equipment	11	71,071	63,501	56,034	53,798	–	–
Intangible assets	12	4,155	6,125	7,264	6,693	–	–
Deposits for acquisition of property, plant and equipment	28	–	–	–	59,095	–	–
Investment in a subsidiary	13	–	–	–	–	–	–
		<u>75,226</u>	<u>69,626</u>	<u>63,298</u>	<u>119,586</u>	<u>–</u>	<u>–</u>
<b>Current assets</b>							
Trade receivables	14	19,655	38,281	29,531	53,948	–	–
Other receivables, deposits and prepayments		–	–	175	8,617	–	–
Amount due from a director	15	12	55,866	15,061	26,011	–	–
Amount due from a subsidiary	16	–	–	–	–	–	68,414
Bank balances and cash	17	14,261	4,477	86,020	104,199	–	–
		<u>33,928</u>	<u>98,624</u>	<u>130,787</u>	<u>192,775</u>	<u>–</u>	<u>68,414</u>
<b>Current liabilities</b>							
Trade payables	18	11,255	13,383	21,031	40,266	–	–
Other payables and accruals	19	6,392	5,435	7,473	7,427	–	–
Deferred income	20	–	5,500	–	–	–	–
Amount due to a director	15	14,313	11,493	15,271	26,663	127	27
Amount due to a related company	21	600	–	–	–	–	–
Tax payable		40,414	54,380	65,564	71,109	–	–
		<u>72,974</u>	<u>90,191</u>	<u>109,339</u>	<u>145,465</u>	<u>127</u>	<u>27</u>
<b>Net current (liabilities) assets</b>		<u>(39,046)</u>	<u>8,433</u>	<u>21,448</u>	<u>47,310</u>	<u>(127)</u>	<u>68,387</u>
<b>Total assets less current liabilities</b>		<u>36,180</u>	<u>78,059</u>	<u>84,746</u>	<u>166,896</u>	<u>(127)</u>	<u>68,387</u>
<b>Non-current liability</b>							
Deferred income	20	–	41,708	–	–	–	–
<b>Net assets</b>		<u>36,180</u>	<u>36,351</u>	<u>84,746</u>	<u>166,896</u>	<u>(127)</u>	<u>68,387</u>
<b>Capital and reserves</b>							
Share capital	22	–	–	1,000	107	–	107
Reserves	23	36,180	36,351	83,746	166,789	(127)	68,280
<b>Total equity attributable to owners of the Company</b>		<u>36,180</u>	<u>36,351</u>	<u>84,746</u>	<u>166,896</u>	<u>(127)</u>	<u>68,387</u>

## Consolidated statements of changes in equity

	Attributable to owners of the Company				Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	
At 1 April 2011	–	–	–	29,135	29,135
Profit for the year	–	–	–	82,031	82,031
Exchange difference arising on translation of foreign subsidiary	–	–	14	–	14
Total comprehensive income for the year	–	–	14	82,031	82,045
Dividend recognised as distribution during the year ( <i>Note 9</i> )	–	–	–	(75,000)	(75,000)
At 31 March 2012	–	–	14	36,166	36,180
Profit for the year	–	–	–	85,207	85,207
Exchange difference arising on translation of foreign subsidiary	–	–	(36)	–	(36)
Total comprehensive income for the year	–	–	(36)	85,207	85,171
Dividend recognised as distribution during the year ( <i>Note 9</i> )	–	–	–	(85,000)	(85,000)
At 31 March 2013	–	–	(22)	36,373	36,351
Profit for the year	–	–	–	130,602	130,602
Exchange difference arising on translation of foreign subsidiary	–	–	(7)	–	(7)
Total comprehensive income for the year	–	–	(7)	130,602	130,595
Share repurchased and cancelled	–	–	–	–	–
Issue of new shares	1,000	–	–	–	1,000
Dividend recognised as distribution during the year ( <i>Note 9</i> )	–	–	–	(83,200)	(83,200)
At 31 March 2014	1,000	–	(29)	83,775	84,746
Profit for the period	–	–	–	39,704	39,704
Exchange difference arising on translation of foreign subsidiary	–	–	(72)	–	(72)
Total comprehensive income for the period	–	–	(72)	39,704	39,632
Reorganisation	(900)	–	–	–	(900)
Issue of new shares	7	68,411	–	–	68,418
Dividend recognised as distribution during the period ( <i>Note 9</i> )	–	–	–	(25,000)	(25,000)
At 31 August 2014	107	68,411	(101)	98,479	166,896

	Attributable to owners of the Company			
	Share capital	Translation reserve	Retained profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Unaudited</b>				
At 1 April 2013	—	(22)	36,373	36,351
Profit for the period	—	—	34,538	34,538
Exchange difference arising on translation of foreign subsidiary	—	(57)	—	(57)
Total comprehensive income for the period	—	(57)	34,538	34,481
Share repurchased and cancelled	—	—	—	—
Issue of new shares	1,000	—	—	1,000
Dividend recognised as distribution during the period	—	—	(53,000)	(53,000)
At 31 August 2013	<u>1,000</u>	<u>(79)</u>	<u>17,911</u>	<u>18,832</u>

## Consolidated statements of cash flows

	Year ended 31 March			Five months ended	
	2012	2013	2014	31 August	
	HK\$'000	HK\$'000	HK\$'000	2013	2014
				(unaudited)	
<b>OPERATING ACTIVITIES</b>					
Profit before taxation	96,926	99,173	141,786	40,518	49,815
Adjustments for:					
Depreciation of property, plant and equipment	4,028	7,594	7,611	3,157	3,189
Amortisation of intangible assets	297	1,030	1,140	475	571
Operating cash flows before movements in working capital	101,251	107,797	150,537	44,150	53,575
(Increase) decrease in trade receivables	(12,699)	(18,626)	8,750	5,612	(24,417)
Increase in other receivables	–	–	(175)	(533)	(8,442)
Increase in trade payables	9,982	2,128	7,648	27,065	19,235
Increase (decrease) in other payables and accruals	6,190	(957)	(241)	183	2,233
Increase (decrease) in deferred income	–	47,208	(47,208)	(2,292)	–
Cash generated from operations	104,724	137,550	119,311	74,185	42,184
Income tax paid	–	–	–	–	(4,566)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>104,724</b>	<b>137,550</b>	<b>119,311</b>	<b>74,185</b>	<b>37,618</b>
<b>INVESTING ACTIVITIES</b>					
Deposits paid for and purchase of property, plant and equipment	(75,088)	(24)	(144)	–	(60,048)
Purchase of intangible assets	(3,852)	(3,600)	–	–	(2,279)
Advances to a director	(13,994)	(57,511)	(40,696)	(4,250)	(16,500)
Repayments from a director	48,910	1,657	81,501	1,282	5,550
<b>NET CASH (USED IN) FROM INVESTING ACTIVITIES</b>	<b>(44,024)</b>	<b>(59,478)</b>	<b>40,661</b>	<b>(2,968)</b>	<b>(73,277)</b>

	Year ended 31 March			Five months ended 31 August	
	2012	2013	2014	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
<b>FINANCING ACTIVITIES</b>					
Advances from a director	17,907	12,435	4,778	1,256	12,019
Repayments to a director	(3,606)	(15,255)	(1,000)	(20)	(1,527)
Proceeds from issue of shares	–	–	1,000	1,000	68,418
Dividends paid	(75,000)	(85,000)	(83,200)	(53,000)	(25,000)
<b>NET CASH (USED IN) FROM FINANCING ACTIVITIES</b>	<u>(60,699)</u>	<u>(87,820)</u>	<u>(78,422)</u>	<u>(50,764)</u>	<u>53,910</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	1	(9,748)	81,550	20,453	18,251
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR/ PERIOD</b>	14,246	14,261	4,477	4,477	86,020
<b>EFFECTS OF FOREIGN EXCHANGE RATE CHANGES</b>	<u>14</u>	<u>(36)</u>	<u>(7)</u>	<u>(57)</u>	<u>(72)</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/PERIOD, REPRESENTING BANK BALANCES AND CASH</b>	<u>14,261</u>	<u>4,477</u>	<u>86,020</u>	<u>24,873</u>	<u>104,199</u>

**Notes to the Financial Information****1. Corporate information and basis of presentation of the financial information**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 25 September 2013. The registered office of the Company is at Cricket Square, Hutchins Drive, PO BOX 2681, Grand Cayman, KY1-1111, Cayman Islands and the principal place of business of the Company is Suite 2102, Concordia Plaza, 1 Science Museum Road, Tsim Sha Tsui East, Kowloon, Hong Kong Special Administrative Region, China. Its ultimate controlling shareholder is Mr. Zhuang Xiang Song, who has historically and throughout the Track Record Period and up to present been the controlling shareholder of the Group (the "Controlling Shareholder"). The Company is an investment holding company. The principal activities of its subsidiaries are engaged in the trading of animation derivative products, licensing of animation characters, establishment and operation of indoor animation amusement park, multimedia animation entertainment.

China Animation BVI was incorporated in the BVI on 27 September 2007 as a limited liability company and was wholly owned by Mr. Zhuang Xiang Song, the Controlling Shareholder of the Group. China Animation BVI is a major operating subsidiary of the Company.

On 30 August 2013, China Animation BVI repurchased one share from the Controlling Shareholder and cancelled the said share on the same day. Pursuant to certain investment agreements, China Animation BVI has allotted 1,000,000 new shares of HK\$1 each to the Controlling Shareholder and other investors which then hold 65.08% and 34.92% equity interests in China Animation BVI on 30 August 2013, respectively.

Pursuant to the Reorganisation, which was completed by interspersing the Company and China Animation Holding between China Animation BVI and its shareholders, the Company became the holding company of the companies now comprising the Group on 6 August 2014. The Group is under the common control of the Controlling Shareholder prior to and after the Reorganisation. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Track Record Period which include the results, changes in equity and cash flows of the companies comprising the Group have been prepared as if the Company had always been the holding company of the Group and the current group structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation/establishment, where it is a shorter period.

The consolidated statements of financial position as at the respective reporting dates have been prepared to present the assets and liabilities of the companies comprising the Group as if the current group structure had been in existence at those dates.

The Financial Information is presented in Hong Kong dollar ("HK\$"), which is the same as the functional currency of the Company and its main subsidiaries.



## 2. Application of Hong Kong Financial Reporting Standards

For the purpose of preparing and presenting the Financial Information for the Track Record Period, the Group has consistently adopted Hong Kong Accounting Standards (“HKASs”), Hong Kong Financial Reporting Standards (“HKFRSs”), amendments and interpretations (“HK(IFRIC)-Int”) issued by the HKICPA which are effective for the accounting period beginning on 1 April 2014 throughout the Track Record Period.

At the date of this report, the HKICPA has issued the following new and revised standards, amendments and interpretations that are not yet effective. The Group has not early applied these standards, amendments and interpretations.

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations <sup>4</sup>
Amendments to HKAS 1	Disclosure Initiative <sup>4</sup>
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation <sup>4</sup>
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants <sup>4</sup>
Amendments to HKAS 27	Equity Method in Separate Financial Statements <sup>4</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception <sup>4</sup>
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions <sup>1</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 — 2012 Cycle <sup>2</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 — 2013 Cycle <sup>1</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 — 2014 Cycle <sup>4</sup>
HKFRS 9	Financial Instruments <sup>6</sup>
HKFRS 14	Regulatory Deferral Accounts <sup>3</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2014

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

<sup>3</sup> Effective for the first annual HKFRS financial statements beginning on or after 1 January 2016

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2016

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2018

The directors of the Company are in the process of making an assessment of the impact of the application of the new and revised standards, amendments or interpretations on the Financial Information.

## 3. Significant accounting policies

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance which for the Track Record Period continue to be those of the

predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule II of that Ordinance (the "Companies Ordinance").

The Financial Information has been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

#### ***Basis of consolidation***

The Financial Information incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company:

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

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

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

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company. Total comprehensive income of subsidiaries is attributed to the owners of the Company.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

*Investments in subsidiaries*

Investments in subsidiaries included in the Company's statement of financial position are stated at cost less any identified impairment loss.

*Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services rendered in the normal course of business.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Royalty income from licensing of animation characters is recognised in profit or loss on a straight-line basis over the license period. Upon early termination of a licensing agreement, non-refundable royalty fees received in advance, which are initially recognised as deferred income together with compensation received, if any, are recognised as income in the profit or loss immediately.

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

Joining fee received from potential business partner as uncommitted incentive for the co-development of animation amusement park is recognised as income in the profit or loss in the period when the fee is received and the conditions set out in the relevant agreement are fulfilled or become unconditional.

Service income is recognised when services are provided.

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

***Leasing***

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

***The Group as lessee***

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. In the event that lease incentives are received to enter into operating lease such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expenses on a straight-line basis.

***Foreign currencies***

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

For the purposes of presenting the Financial Information, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK\$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

***Retirement benefit costs***

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

***Taxation***

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

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

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

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

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

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

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

Current and deferred tax are recognised in profit or loss.

### ***Property, plant and equipment***

Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

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

***Intangible assets***

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

***Research and development expenditure***

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

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

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

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

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

***Impairment on tangible and intangible assets***

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indicator exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not

possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

### *Financial instruments*

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

### *Financial assets*

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

### Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

## Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, amount due from a subsidiary, amount due from a director and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

## Impairment of financial assets

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of the loans and receivables have been affected.

Objective evidence of impairment could include:

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

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

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

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

## *Financial liabilities and equity instruments*

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



## Equity instruments

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

## Financial liabilities

Financial liabilities including trade payables, other payables and accruals, amount due to a director and amount due to a related company are subsequently measured at amortised cost, using the effective interest method.

## Effective interest method

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

Interest expense is recognised on an effective interest basis.

## *Derecognition*

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

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

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

## **4. Key sources of estimation uncertainty**

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

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

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

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

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

At 31 March 2012, 2013, 2014 and 31 August 2014, the carrying amounts of property, plant and equipment are approximately HK\$71,071,000, HK\$63,501,000, HK\$56,034,000 and HK\$53,798,000 respectively. Details of the useful lives of the property, plant and equipment are disclosed in Note 11.

***Estimated useful lives of intangible assets***

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

At 31 March 2012, 2013 and 2014 and 31 August 2014, the carrying amounts of intangible assets are approximately HK\$4,155,000, HK\$6,125,000, HK\$4,985,000 and HK\$6,693,000 respectively. Details of the useful lives of the intangible assets are disclosed in Note 12.

***Income Tax***

During the Track Record Period, the Group has provided a tax provision based on estimated assessable profits. However, it had not notified the Inland Revenue Department of Hong Kong ("IRD") of its assessable profits for the years of assessment 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 on time in prior years. Instead, such notifications were only made in February 2014 for the year of assessment 2008/09, and in May 2014 for the years of assessment 2009/10, 2010/11, 2011/12 and 2012/13. Therefore, the Group has technically not yet discharged its obligation to notify

chargeability, and it may be liable for penalty, the amount of which according to the penalty policy of the IRD should not exceed 60% of the relevant tax charge (full voluntary disclosure). However, the amount of penalty may be less than the maximum amount if the Group can prove to the satisfaction of the Commissioner of the IRD that the delay was not intentional.

The Group has received Notices of Assessment for the year of assessment 2008/09 in March 2014, the year of assessment 2009/10 in May 2014, the years of assessment 2010/11, 2011/12 and 2012/2013 in July 2014, respectively, from the IRD which stated that tax payable for the years of assessment 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 amounting to approximately HK\$4,566,000 in aggregate, which is based on the amounts reported in tax returns filed by the Group for relevant years assuming no penalty would be imposed by the IRD. Up to the date of this report, the IRD has not issued any penalty notice to the Group in respect of the late notification of chargeability for the relevant years as mentioned above.

In addition to making tax provision for the relevant years as discussed above, the directors have also considered possible penalty that may be imposed by the IRD on the Group as at each of the reporting date, if any, arising from the late notification of chargeability for the years of assessment 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 by the relevant group entity. After seeking professional advice, the directors understand that the possible penalty, if any, is likely to be at the level of 50% of the amount of tax undercharged, that is, HK\$1,105,000, HK\$1,958,000, HK\$2,283,000 and HK\$2,283,000 as of 31 March 2012, 2013, 2014 and 31 August 2014, respectively. However, based on the relevant facts and circumstances and taking into account professional advice, the directors believe that it is not probable that such penalty will be imposed on the Group. As a result, no provision has been made against the such potential penalty.

The Group has lodged the offshore profits claims in respect of the trading income (other than trading income derived from the Hong Kong affiliates of Japanese customers) and licensing income which were derived from outside Hong Kong. Hence, the Group estimated the total tax payable for the years of assessment of 2008/09 to 2012/13 (on the assumption that the aforesaid offshore profit claims will be accepted by the IRD) amounted to HK\$4,566,000 and has already paid such amount to the IRD based on the tax returns received. Up to the date of this report, the offshore profits claims are still under review by the IRD. After seeking professional advice, the directors of the Company opined that in the event that the offshore profits claims in respect of the trading income are not accepted but the offshore profits claims in respect of the licensing income are accepted by the IRD, the estimated outstanding tax payable by the Group for the six years ended 31 March 2014 and the five months ended 31 August 2014 would be HK\$71,881,000. As of 31 August 2014, the Group has made accumulated provision of HK\$71,109,000 as tax payable in the Financial Information. Having taken into account professional advice, the directors believe that the Group has made appropriate provision in respect of the possible tax liability.

## **5. Revenue and segment information**

Revenue represents revenue arising from trading of animation derivative products, licensing of animation characters, establishment and operation of indoor animation amusement park and multimedia animation entertainment in Hong Kong and the PRC during the Track Record Period.

Information reported to the executive director of the Company, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered or services provided. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

The Group's operating and reportable segments currently are: (i) trading of animation derivative products, (ii) licensing of animation characters, (iii) establishment and operation of indoor animation amusement park and (iv) multimedia animation entertainment. The operating segments regarding establishment and operation of indoor animation amusement park and multimedia animation entertainment were commenced in 2014. The CODM considers the Group has four operating and reportable segments which are based on the internal organisation and reporting structure. This is the basis upon which the Group is organised.

### *Segment revenue and results*

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

*For the year ended 31 March 2012*

	<b>Trading of animation derivative products HK\$'000</b>	<b>Licensing of animation characters HK\$'000</b>	<b>Establishment and operation of indoor animation amusement park HK\$'000</b>	<b>Multimedia animation entertainment HK\$'000</b>	<b>Total HK\$'000</b>
Segment revenue	<u>279,007</u>	<u>13,292</u>	<u>–</u>	<u>–</u>	<u>292,299</u>
Segment profit	<u>97,440</u>	<u>10,802</u>	<u>–</u>	<u>–</u>	108,242
Unallocated income					26
Unallocated expenses					(8,896)
Listing expenses					<u>(2,446)</u>
Profit before taxation					<u>96,926</u>

*For the year ended 31 March 2013*

	<b>Trading of animation derivative products HK\$'000</b>	<b>Licensing of animation characters HK\$'000</b>	<b>Establishment and operation of indoor animation amusement park HK\$'000</b>	<b>Multimedia animation entertainment HK\$'000</b>	<b>Total HK\$'000</b>
Segment revenue	<u>251,593</u>	<u>31,900</u>	<u>–</u>	<u>–</u>	<u>283,493</u>
Segment profit	<u>93,023</u>	<u>24,813</u>	<u>–</u>	<u>–</u>	117,836
Unallocated expenses					(17,476)
Listing expenses					<u>(1,187)</u>
Profit before taxation					<u>99,173</u>

*For the year ended 31 March 2014*

	<b>Trading of animation derivative products HK\$'000</b>	<b>Licensing of animation characters HK\$'000</b>	<b>Establishment and operation of indoor animation amusement park HK\$'000</b>	<b>Multimedia animation entertainment HK\$'000</b>	<b>Total HK\$'000</b>
Segment revenue	<u>245,136</u>	<u>73,608</u>	<u>20,000</u>	<u>–</u>	<u>338,744</u>
Segment profit	<u>73,502</u>	<u>69,406</u>	<u>19,229</u>	<u>–</u>	162,137
Unallocated income					13
Unallocated expenses					(14,810)
Listing expenses					<u>(5,554)</u>
Profit before taxation					<u>141,786</u>

*For the five months ended 31 August 2013 (unaudited)*

	<b>Trading of animation derivative products HK\$'000</b>	<b>Licensing of animation characters HK\$'000</b>	<b>Establishment and operation of indoor animation amusement park HK\$'000</b>	<b>Multimedia animation entertainment HK\$'000</b>	<b>Total HK\$'000</b>
Segment revenue	<u>130,721</u>	<u>13,292</u>	<u>–</u>	<u>–</u>	<u>144,013</u>
Segment profit (loss)	<u>38,992</u>	<u>11,239</u>	<u>(5)</u>	<u>–</u>	50,226
Unallocated expenses					(5,891)
Listing expenses					<u>(3,817)</u>
Profit before taxation					<u>40,518</u>

*For the five months ended 31 August 2014*

	<b>Trading of animation derivative products HK\$'000</b>	<b>Licensing of animation characters HK\$'000</b>	<b>Establishment and operation of indoor animation amusement park HK\$'000</b>	<b>Multimedia animation entertainment HK\$'000</b>	<b>Total HK\$'000</b>
Segment revenue	<u>185,541</u>	<u>–</u>	<u>872</u>	<u>411</u>	<u>186,824</u>
Segment profit (loss)	<u>64,712</u>	<u>(1,121)</u>	<u>(1,286)</u>	<u>109</u>	62,414
Unallocated income					202
Unallocated expenses					(8,961)
Listing expenses					<u>(3,840)</u>
Profit before taxation					<u>49,815</u>

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

Segment profit represents the profit earned by each segment without allocation of certain administrative expenses, listing expenses and unallocated income. This is the measure reported to CODM for the purpose of resource allocation and performance assessment.

All the segment revenue reported above is from external customers.

*Segment assets and liabilities*

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

*Segment assets*

	At 31 March			At
	2012	2013	2014	31 August
	HK\$'000	HK\$'000	HK\$'000	2014 HK\$'000
Trading of animation derivative products	10,803	27,281	11,931	36,348
Licensing of animation characters	13,007	14,265	19,975	19,603
Establishment and operation of indoor animation amusement park	–	–	2,279	69,654
Multimedia animation entertainment	–	2,860	2,610	2,506
	<u>23,810</u>	<u>44,406</u>	<u>36,795</u>	<u>128,111</u>
Total segment assets	23,810	44,406	36,795	128,111
Property, plant and equipment	71,071	63,501	56,034	53,798
Other receivables	–	–	175	242
Amount due from a director	12	55,866	15,061	26,011
Bank balances and cash	14,261	4,477	86,020	104,199
	<u>109,154</u>	<u>168,250</u>	<u>194,085</u>	<u>312,361</u>
Consolidated assets	<u>109,154</u>	<u>168,250</u>	<u>194,085</u>	<u>312,361</u>

*Segment liabilities*

	<b>At 31 March</b>			<b>At</b>
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>31 August</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2014</i>
				<i>HK\$'000</i>
Trading of animation derivative products	53,229	67,842	87,812	113,473
Licensing of animation characters	600	47,208	–	–
Establishment and operation of indoor animation amusement park	–	–	2,279	83
	<u>53,829</u>	<u>115,050</u>	<u>90,091</u>	<u>113,556</u>
Total segment liabilities				
Other payables and accruals	4,832	5,356	3,977	5,246
Amount due to a director	14,313	11,493	15,271	26,663
	<u>72,974</u>	<u>131,899</u>	<u>109,339</u>	<u>145,465</u>
Consolidated liabilities				

Segment assets represent deposits for property, plant and equipment, intangible assets, trade receivables and certain other receivables, deposits and prepayments which are directly attributable to the relevant operating and reportable segments. Segment liabilities represent trade payables, deferred income, amount due to a related company, certain other payables and accruals and tax payable which are directly attributable to the relevant operating and reportable segments. These are the measures reported to the CODM for the purpose of resources allocation and assessment of segment performance.



*Revenue from major products and services*

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

	Year ended 31 March			Five months ended 31 August	
	2012 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000 (unaudited)	2014 HK\$'000
Trading of animation derivative products	279,007	251,593	245,136	130,721	185,541
Licensing of animation characters	13,292	31,900	73,608	13,292	–
Joining fee from potential business partner for indoor animation amusement park	–	–	20,000	–	–
Sales of admission tickets of indoor animation amusement park and multimedia animation entertainment	–	–	–	–	1,283
Total revenue	<u>292,299</u>	<u>283,493</u>	<u>338,744</u>	<u>144,013</u>	<u>186,824</u>

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

*Geographical information*

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

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

## Revenue from external customers

	Year ended 31 March			Five months ended	
	2012	2013	2014	31 August	
	HK\$'000	HK\$'000	HK\$'000	2013	2014
				HK\$'000	HK\$'000
				(unaudited)	
PRC	–	–	20,000	–	1,283
Hong Kong	32,045	11,775	7,211	3,108	11,358
Japan	260,254	271,718	311,533	140,905	174,183
	<u>292,299</u>	<u>283,493</u>	<u>338,744</u>	<u>144,013</u>	<u>186,824</u>

## Non-current assets by geographical location

	At 31 March			At	
	2012	2013	2014	31 August	
	HK\$'000	HK\$'000	HK\$'000	2014	
				HK\$'000	
PRC	71,057	63,478	56,281	113,100	
Hong Kong	4,169	6,148	7,017	6,486	
	<u>75,226</u>	<u>69,626</u>	<u>63,298</u>	<u>119,586</u>	

## Information about major customers

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

	Year ended 31 March			Five months ended	
	2012	2013	2014	31 August	
	HK\$'000	HK\$'000	HK\$'000	2013	2014
				HK\$'000	HK\$'000
				(unaudited)	
Customer A <sup>1</sup>	32,194	82,797	135,478	84,273	75,331
Customer B <sup>2</sup>	N/A*	44,898	82,373	N/A*	N/A*
Customer C <sup>1</sup>	117,501	69,747	45,550	19,138	N/A*
Customer D <sup>1</sup>	N/A*	34,795	N/A*	N/A*	71,191
	<u>32,194</u>	<u>82,797</u>	<u>135,478</u>	<u>84,273</u>	<u>75,331</u>

1. Revenue from trading of animation derivative products.

2. Revenue from trading of animation derivative products and licensing of animation characters.

\* The corresponding revenue did not contribute over 10% of the total revenue of the Group.

## 6. Taxation

	Year ended 31 March			Five months ended	
	2012	2013	2014	31 August	2014
	HK\$'000	HK\$'000	HK\$'000	2013	2014
				HK\$'000	HK\$'000
				(unaudited)	
Hong Kong Profits					
Tax	<u>14,895</u>	<u>13,966</u>	<u>11,184</u>	<u>5,980</u>	<u>10,111</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the years ended 31 March 2012, 2013 and 2014 and the five months ended 31 August 2013 (unaudited) and 2014.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% from 1 January 2008 onwards. No provision for the PRC Enterprise Income Tax has been made as no assessable income neither arises in, nor is derived from the PRC during the Track Record Period.

The Group had not notified the IRD of its assessable profits for the years of assessment 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 on time in prior years. Instead, such notifications were only made in October 2013 that the Group had derived assessable profits since 2008. Following the notification, the IRD issued tax returns to the Group which they have completed and submitted to the IRD within the time frame as stipulated in the respective tax returns. The Group has received Notices of Assessment for the years of assessment 2008/09 in March 2014, the year of assessment 2009/10 in May 2014, the year of assessment 2010/11, 2011/12 and 2012/13 in July 2014, respectively, from the IRD which stated that tax payable for the years of assessment 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 amounting to approximately HK\$4,566,000 in aggregate, which is based on the amounts reported in tax returns filed by the Group for relevant years assuming no penalty would be imposed by the IRD. Up to the date of this report, the IRD has not issued any penalty notice to the Group in respect of the late notification of chargeability for the relevant years as mentioned above.

In addition to making tax provision for the relevant years as discussed above, the directors have also considered possible penalty that may be imposed by the IRD on the Group as at each of the reporting date, if any, arising from the late notification of chargeability for the years of assessment 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 by the relevant group entity. After seeking professional advice, the directors understand that the possible penalty, if any, is likely to be at the level of 50% of the amount of tax undercharged, that is, HK\$1,105,000, HK\$1,958,000, HK\$2,283,000 and HK\$2,283,000 as of 31 March 2012, 2013, 2014 and 31 August 2014, respectively. However, based on the relevant facts and circumstances and taking into account professional advice, the directors believe that it is not probable that such penalty will be imposed on the Group. As a result, no provision has been made against such potential penalty.

The Group has lodged the offshore profits claims in respect of the trading income (other than trading income derived from the Hong Kong affiliates of Japanese customers) and licensing income which were derived from outside Hong Kong. Hence, the Group estimated the total tax payable for the years of assessment of 2008/09 to 2012/13 (on the assumption that the aforesaid offshore profit claims will be accepted by the IRD) amounted to HK\$4,566,000 and has already paid such amount to the IRD based on the tax returns received. Up to the date of this report, the offshore profits claims are still under review by the IRD. After seeking professional advice, the directors of the Company opined that in the event that the offshore profits claims in respect of the trading income are not accepted but the offshore profits claims in respect of the licensing income are accepted by the IRD, the estimated outstanding tax payable by the Group for the six years ended 31 March 2014 and the five months ended 31 August 2014 would be HK\$71,881,000. As of 31 August 2014, the Group has made accumulated provision of HK\$71,109,000 as tax payable in the Financial Information. Having taken into account professional advice, the directors believe that the Group has made appropriate provision in respect of the possible tax liability.

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

	Year ended 31 March			Five months ended 31 August	
	2012 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000 (unaudited)	2014 HK\$'000
Profit before taxation	<u>96,926</u>	<u>99,173</u>	<u>141,786</u>	<u>40,518</u>	<u>49,815</u>
Tax at the applicable tax rate of 16.5%	15,993	16,364	23,395	6,685	8,219
Tax effect of expenses not deductible for tax purpose	1,417	2,783	2,602	1,269	1,447
Tax effect of income not taxable for tax purpose	(2,203)	(5,283)	(15,448)	(2,193)	(2)
Tax effect of tax losses not recognised	137	429	677	240	354
Others	<u>(449)</u>	<u>(327)</u>	<u>(42)</u>	<u>(21)</u>	<u>93</u>
	<u>14,895</u>	<u>13,966</u>	<u>11,184</u>	<u>5,980</u>	<u>10,111</u>

The Group had unused tax losses of approximately HK\$831,000, HK\$3,432,000, HK\$7,532,000 and HK\$9,675,000 at 31 March 2012, 2013 and 2014 and 31 August 2014 respectively, which are available for offset against future profits. No deferred tax asset has been recognised due to unpredictability of future profit streams. The tax losses will expire from 2016 to 2019.

## 7. Profit for the year/period

	Year ended 31 March			Five months ended 31 August	
	2012	2013	2014	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Profit for the year/period has been arrived at after charging:					
Staff costs:					
Director's emoluments <i>(Note 8)</i>	–	–	–	–	–
Other staff costs					
Salaries and other benefits	–	1,896	3,603	1,172	2,901
Retirement benefits scheme contributions	–	21	71	25	49
	–	1,917	3,674	1,197	2,950
Auditor's remuneration	2,200	1,127	1,465	725	949
Cost of inventories recognised as expenses	170,770	150,441	164,815	88,318	118,786
Depreciation of property, plant and equipment	4,028	7,594	7,611	3,157	3,189
Amortisation of intangible assets	297	1,030	1,140	475	571
Research and development costs recognised as an expense (included in cost of sales and services)	2,193	2,777	3,191	1,711	700
Operating lease rentals in respect of rented premises	1,003	1,135	1,457	480	704
Operating lease rentals in respect of rented vehicles	76	130	130	54	54
Net foreign exchange losses	–	554	133	55	53

## 8. Director's and chief executive's emoluments and employees' emoluments

*Director*

Details of the emoluments paid or payable to the director of the Company during the Track Record Period are as follows:

*For the year ended 31 March 2012*

	<b>Retirement benefit scheme Fee contributions</b>	<b>Salaries and other benefits</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Executive director:			
Mr. Zhuang Xiang Song	—	—	—

*For the year ended 31 March 2013*

	<b>Retirement benefit scheme Fee contributions</b>	<b>Salaries and other benefits</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Executive director:			
Mr. Zhuang Xiang Song	—	—	—

*For the year ended 31 March 2014*

	<b>Retirement benefit scheme Fee contributions</b>	<b>Salaries and other benefits</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Executive director:			
Mr. Zhuang Xiang Song	—	—	—

*For the five months ended 31 August 2013 (unaudited)*

	Fee	Retirement benefit scheme contributions	Salaries and other benefits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Executive director:				
Mr. Zhuang Xiang Song	–	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

*For the five months ended 31 August 2014*

	Fee	Retirement benefit scheme contributions	Salaries and other benefits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Executive director:				
Mr. Zhuang Xiang Song	–	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

Mr. Zhuang Xiang Song is also the Chief Executive of the Company.

### **Employees**

The emoluments of the five highest paid individuals for the years ended 31 March 2012, 2013 and 2014 and the five months ended 31 August 2013 and 2014 who are neither a director nor chief executive of the Company are as follows:

	Year ended 31 March			Five months ended 31 August	
	2012	2013	2014	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other benefits	–	960	1,369	605	616
Incentive performance bonus	–	–	30	–	–
Retirement benefit scheme contributions	–	21	27	11	21
	<u>–</u>	<u>981</u>	<u>1,426</u>	<u>616</u>	<u>637</u>

Each of their emoluments during the years ended 31 March 2012, 2013 and 2014 and the five months ended 31 August 2013 (unaudited) and 2014 was within HK\$1,000,000.

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

During the Track Record Period, no emoluments have been paid by the Group to any of the director or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. The director (also the Chief Executive) did not waive any emoluments during the Track Record Period.

## 9. Dividends

No dividend has been paid or declared by the Company since its date of incorporation. Prior to the Reorganisation, China Animation BVI had declared dividends to its then equity owner as follows:

	Year ended 31 March			Five months ended 31 August	
	2012 <i>HK\$'000</i>	2013 <i>HK\$'000</i>	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i> (unaudited)	2014 <i>HK\$'000</i>
Controlling Shareholder	<u>75,000</u>	<u>85,000</u>	<u>83,200</u>	<u>53,000</u>	<u>25,000</u>

The rate of dividend and number of shares ranking for dividend are not presented as such information is not meaningful having regard to the purpose of this report.



## 10. Earnings per share

	Year ended 31 March			Five months ended 31 August	
	2012	2013	2014	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Earnings:					
Earnings for the purpose of calculating basic earnings per share (profit for the year/period attributable to owners of the Company)	<u>82,031</u>	<u>85,207</u>	<u>130,602</u>	<u>34,538</u>	<u>39,704</u>

	Year ended 31 March			Five months ended 31 August	
	2012	2013	2014	2013	2014
	'000	'000	'000	'000	'000
Number of shares:					
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>	<u>301,629</u>

The weighted average number of ordinary shares for the purpose of basic earnings per share for the years ended 31 March 2012, 2013 and 2014 and the five months ended 31 August 2013 and 2014 is calculated based on the ordinary shares of the Company after retrospective adjustment and assuming the issuance of 300,000,000 ordinary shares of HK\$0.10 pursuant to the capitalisation issue as described in the paragraph 3 headed "Resolutions passed by our Shareholders in the general meeting held on 16 February 2015" in Appendix IV to the Prospectus, had been effective on 1 April 2011.

No diluted earnings per share is presented for the Track Record Period as there was no potential ordinary share in issue.

## 11. Property, plant and equipment

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>COST</b>			
At 1 April 2011	–	14	14
Additions	74,307	781	75,088
At 31 March 2012	74,307	795	75,102
Additions	–	24	24
At 31 March 2013	74,307	819	75,126
Additions	105	39	144
At 31 March 2014	74,412	858	75,270
Additions	–	953	953
At 31 August 2014	<u>74,412</u>	<u>1,811</u>	<u>76,223</u>
<b>DEPRECIATION</b>			
At 1 April 2011	–	3	3
Provided for the year	3,897	131	4,028
At 31 March 2012	3,897	134	4,031
Provided for the year	7,431	163	7,594
At 31 March 2013	11,328	297	11,625
Provided for the year	7,443	168	7,611
At 31 March 2014	18,771	465	19,236
Provided for the period	3,105	84	3,189
At 31 August 2014	<u>21,876</u>	<u>549</u>	<u>22,425</u>

	<b>Leasehold improvements</b> <i>HK\$'000</i>	<b>Furniture, fixtures and equipment</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
CARRYING VALUES			
At 31 March 2012	<u>70,410</u>	<u>661</u>	<u>71,071</u>
At 31 March 2013	<u>62,979</u>	<u>522</u>	<u>63,501</u>
At 31 March 2014	<u>55,641</u>	<u>393</u>	<u>56,034</u>
At 31 August 2014	<u>52,536</u>	<u>1,262</u>	<u>53,798</u>

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

Leasehold improvements	5 years to 10 years
Furniture, fixtures and equipment	5 years

The leased premises in the PRC are rented from Mr. Zhuang Xiang Song, the Controlling Shareholder, who is in the process of obtaining the land use right certificates. After seeking legal advice, the directors consider that the title ownership certificates can be obtained by Mr. Zhuang Xiang Song in due time for insignificant cost, therefore, the directors consider that there is no impairment on the leasehold improvements.

## 12. Intangible assets

	<b>Film right</b> <i>HK\$'000</i> <i>(Note i)</i>	<b>Animation</b> <b>characters</b> <i>HK\$'000</i> <i>(Note ii)</i>	<b>Indoor</b> <b>amusement</b> <b>park right</b> <i>HK\$'000</i> <i>(Note iii)</i>	<b>Total</b> <i>HK\$'000</i>
<b>COST</b>				
At 1 April 2011	–	–	–	–
Additions	–	4,452	–	4,452
At 31 March 2012	–	4,452	–	4,452
Additions	1,750	1,250	–	3,000
At 31 March 2013	1,750	5,702	–	7,452
Additions	–	–	2,279	2,279
At 31 March 2014 and 31 August 2014	1,750	5,702	2,279	9,731
<b>AMORTISATION</b>				
At 1 April 2011	–	–	–	–
Charge for the year	–	297	–	297
At 31 March 2012	–	297	–	297
Charge for the year	–	1,030	–	1,030
At 31 March 2013	–	1,327	–	1,327
Charge for the year	–	1,140	–	1,140
At 31 March 2014	–	2,467	–	2,467
Charge for the period	–	476	95	571
At 31 August 2014	–	2,943	95	3,038
<b>CARRYING VALUE</b>				
At 31 March 2012	–	4,155	–	4,155
At 31 March 2013	1,750	4,375	–	6,125
At 31 March 2014	1,750	3,235	2,279	7,264
At 31 August 2014	1,750	2,759	2,184	6,693

*Notes:*

- (i) Film right represents the acquisition of film right from a production party for the distribution of films in various videogram formats, film exhibition, licensing and sub-licensing of film titles. Film right is stated at cost less accumulated amortisation and accumulated impairment losses. The cost of film right is amortised on a straight-line basis over their estimated useful lives starting from the completion of film in 2015.
- (ii) Animation characters represent the acquired intellectual properties in the form of trademarks and copyrights of various animation brands and related characters under the ownership of the Group.
- (iii) Indoor amusement park right represents the acquired intellectual property rights in the form of trademarks and know-how under a licensing agreement (the "Licensing Agreement") with SEGA Corporation, a Japanese corporation, for the establishment and operation of indoor animation amusement park with JOYPOLIS trademark in the PRC. The term of the Licensing Agreement is 10 years from the date of the Licensing Agreement which is renewable subject to negotiation among the parties concerned.

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

Film right	2 years
Animation characters	5 years
Indoor amusement park right	10 years

**13. Investment in a subsidiary****The Company**

	<b>At 31 August 2014 HK\$</b>
Unlisted shares, at deemed cost	7.8
	<u>          </u>
	<i>HK\$'000</i>
Shown in the statement of financial position	<u>          </u>

**14. Trade receivables**

	<b>At 31 March</b>			<b>At 31 August</b>
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	<u>19,655</u>	<u>38,281</u>	<u>29,531</u>	<u>53,948</u>

The Group allows a credit period of 30 days throughout the Track Record Period to its trade customers. The following is an aged analysis of trade receivables presented based on the invoice dates at the end of the reporting period, which approximate the revenue recognition dates:

	<b>At 31 March</b>			<b>At 31 August</b>
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	9,635	26,181	8,753	32,249
31 to 60 days	1,071	5,150	4,447	2,973
61 to 180 days	8,949	6,740	9,700	3,326
Over 180 days	–	210	6,631	15,400
	<u>19,655</u>	<u>38,281</u>	<u>29,531</u>	<u>53,948</u>

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

Included in Group's trade receivables are receivables with the following carrying amounts which are past due at the end of each reporting period for which the Group has not provided for impairment loss as there has not been a significant change in the credit quality and the amounts are subsequently settled. The Group does not hold any collateral over these balances. Aging of trade receivables which are past due but not impaired:

	<b>At 31 March</b>			<b>At 31 August</b>
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Over 30 days	<u>10,020</u>	<u>12,100</u>	<u>20,778</u>	<u>21,699</u>

**15. Amounts due from (to) a director**

Amount due from a director, the Controlling Shareholder of the Company, disclosed pursuant to section 383 to the Hong Kong Companies Ordinance (Cap. 622), which requires compliance with section 161B of the predecessor Hong Kong Companies Ordinance (Cap. 32), is analysed as follows:

	At 31 March			At
	2012	2013	2014	31 August
	HK\$'000	HK\$'000	HK\$'000	2014
				HK\$'000
Mr. Zhuang Xiang Song	12	55,866	15,061	26,011
	<u>12</u>	<u>55,866</u>	<u>15,061</u>	<u>26,011</u>
	Maximum amount outstanding during the year ended 31 March			Five months ended 31 August
	2012	2013	2014	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mr. Zhuang Xiang Song	48,910	55,866	68,550	26,011
	<u>48,910</u>	<u>55,866</u>	<u>68,550</u>	<u>26,011</u>

The amounts due from and to a director are unsecured, non-interest bearing and repayable on demand.

**16. Amount due from a subsidiary**

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

**17. Bank balances and cash**

Bank balances carry interest at market rates which range from 0.01% to 0.5%, 0.01% to 0.44%, 0.01% to 0.35% and 0.01% to 0.35% per annum as of 31 March 2012, 2013 and 2014 and 31 August 2014 respectively.

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

	At 31 March			At
	2012	2013	2014	31 August
	HK\$'000	HK\$'000	HK\$'000	2014
				HK\$'000
RMB	–	173	290	2,410
United States Dollars (“US\$”)	3,780	11	9,727	42,874
	<u>3,780</u>	<u>11</u>	<u>9,727</u>	<u>42,874</u>

**18. Trade payables**

The following is an aged analysis of trade payables presented based on the invoice date at the end of each reporting period.

	At 31 March			At
	2012	2013	2014	31 August
	HK\$'000	HK\$'000	HK\$'000	2014
Trade payables	11,255	13,383	21,031	40,266

The average credit period on purchases of goods is 30 days. The following is an aged analysis of trade payables presented based on the invoice dates at the end of the reporting period:

	At 31 March			At
	2012	2013	2014	31 August
	HK\$'000	HK\$'000	HK\$'000	2014
0 to 30 days	11,255	13,383	8,122	28,654
31 to 60 days	–	–	12,909	5,631
61 to 90 days	–	–	–	5,981
	11,255	13,383	21,031	40,266

**19. Other payables and accruals**

	At 31 March			At
	2012	2013	2014	31 August
	HK\$'000	HK\$'000	HK\$'000	2014
Other payables and accruals	4,832	5,324	3,692	4,790
Advanced receipts from customers	1,560	79	1,217	2,098
Salaries payables	–	32	285	456
Payable for indoor amusement park right	–	–	2,279	–
Other tax payable	–	–	–	83
	6,392	5,435	7,473	7,427



**20. Deferred income**

	At 31 March			At
	2012	2013	2014	31 August
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2014</i>
				<i>HK\$'000</i>
Analysed for reporting purpose as:				
Current liabilities	–	5,500	–	–
Non-current liabilities	–	41,708	–	–
	<u>–</u>	<u>47,208</u>	<u>–</u>	<u>–</u>

In October 2011, the Group has entered into a licensing agreement with Zing Co., Limited (“Zing”, an entity which Mr. Zhuang Xiang Song was a director and he resigned from such role in June 2011). Pursuant to the licensing agreement, the Group is entitled to receive annual licensing fee as well as an one-off licensing fee in relation to the grant of rights of using certain animation characters to the licensee for 10 years. During the year ended 31 March 2013, the Group has received the non-refundable one-off licensing fee of approximately HK\$55,000,000, which was amortised over the term of the licensing agreement and unamortised portion was recognised as deferred income. Pursuant to the termination agreement in March 2014, the licensee terminated the licensing agreement and ceased to license these animation characters and the unamortised portion of deferred income is recognised to profit or loss as income immediately.

**21. Amount due to a related company**

	At 31 March			At
	2012	2013	2014	31 August
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2014</i>
				<i>HK\$'000</i>
深圳市華夏動漫科技有限公司 Shenzhen Huaxia Animation Holdings Company Ltd. (“Shenzhen Huaxia”)	<u>600</u>	<u>–</u>	<u>–</u>	<u>–</u>

Mr. Zhuang Xiang Song, the Controlling Shareholder of the Company, held 61.8% equity interest in Shenzhen Huaxia and disposed his entire equity interest to a third party on 11 June 2012. In addition, Mr. Zhuang Xiang Song remained as a director of Shenzhen Huaxia until he resigned on 31 December 2013. In December 2013, Mr. Li Jian, son of a shareholder of the Company, acquired 49% equity interest of Shenzhen Huaxia.

The amount was non-trade, unsecured, non-interest bearing and fully settled during the year ended 31 March 2013.

**22. Share capital**

The share capital of the Group at 1 April 2011, 31 March 2012, 2013 and 2014 represented the issued and fully paid share capital of China Animation BVI. The share capital at 31 August 2014 of the Group represented the issued and fully paid share capital of the Company. Details of movements of share capital of the Company are as follows:

	<b>Number of shares</b>	<b>Share capital <i>HK\$'000</i></b>
Authorised:		
At 25 September 2013 (date of incorporation) and at 31 March 2014 of HK\$0.01 each	38,000,000	380
Decrease through share consolidation of 10 shares of HK\$0.01 each into 1 share of HK\$0.1	<u>(34,200,000)</u>	<u>–</u>
At 31 August 2014 of HK\$0.1 each	<u><u>3,800,000</u></u>	<u><u>380</u></u>
		<i>HK\$'000</i>
Issued and fully paid:		
At 25 September 2013 (date of incorporation) and at 31 March 2014 of HK\$0.01 each	1	–
Issue of new shares of HK\$0.01 each	9	–
Decrease through share consolidation of 10 shares of HK\$0.01 each into 1 share of HK\$0.1	(9)	–
Reorganisation	999,999	100
Issue of new shares of HK\$0.1 each	<u>72,760</u>	<u>7</u>
At 31 August 2014 of HK\$0.1 each	<u><u>1,072,760</u></u>	<u><u>107</u></u>

The Company was incorporated as an exempted company with limited liability on 25 September 2013. On the date of incorporation, the authorised share capital of the Company was HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. On 25 September 2013, 1 share of HK\$0.01 of the Company was allotted and issued to the initial subscriber of the Company, which was transferred to the Mr. Zhuang Xiang Song on the same date. On 31 July 2014, an additional 9 shares were allotted and issued at nil-paid to Mr. Zhuang Xiang Song. Following the said allotment and on the same date, every ten issued and unissued shares of HK\$0.01 each of the Company were consolidated into one share of HK\$0.1. Hence, the authorised share capital of the Company consists of 3,800,000 shares of HK\$0.1 each.

Pursuant to the Reorganisation, 999,999 shares of HK\$0.1 each of the Company were allotted and issued to, and fully paid by, the existing shareholders of the Group for an aggregate cash

consideration of HK\$1 million. Further details are set out in the paragraph 2 headed “Changes in share capital of our Company” in Appendix IV to the Prospectus.

Pursuant to the sale and purchase agreement entered between the Company, Bright Rise Enterprises Limited (“Bright Rise”), a company controlled by Mr. Zhuang Xiang Song, and Phillip Ventures Enterprise Fund 3 Ltd. (“Phillip Ventures”) on 6 August 2014, Bright Rise disposed 31,140 existing ordinary shares of HK\$0.1 each of the Company to Phillip Ventures for a cash consideration of S\$4,800,000 (equivalent to HK\$29,668,000). On 14 August 2014, 31,140 new ordinary shares of HK\$0.1 each of the Company were subscribed by Bright Rise for a cash consideration of HK\$29,668,000.

Pursuant to the subscription agreement entered between the Company and Sun Smart Ventures Limited (“Sun Smart”) on 29 August 2014, 41,620 new ordinary shares of HK\$0.1 each of the Company were subscribed by Sun Smart for a cash consideration of US\$5,000,000 (equivalent to HK\$38,750,000).

Further details on the Company’s share capital are set out in the paragraph 3 headed “Resolutions passed by our Shareholders in the general meeting held on 16 February 2015” in Appendix IV to the Prospectus.

### 23. Reserves of the Company

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

	<b>Share premium</b> <i>HK\$'000</i>	<b>Special reserve</b> <i>HK\$'000</i>	<b>Accumulated losses</b> <i>HK\$'000</i>	<b>Total equity</b> <i>HK\$'000</i>
At 25 September 2013 (date of incorporation)	–	–	–	–
Loss for the period	–	–	(5,681)	(5,681)
Deemed contribution from shareholders	–	5,554	–	5,554
At 31 March 2014	–	5,554	(5,681)	(127)
Loss for the period	–	–	(4)	(4)
Share premium	68,411	–	–	68,411
At 31 August 2014	<u>68,411</u>	<u>5,554</u>	<u>(5,685)</u>	<u>68,280</u>

### 24. Capital risk management

The Groups manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the equity balance. The Group’s overall strategy remains unchanged during the Track Record Period.

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings.

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

## 25. Financial instruments

### a. Categories of financial instruments

#### THE GROUP

	At 31 March			At
	2012	2013	2014	31 August
	HK\$'000	HK\$'000	HK\$'000	2014
				HK\$'000
<b>Financial assets</b>				
Loans and receivables (including cash and cash equivalents)	33,928	98,624	130,634	190,546
<b>Financial liabilities</b>				
Amortised cost	31,000	30,200	42,273	71,719

#### THE COMPANY

	At 31 March	At 31 August
	2014	2014
	HK\$'000	HK\$'000
<b>Financial asset</b>		
Loan and receivable	–	68,414
<b>Financial liability</b>		
Amortised cost	127	27

### b. Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, other receivables, amount due from a subsidiary, amounts due from (to) a director, bank balances and cash, trade payables, other payables and accruals and amount due to a related company. Details of these financial instruments are set out in respective notes. The risks associated with these financial instruments include market risks (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effectively manner.

The Company's major financial instrument represents amount due from a subsidiary. The risks associated with this financial instrument include credit risk and liquidity risk.

#### *Currency risk*

The carrying amounts of the foreign currency denominated monetary assets of the group entities are mainly trade receivables and bank balances and cash as disclosed in Notes 14 and 17, respectively. The directors of the Company consider that the Group's exposure on foreign currency risk is insignificant, accordingly no sensitivity analysis has been presented. The management continuously monitors the foreign exchange exposure and will consider hedging foreign currency risk should the need arise.

#### *Interest rate risk*

The Group's cash flow interest rate risk relates primarily to its floating-rate bank balances. The Group has not used any interest rate swaps in order to mitigate its exposure associated with transactions relating to cash flows interest rate risk. However, the management of the Group will consider hedging significant interest rate exposure should the need arise. In the opinion of management of the Group, the expected change in interest rate on bank balances will not be significant in the near future, hence, sensitivity analysis is not presented.

#### *Credit risk*

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

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

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

The Group has concentration of credit risk as 60%, 89%, 88% and 62% of the total trade receivables was due from the Group's five largest customers as of 31 March 2012, 2013 and 2014 and 31 August 2014, respectively.

The Company has concentration of credit risk in relation to its amount due from a subsidiary. The management of the Company considers that the credit risk on amount due from a subsidiary is limited because they regularly monitor the financial position of this subsidiary and they have a good understanding of their financial background and ability to repay the debt.

*Liquidity risk*

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

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

**THE GROUP**

	<b>On demand or within one year HK\$'000</b>	<b>Total undiscounted cash flows HK\$'000</b>	<b>Carrying amount HK\$'000</b>
<b>At 31 March 2012</b>			
Trade payables	11,255	11,255	11,255
Other payables and accruals	4,832	4,832	4,832
Amount due to a director	14,313	14,313	14,313
Amount due to a related party	600	600	600
	<u>31,000</u>	<u>31,000</u>	<u>31,000</u>
<b>At 31 March 2013</b>			
Trade payables	13,383	13,383	13,383
Other payables and accruals	5,324	5,324	5,324
Amount due to a director	11,493	11,493	11,493
	<u>30,200</u>	<u>30,200</u>	<u>30,200</u>
<b>At 31 March 2014</b>			
Trade payables	21,031	21,031	21,031
Other payables and accruals	5,971	5,971	5,971
Amount due to a director	15,271	15,271	15,271
	<u>42,273</u>	<u>42,273</u>	<u>42,273</u>
<b>At 31 August 2014</b>			
Trade payables	40,266	40,266	40,266
Other payables and accruals	4,790	4,790	4,790
Amount due to a director	26,663	26,663	26,663
	<u>71,719</u>	<u>71,719</u>	<u>71,719</u>

## THE COMPANY

	<b>On demand or within one year <i>HK\$'000</i></b>	<b>Total undiscounted cash flows <i>HK\$'000</i></b>	<b>Carrying amount <i>HK\$'000</i></b>
At 31 March 2014			
Amount due to a director	<u>127</u>	<u>127</u>	<u>127</u>
At 31 August 2014			
Amount due to a director	<u>27</u>	<u>27</u>	<u>27</u>

*Fair value*

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised costs in the Financial Information approximate their fair values.

**26. Retirement benefit plans**

The Group operates a mandatory Provident Fund Scheme (the "Scheme") for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under control of a trustee. The Group contributes the lower of 5% of relevant payroll costs or HK\$1,000 (increased to HK\$1,250 effective from 1 June 2012 and to HK\$1,500 effective from 1 June 2014) per person to the Scheme, which is matched by employees.

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

**27. Capital commitments**

The Group had the following capital commitments:

	At 31 March		At 31 August	
	2012	2013	2014	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the Financial Information	–	–	110,484	55,133
Capital expenditure in respect of the acquisition of property, plant and equipment authorised but not contracted for in the Financial Information	–	–	109,401	105,657

**28. Other commitment**

Pursuant to the license agreement entered into between China Animation BVI, a subsidiary of the Company, and Sega Corporation on 31 March 2014, the Group is granted an intellectual property right in the form of trademark and know-how for the establishment and operation of indoor animation amusement park with JOYPOLIS trademark in the PRC. In connection with the expansion plans into the indoor animation amusement park industry, the Group entered into a joint venture agreement with 深圳市平安泰盛投資有限公司 (for identification purpose, in English, Shenzhen Pingan Taisheng Company Limited, referred to as “Pingan Taisheng”, an entity controlled by Mr. Li Jian, the son of a shareholder of the Company) on 1 August 2014 pursuant to which the Group holds 51% controlling equity interest in Huajiatai PRC, the joint venture company which operates the Joypolis in Shanghai (the “Shanghai Joypolis”).

Huajiatai PRC was a sino-foreign equity joint venture established in the Shanghai Free-Trade Zone on 26 September 2014 with the business scope of providing indoor amusement facilities. The initial registered capital of Huajiatai PRC is RMB11.0 million, of which the Group is committed to contribute RMB5.61 million and Pingan Taisheng would contribute RMB5.39 million.

The total capital expenditure of Shanghai Joypolis is expected to be approximately RMB175.9 million (equivalent to HK\$219.9 million) as of 31 August 2014. As of 31 August 2014, the Group has paid deposits for acquisition of game machineries for Shanghai Joypolis amounting to JPY695,110,400 (equivalent to HK\$59,095,000) as disclosed in the consolidated statement of financial position. The respective capital commitment for Shanghai Joypolis is disclosed as above in note 27.



The Shanghai Joypolis will be located in the shopping mall which is situated on Zhongshan North Road, Putuo District, Shanghai. Pursuant to the tenancy agreement of rented premises dated 24 July 2014, Huajiatai PRC is committed for 10-year term of the tenancy with a fixed rent or 4% for the first two years, 5% for third and fourth years and 6% for the remaining years of the revenue before tax of Shanghai Joypolis, whichever is higher. The minimum lease payment of rented premises is disclosed as operating lease commitment in note 29. At the end of the fifth year from the commencement of the lease, the tenancy agreement of rented premises could be terminated by the lessor if certain condition is not satisfied in accordance with the terms of the tenancy agreement.

## 29. Operating lease commitment

### *The Group as lessee*

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

	At 31 March			At
	2012	2013	2014	31 August
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2014</i>
				<i>HK\$'000</i>
<b>Office premises</b>				
Within one year	60	–	1,949	5,219
In the second to fifth years inclusive	–	–	2,687	68,342
Over five years	–	–	–	160,290
	<u>60</u>	<u>–</u>	<u>4,636</u>	<u>233,851</u>
<b>Motor vehicle</b>				
Within one year	130	130	54	–
In the second to fifth years inclusive	184	54	–	–
	<u>314</u>	<u>184</u>	<u>54</u>	<u>–</u>

Other than the lease arrangement mentioned in note 28, operating lease payments represent rentals payable by the Group for certain of its office premises and motor vehicles. Leases are negotiated for two years for motor vehicles and for five to ten years for premises. Most of rentals are fixed over the respective leases. The majority of lease agreements are renewable at the end of the lease period at market rentals.

**30. Related party transactions****(a) Transactions with related companies**

During the years ended 31 March 2012, 2013 and 2014 and the five months ended 31 August 2013 and 2014, the Group entered into following transactions with related parties:

Name of related company	Nature of transactions	Year ended 31 March			Five months ended 31 August	
		2012 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000
					(unaudited)	
Zing ( <i>Note i</i> )	Trading of animation derivative products	15,780	–	–	–	–
	Licensing income	13,292	–	–	–	–
Synergy Creation Limited (“Synergy”) ( <i>Note ii</i> )	Trading of animation derivative products	193	–	–	–	–
Shenzhen Huaxia	Acquisition of licensing right	4,452	650	–	–	–
	Research and development costs	2,193	2,193	2,221	1,282	–
	Designing fee expense	1,800	3,325	250	–	–
	Multimedia promotion fee expense	–	3,410	–	–	–
	Commission income	–	–	–	–	202
Pingan Taisheng	Joining fee from potential business partner for indoor animation amusement park	–	–	20,000	–	–
Controlling Shareholder	Rental expense for motor vehicle	76	130	130	54	54
	Rental expense for premises	823	955	962	406	403

*Notes:*

- (i) Mr. Zhuang Xiang Song was a director of Zing and resigned in June 2011.
- (ii) Mr. Zhuang Xiang Song was a director of Synergy and resigned in August 2012.

**(b)** Details of the outstanding balances with related parties are set out in the consolidated statements of financial position and in Notes 15, 16 and 21.

*(c) Compensation of key management personnel*

The remuneration of key management personnel which represent the directors and key executives of the Company during the years ended 31 March 2012, 2013 and 2014 and the five months ended 31 August 2013 and 2014 were as follows:

	Year ended 31 March			Five months ended 31 August	
	2012	2013	2014	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Salaries and other benefits	–	1,073	1,545	663	689
Incentive performance bonus	–	–	30	–	–
Retirement benefit schemes contributions	–	23	34	12	23
	<u>–</u>	<u>1,096</u>	<u>1,609</u>	<u>675</u>	<u>712</u>

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

**B. DIRECTOR'S REMUNERATION**

Save as disclosed herein, no remuneration has been paid or payable by the Group to the director of the Company during the Track Record Period.

Under the arrangement currently in force, the aggregate amount of the director's remuneration (excluding discretionary bonus of not more than one percent of the profit for the year) for the year ending 31 March 2015 is estimated to be approximately HK\$0.93 million.

**C. SUBSEQUENT EVENTS**

In addition to that disclosed in note 28, the following events took place subsequent to 31 August 2014:

- (a) On 16 February 2015, written resolutions of the board of directors of the Company were passed to approve the matters set out in the paragraph headed "Written resolutions of all Shareholders passed on 16 February 2015" in Appendix IV to the Prospectus.
- (b) On 16 February 2015, the Company conditionally adopted a share option scheme pursuant to a resolution passed by the board of directors on 16 February 2015, where eligible employees and directors of the Group, among others, may be granted options entitling them to subscribe for the Company's shares. No share has been granted since the adoption of the scheme. The principal terms of the share option scheme are summarised in the section headed "Share Option Scheme" in Appendix IV to the Prospectus.

**D. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements of the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 31 August 2014.

Yours faithfully,  
**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set forth in this appendix does not form part of the Accountants' Report on the financial information of the Group for the three years ended 31 March 2014 and the five months ended 31 August 2014 prepared by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, as set forth in Appendix I of this prospectus (the "Accountants' Report"), and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set forth in Appendix I of this prospectus.

### A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative unaudited pro forma statement of adjusted consolidated net tangible assets of the Group which has been prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules for the purpose of illustrating the effect of the Global Offering on the audited consolidated net tangible assets of the Group attributable to owners of the Company as of 31 August 2014, as if the Global Offering had taken place on 31 August 2014.

The unaudited pro forma adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to owners of the Company had the Global Offering been completed as at 31 August 2014 or at any future dates. It is prepared based on the audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 August 2014 as set out in the Accountants' Report in Appendix I to this Prospectus, and adjusted as described below.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as of 31 August 2014	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share
	<i>HK\$'000</i> <i>(Note 1)</i>	<i>HK\$'000</i> <i>(Note 2)</i>	<i>HK\$'000</i>	<i>HK\$</i> <i>(Note 3)</i>
Based on an Offer Price of HK\$4.56 per Share	160,203	410,547	570,750	1.33
Based on an Offer Price of HK\$3.65 per Share	160,203	319,763	479,966	1.12

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*Notes:*

- (1) The amount is calculated based on audited consolidated net assets of the Group attributable to owners of the Company as of 31 August 2014 amounting to approximately HK\$166,896,000, extracted from the Accountants' Report of the Group set out in Appendix I of this prospectus, and adjusted for intangible assets of approximately HK\$6,693,000.
- (2) The estimated net proceeds from the Global Offering are based on 107,280,000 Shares at the Offer Price of HK\$4.56 and HK\$3.65 per Share, being the high-end and low-end of the indicative range of the Offer Price, respectively, after deduction of the estimated underwriting fees and other related expenses expected to be incurred by the Group subsequent to 31 August 2014 and does not take into account of any Shares which may be issued upon the exercise of the Over-allotment Option.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated based on 429,108,000 Shares, being the number of Shares expected to be in issue immediately following the completion of shares of the Global Offering without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option.
- (4) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 August 2014 to reflect any trading results or other transactions of the Group entered into subsequent to 31 August 2014.

**B. ASSURANCE REPORT FROM THE REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of the assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this prospectus.*

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION****TO THE DIRECTORS OF CHINA ANIMATION CHARACTERS COMPANY LIMITED**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China Animation Characters Company Limited (the "Company", formerly known as China Animation Group (Holding) Limited) and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets as at 31 August 2014 and related notes as set out on pages II-1 to II-2 of Appendix II to the prospectus issued by the Company dated 28 February 2015 (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-1 to II-2 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the Global Offering (as defined in the Prospectus) on the Group's financial position as at 31 August 2014 as if the Global Offering had taken place at 31 August 2014. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial information for the three years ended 31 March 2014 and the five months ended 31 August 2014, on which an accountants' report set out in Appendix I to the Prospectus has been published.

**Directors' Responsibilities for the Unaudited Pro Forma Financial Information**

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

**Reporting Accountants' Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in the Prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 August 2014 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related unaudited pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



**Opinion**

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

28 February 2015

*We set forth below a summary of certain provisions of the Memorandum of Association (the “Memorandum”) of the Company and the Articles of Association and of certain aspects of Companies Law.*

*Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 25 September 2013 under the Companies Law. The Memorandum and the Articles of Association comprise its constitution.*

## **1. MEMORANDUM OF ASSOCIATION**

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

## **2. ARTICLES OF ASSOCIATION**

The Articles of Association were conditionally adopted on 16 February 2015. The following is a summary of certain provisions of the Articles of Association:

### **(a) Directors**

#### *(i) Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles of Association) and the Memorandum and Articles of Association, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles of Association and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles of Association) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

*(ii) Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles of Association relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles of Association or the Companies Law to be exercised or done by the Company in general meeting.

*(iii) Compensation or payments for loss of office*

Pursuant to the Articles of Association, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

*(iv) Loans and provision of security for loans to Directors*

There are provisions in the Articles of Association prohibiting the making of loans to Directors.

*(v) Disclosure of interests in contracts with the Company or any of its subsidiaries.*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles of Association, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles of Association. A Director may be or become a director or

other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles of Association, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles of Association, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates (as defined in the Articles of Association) is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or

his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or

(ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

*(vi) Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or

funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

*(vii) Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the members may by ordinary resolution appoint another in his place at the meeting at which such Director is removed. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles of Association.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

*(viii) Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

*Note:* These provisions, in common with the Articles of Association in general, can be varied with the sanction of a special resolution of the Company.

*(ix) Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined

by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) *Register of Directors and Officers*

The Companies Law and the Articles of Association provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

**(b) Alterations to constitutional documents**

The Articles of Association may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles of Association state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles of Association or to change the name of the Company.

**(c) Alteration of capital**

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.



The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

**(d) Variation of rights of existing shares or classes of shares**

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles of Association relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

**(e) Special resolution-majority required**

Pursuant to the Articles of Association, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles of Association), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association.

**(f) Voting rights**

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles of Association, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles of Association), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

**(g) Requirements for annual general meetings**

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles of Association (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles of Association, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles of Association)) at such time and place as may be determined by the board.

**(h) Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company shall make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles of Association; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles of Association), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles of Association. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

**(i) Notices of meetings and business to be conducted thereat**

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than to such members as, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

**(j) Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles of Association) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles of Association) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to

show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspapers or by any other means in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles of Association), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

**(k) Power for the Company to purchase its own shares**

The Company is empowered by the Companies Law and the Articles of Association to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles of Association).

**(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company**

There are no provisions in the Articles of Association relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles of Association) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

**(m) Dividends and other methods of distribution**

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles of Association provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct

from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

**(n) Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote

on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

**(o) Call on shares and forfeiture of shares**

Subject to the Articles of Association and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.



**(p) Inspection of register of members**

Pursuant to the Articles of Association the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles of Association), unless the register is closed in accordance with the Articles of Association.

**(q) Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles of Association the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

**(r) Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Articles of Association relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

**(s) Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the

commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

**(t) Untraceable members**

Pursuant to the Articles of Association, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles of Association) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles of Association), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles of Association) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

**(u) Subscription rights reserve**

The Articles of Association provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

### 3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

#### (a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

#### (b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles of Association includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

**(c) Financial assistance to purchase shares of a company or its holding company**

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

**(d) Purchase of shares and warrants by a company and its subsidiaries**

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share

shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**(e) Dividends and distributions**

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

**(f) Protection of minorities**

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in

the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

**(g) Management**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**(h) Accounting and auditing requirements**

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

**(i) Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**(j) Taxation**

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 15 October, 2013.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

**(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

**(m) Inspection of corporate records**

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles of Association.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

**(n) Winding up**

A company may be wound up compulsorily by order of the Court voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for

the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a member's voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.



**(o) Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

**(p) Compulsory acquisition**

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

**(q) Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

**4. GENERAL**

Conyers Dill & Pearman (Cayman) Limited, our special legal counsel on Cayman Islands law, have sent to us a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraphs under "Documents available for public inspection in Hong Kong" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

**FURTHER INFORMATION ABOUT OUR COMPANY****1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 25 September 2013. We have established a place of business at Suite 2102, Concordia Plaza, 1 Science Museum Road, Tsim Sha Tsui East, Kowloon, Hong Kong. We have registered in Hong Kong as a non-Hong Kong company under Division 2 in Part 16 of the Companies Ordinance on 21 July 2014 with our previous name of China Animation Group (Holding) Limited (華夏動漫集團(控股)有限公司).

Pursuant to the written resolutions of our Shareholders passed on 16 February 2015, our Company name has been changed from “China Animation Group (Holding) Limited” to “China Animation Characters Company Limited” and its dual foreign name has been changed from “華夏動漫集團(控股)有限公司” to “華夏動漫形象有限公司”. On 26 February 2015, a certificate of registration of alteration of name of registered non-Hong Kong company has been issued to our Company with our current name of China Animation Characters Company Limited (華夏動漫形象有限公司).

Mr. ZHUANG Xiangsong of House 168, 23 Sam Mun Tsai Road, The Beverly Hills, Boulevard Du Lac, Tai Po, New Territories, Hong Kong has been appointed as the authorised representative of our Company for the acceptance of service of process and notices on behalf of our Company at the above address.

As our Company was incorporated in the Cayman Islands, we operate subject to the relevant law of the Cayman Islands and its constitution which comprises a memorandum and the Articles. A summary of certain relevant provisions of its constitution and certain relevant aspects of the Companies Law is set forth in Appendix III to this prospectus.

**2. Changes in the share capital of our Company**

As of the date of incorporation, the authorised share capital of our Company was HK\$380,000 divided into 38,000,000 shares of HK\$0.01 par value each. The following sets forth the changes in the share capital of our Company since the date of its incorporation:

- (1) On 25 September 2013, one (1) nil-paid share of HK\$0.01 par value was allotted and issued to the initial subscriber of our Company, which was transferred to Mr. ZHUANG on the same date.
- (2) On 31 July 2014, our Company allotted and issued nine (9) nil-paid shares of HK\$0.01 par value each to Mr. ZHUANG.
- (3) On 31 July 2014, every 10 issued and unissued shares of HK\$0.01 par value each of our Company were consolidated into one Share of HK\$0.1 par value each.
- (4) On 31 July 2014, following the share consolidation mentioned above, Mr. ZHUANG transferred the one (1) nil-paid Share (being the entire issued share capital of our Company) to Bright Rise at par value.

- (5) On 6 August 2014, a total of 999,999 Shares were allotted and issued, credited as fully paid, to Bright Rise, Bonville, BWEBS, Fortress Strength, Dragon Year, East Jumbo, Quarterpound, Singapore Zhongxin, Kitlin, Jiashun and Harvest Progress pursuant to the Share Exchange Agreement and the one (1) nil-paid Share which was registered in the name of Bright Rise was also credited as fully paid at par. The number of Shares in issue was increased to 1,000,000 Shares.
- (6) On 7 August 2014, pursuant to the Phillip Sale and Purchase Agreement, Bright Rise transferred 31,140 Shares to Phillip Ventures for S\$4.8 million. On 14 August 2014, Bright Rise subscribed for 31,140 Shares for S\$4.8 million. Our Company had 1,031,140 Shares in issue immediately after completion of the allotment and issue.
- (7) On 29 August 2014, pursuant to the Subscription Agreement, our Company allotted and issued 41,620 Shares to Sun Smart for US\$5.0 million. Our Company had 1,072,760 Shares in issue immediately after completion of the allotment and issue.

Immediately following completion of the Global Offering and the Capitalisation Issue without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any option that may be granted under the Share Option Scheme, the authorised share capital of our Company will be HK\$100,000,000 divided into 1,000,000,000 Shares, of which 429,108,000 Shares will be issued fully paid or credited as fully paid and 570,892,000 Shares will remain unissued. Other than pursuant to the General Mandate referred to in the paragraphs under “3. Resolutions passed by our Shareholders in the general meeting held on 16 February 2015” below, our Directors do not have any present intention to issue any of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of new Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this prospectus, there has been no alteration in the share capital of our Company since its incorporation.

### **3. Resolutions passed by our Shareholders in the general meeting held on 16 February 2015**

Pursuant to the minutes of the meeting of our Shareholders held on 16 February 2015, the following resolution were passed:

- (a) the amended and restated memorandum of association and the Articles of Association has been approved and adopted by our Company;
- (b) the authorised share capital of our Company has been increased from HK\$380,000 divided into 3,800,000 Shares of HK\$0.10 par value each to HK\$100,000,000 divided into 1,000,000,000 Shares of HK\$0.10 par value each by the creation of 996,200,000 new Shares ranking *pari passu* in all respects with the then existing issued Shares;
- (c) conditional upon (i) the Listing Committee granting the listing of, and permission to deal in, on the Main Board of the Stock Exchange, our Shares in issue and to be issued as mentioned in this prospectus (including any additional Shares which may be issued pursuant to exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme);

(ii) the Offer Price being determined by our Company and the Sole Global Coordinator (on behalf of the Underwriters) by entering into the price determination agreement on or before the Price Determination Date; and (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Sole Global Coordinator (on behalf of the Underwriters)) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise:–

- (1) the Global Offering and the Over-allotment Option are approved and our Directors are authorised to approve to allot and issue the Offer Shares and our Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option on and subject to the terms and conditions stated in this prospectus and in the relevant application forms;
- (2) the rules of the Share Option Scheme, the principal terms of which are set forth in the paragraphs under “Share Option Scheme” below are approved and adopted and our Directors or any committee thereof established by our Board were authorised, at their sole discretion, to (i) administer the Share Option Scheme; (ii) modify/amend the rules of the Share Option Scheme from time to time as such modification/amendments may be acceptable or not objected by, nor required to be approved by our Shareholders under applicable laws, rules and regulations, including the rules of the Stock Exchange; (iii) grant options to subscribe for our Shares under the Share Option Scheme up to the limits referred to in the Share Option Scheme; (iv) allot, issue and deal with our Shares pursuant to the exercise of any option which may be granted under the Share Option Scheme; (v) make application at the appropriate time or times to the Stock Exchange for the listing of, and permission to deal in, any Shares or any part thereof that may hereafter from time to time be issued and allotted pursuant to the exercise of the options granted under the Share Option Scheme; and (vi) take all such actions as they consider necessary, desirable or expedient to implement or give effect to the Share Option Scheme;
- (3) conditional on the share premium account of our Company being credited as a result of the Global Offering, the sum of HK\$32,075,524 be capitalised and be applied in paying up in full at par 320,755,240 Shares for allotment and issue to our Shareholders whose names were on the register of members of our Company as of the close of business on 16 February 2015 (or as the respective member(s) may direct) in the share register maintained by the Company in the Cayman Islands or in Hong Kong and our Shares to be allotted and issued pursuant to this resolution shall be credited as fully paid at par and shall rank *pari passu* in all respects (save and except for the Capitalisation Issue) with the existing issued Shares;
- (4) a general unconditional mandate is given to our Directors to allot, issue and deal with Shares (including the power to make or grant an offer, warrant or convertible or agreement, and to make and grant offers, warrants, convertibles agreements and options which would or might require our Shares to be allotted and issued), otherwise than by way of rights issue, or pursuant to any scrip dividend schemes or similar arrangements providing for the allotment and issue of our Shares in lieu of the whole or part of a dividend on our Shares in accordance with the Articles of Association or pursuant to the issue of our Shares upon the exercise of any subscription or conversion rights attached to any warrants or convertibles of our Company (if any) or pursuant to the exercise of options which may be granted under the Share Option Scheme or any other option scheme(s) or similar arrangement for the time being adopted for the grant or issue to directors and/or

officers and/or employees of our Company and/or any of the subsidiaries or rights to acquire our Shares or pursuant to a specific authority granted by the Shareholders in general meeting, our Shares with an aggregate nominal amount not exceeding 20% of the aggregate nominal amount of the share capital of our Company in issue and to be issued immediately following completion of the Global Offering and Capitalisation Issue but before any exercise of the Over-allotment Option until the conclusion of the next annual general meeting of our Company, unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions or the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable law of the Cayman Islands to be held or the passing of an ordinary resolution by our Shareholders in general meeting of our Company varying or revoking the authority given to our Directors, whichever occurs first;

For the purpose of above paragraph, “rights issue” means an offer of shares in the capital of our Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares in the capital of our Company open for a period fixed by our Directors to holders of shares in our Company on our Company’s register of members on a fixed record date in proportion to their then holdings of shares in our Company (subject to such exclusion or other arrangements as our Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to our Company, or any recognised regulatory body or any stock exchange applicable to our Company).

- (5) a general unconditional mandate is given to our Directors to exercise all powers of our Company to repurchase our Shares on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, such number of Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue but before any exercise of the Over-allotment Option until the conclusion of the next annual general meeting of our Company, unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions or the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable law of the Cayman Islands to be held or the passing of an ordinary resolution by our Shareholders in general meeting of our Company varying or revoking the authority given to our Directors, whichever occurs first; and
- (6) the extension of the general mandate to allot, issue and deal with our Shares as mentioned in paragraph (c) above by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to paragraph (d) above, provided that such extended amount shall not exceed 10% of the aggregate of the total nominal value of the share capital of our Company in issue immediately following Global Offering and the Capitalisation Issue but before any

exercise of the Over-allotment Option until the conclusion of the next annual general meeting of our Company, unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions or the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable law of the Cayman Islands to be held or the passing of an ordinary resolution by our Shareholders in general meeting of our Company varying or revoking the authority given to our Directors, whichever occurs first, be and is hereby approved.

Each of the general mandates referred to in paragraphs (4), (5) and (6) above will remain in effect until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of our Company, unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions;
- (ii) the expiration of the period within which our Company is required by the Companies Law or any applicable Cayman Islands law or the Articles to hold our next annual general meeting; or
- (iii) the time when such mandate is varied or revoked by an ordinary resolution of our Shareholders in a general meeting.

#### 4. Reorganisation

The companies comprising our Group underwent the Reorganisation in preparation for the Listing. Detailed information on the Reorganisation is set forth in the section headed “History, development and Reorganisation” in this prospectus.

#### 5. Changes in the share capital of the subsidiaries of our Company

A list of our Company’s subsidiaries is set forth in the Accountant’s Report, the text of which is set forth in Appendix I to this prospectus. Save for the subsidiaries mentioned in Appendix I to this prospectus, our Company has no other subsidiaries. The following sets forth the changes to the share capital of our subsidiaries during the Track Record Period and up to the date of this prospectus:

<u>Name of subsidiary</u>	<u>Date of change</u>	<u>Paid-up capital before change</u>	<u>Paid-up capital after change</u>
China Animation BVI	28 August 2013	No par value	HK\$1.0
China Animation BVI	30 August 2013	HK\$1.0	HK\$1,000,000.0

During the Track Record Period, China Animation Holding, China Animation IP, Animate BVI, Animate HK, Network BVI and Huajiatai PRC have been incorporated or established with the initial paid-up or registered capital set forth in the section headed “History, development and Reorganisation” in this prospectus.

Save as set forth above, there has been no change in the share capital of any of the subsidiaries of our Company during the Track Record Period and up to the date of this prospectus.

## 6. Repurchase by our Company of our own securities

This section includes information relating to the repurchases of securities, including information required by the Stock Exchange to be included in this prospectus concerning such repurchase.

### (a) *Provisions of the Listing Rules*

The Listing Rules permit companies whose primary listing is on the Main Board of the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important restrictions are summarised below:

#### (i) *Shareholders' approval*

All proposed repurchases of Shares must be approved in advance by an ordinary resolution in a general meeting, either by way of general mandate or by specific approval in relation to a particular transaction.

Pursuant to the resolutions passed by our Shareholders in the general meeting held on 16 February 2015, a general unconditional mandate was given to our Directors to exercise all powers of our Company to repurchase Shares (Shares which may be listed on the Stock Exchange) with a total nominal value of not more than 10% of the aggregate nominal value of our Shares in issue or to be issued immediately following completion of the Global Offering (excluding Shares which may be issued pursuant to the exercise of the Over-allotment Option), such mandate to expire at the earliest of: (i) the conclusion of our next annual general meeting, unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; (ii) the expiration of the period within which our Company is required by any applicable law or the Articles to hold our next annual general meeting; or (iii) the time when such mandate is varied or revoked by an ordinary resolution of our Shareholders in a general meeting which ever shall first occur. Further information on which has been described above in the paragraphs under “3. Resolutions passed by our Shareholders in the general meeting held on 16 February 2015”.

#### (ii) *Source of funds*

Any repurchases of Shares by our Company must be paid out of funds legally available for the purpose in accordance with our Company's memorandum and the Articles, the Listing Rules and the Companies Law. We may not repurchase our own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Any repurchase of Shares by our Company may be made out of funds legally permitted to be utilised in this connection, including profits or share premium account of our Company or out of proceeds of a fresh issue of Shares made for that purpose or, if so authorised by the Articles and subject to the provisions of the Companies Law, out of capital. Any premium payable on a repurchase over the par value of our Shares to be purchased must be paid out of profits of our Company or out of our Company's share premium account, or if so authorised by the Articles and subject to the provisions of the Companies Law, out of capital.

*(iii) Shares to be repurchased*

The Listing Rules provide that our Shares which are proposed to be repurchased by our Company must be fully-paid up.

*(b) Reasons for repurchases*

Our Directors believe that it is in the best interest of our Company and our Shareholders for our Directors to have general authority from our Shareholders to enable them to repurchase our Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and Shareholders.

*(c) Funding of repurchases*

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws and regulations of the Cayman Islands.

On the basis of our Company's current financial position as disclosed in this prospectus and taking into account our current working capital position, our Directors consider that, if the repurchase mandate is exercised in full, it might have a material adverse effect on our Company's working capital and/or gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the repurchase mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

*(d) General*

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the Listing Rules and the applicable laws and regulations of the Cayman Islands.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**"). Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of our Shareholders' interest, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers code as a consequence of any repurchases pursuant to the repurchase mandate.



Our Company has not made any repurchase of our own securities in the previous six months from the date of this Prospectus.

No connected person has notified our Company that he or she or it has a present intention to sell Shares to our Company, or has undertaken not to do so, if the repurchase mandate is exercised.

## FURTHER INFORMATION ABOUT OUR BUSINESS

### 1. Summary of the material contracts



The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or our subsidiaries within the two years preceding the date of this prospectus and are or may be material:

- (1) the Deed of Termination;
- (2) the Share Exchange Agreement;
- (3) the Reorganisation Agreement;
- (4) the Subscription Agreement;
- (5) the Deed of Non-Competition;
- (6) the Deed of Indemnity; and
- (7) the Hong Kong Underwriting Agreement.



### 2. Intellectual property rights of our Group

#### (a) Trademarks










Our Directors confirm that, as of the Latest Practicable Date, we have registered the following trademarks which, in the opinion of our Directors, are material to our business:











Trademark	Registrant	Place of registration	Class	Registration number	Expiry date
	China Animation BVI	Hong Kong	9, 16, 28 and 41	302096091	23 November 2021
	China Animation BVI	Hong Kong	9, 16 and 28	301939663	7 June 2021

<b>Trademark</b>	<b>Registrant</b>	<b>Place of registration</b>	<b>Class</b>	<b>Registration number</b>	<b>Expiry date</b>
	China Animation BVI	PRC	29	4118705	6 September 2016
	China Animation BVI	PRC	30	4118706	6 September 2016
	China Animation BVI	PRC	32	4118707	6 September 2016
	China Animation BVI	PRC	28	4118708	13 February 2018
	China Animation BVI	PRC	25	4118709	20 October 2018
	China Animation BVI	PRC	24	4118710	13 February 2018
	China Animation BVI	PRC	22	4118711	27 January 2018
	China Animation BVI	PRC	21	4118712	27 March 2017
	China Animation BVI	PRC	3	4118713	27 March 2017

<b>Trademark</b>	<b>Registrant</b>	<b>Place of registration</b>	<b>Class</b>	<b>Registration number</b>	<b>Expiry date</b>
	China Animation BVI	PRC	5	4118714	20 September 2017
	China Animation BVI	PRC	16	4118715	20 September 2017
	China Animation BVI	PRC	18	4118716	13 February 2018
	China Animation BVI	PRC	38	5624087	20 December 2019
	China Animation BVI	PRC	9	5624088	13 October 2020
	China Animation BVI	PRC	14	5624089	13 September 2019
	China Animation BVI	PRC	6	5624090	6 July 2019
	China Animation BVI	PRC	12	5624094	6 July 2019
	China Animation BVI	PRC	41	5624095	20 October 2019

Our Directors confirm that, as of the Latest Practicable Date, we have applied for registration of the following trademarks:

<b>Trademark</b>	<b>Applicant</b>	<b>Place of application</b>	<b>Class</b>	<b>Application number</b>	<b>Application date</b>
	China Animation BVI	PRC	28	14774478	28 May 2014
	China Animation BVI	PRC	35	14774510	28 May 2014
	China Animation IP	Macau	9	N/090769	17 September 2014
	China Animation IP	Macau	16	N/090770	17 September 2014
	China Animation IP	Macau	28	N/090771	17 September 2014
	China Animation IP	Macau	41	N/090772	17 September 2014
	China Animation IP	Japan	9, 16, 28 and 41	2014– 081215	26 September 2014
	China Animation IP	Taiwan	9, 16, 28 and 41	103056071	26 September 2014
	China Animation IP	Singapore	9, 16, 28 and 41	T1414992H	1 October 2014
憨八龟	China Animation IP	Hong Kong	9, 16, 28 and 41	303134231	15 September 2014
憨八龟	China Animation IP	Macau	9	N/090773	17 September 2014
憨八龟	China Animation IP	Macau	16	N/090774	17 September 2014

<b>Trademark</b>	<b>Applicant</b>	<b>Place of application</b>	<b>Class</b>	<b>Application number</b>	<b>Application date</b>
憨八龟	China Animation IP	Macau	28	N/090775	17 September 2014
憨八龟	China Animation IP	Macau	41	N/090776	17 September 2014
憨八龟	China Animation IP	Japan	9, 16, 28 and 41	2014-081216	26 September 2014
憨八龟	China Animation IP	Taiwan	9, 16, 28 and 41	103056073	26 September 2014
憨八龟	China Animation IP	Singapore	9, 16, 28 and 41	T1414987A	18 September 2014
	China Animation IP	Hong Kong	9, 16, 28 and 41	303141152	19 September 2014
	China Animation IP	Macau	9	N/090777	17 September 2014
	China Animation IP	Macau	16	N/090778	17 September 2014
	China Animation IP	Macau	28	N/090779	17 September 2014
	China Animation IP	Macau	41	N/090780	17 September 2014
	China Animation IP	Japan	9, 16, 28 and 41	2014-081214	26 September 2014
	China Animation IP	Taiwan	9, 16, 28 and 41	103056063	26 September 2014
	China Animation IP	Singapore	9, 16, 28 and 41	T1414988Z	18 September 2014
	China Animation IP	Hong Kong	9, 16, 28 and 41	303139605	18 September 2014
	China Animation IP	Macau	9	N/090867	18 September 2014

Trademark	Applicant	Place of application	Class	Application number	Application date
	China Animation IP	Macau	16	N/090868	18 September 2014
	China Animation IP	Macau	28	N/090869	18 September 2014
	China Animation IP	Macau	41	N/090870	18 September 2014
	China Animation IP	PRC	9	15707519	14 November 2014
			16	15707686	14 November 2014
			28	15707779	14 November 2014
			41	15718871	17 November 2014
	China Animation IP	Hong Kong	9, 16, 28 and 41	303156912	6 October 2014
	China Animation IP	Hong Kong	9, 16, 28 and 41	303233402	12 December 2014
	China Animation IP	Hong Kong	9, 16, 28 and 41	303212289	25 November 2014
	China Animation IP	Hong Kong	9, 16, 28 and 41	303212306	25 November 2014
	China Animation IP	Hong Kong	9, 16, 28 and 41	303212315	25 November 2014
	China Animation IP	Hong Kong	9, 16, 28 and 41	303212324	25 November 2014
	China Animation IP	Hong Kong	9, 16, 28 and 41	303212333	25 November 2014
	China Animation BVI	PRC	41	13739930	16 December 2013
	China Animation IP	Hong Kong	9, 16, 28 and 41	303291598	3 February 2015

*(b) Copyrights*

Our Directors confirm that, as of the Latest Practicable Date, we have registered the following copyrights which, in the opinion of our Directors, are material to our business:

<b>Copyright</b>	<b>Registrant</b>	<b>Type</b>	<b>Place of registration</b>	<b>Registration number</b>	<b>Date of registration</b>
《〈憨八龜的故事〉生活幽默劇》 (共10集)	China Animation BVI	攝製電影	PRC	00054385	10 February 2012
《憨八龜》、《〈憨八龜的故事〉 道具系列作品01》、 《〈憨八龜的故事〉道具系列作 品02》、《〈憨八龜的故事〉系 列卡通作品01》、《憨八龜的 故事系列卡通作品》 (共40幅)	China Animation BVI	美術作品	PRC	00054386	9 April 2012
《陳杰》卡通形象、《瓊墨》卡通 形象、《吉爾》卡通形象、 《愛多拉》卡通形象、《邁克》 卡通形象	China Animation BVI	美術作品	PRC	00058586	20 April 2012
《神奇的優悠》	China Animation BVI	文字作品	PRC	00058587	20 April 2012
《〈動物環境會議〉》系列 卡通作品(共15幅)	China Animation BVI	美術作品	PRC	00058585	20 April 2012
《動物環境會議》	China Animation BVI	攝製電影	PRC	00058584	20 April 2012
《〈神奇的優悠〉動畫片》	China Animation BVI	攝製電影	PRC	00064838	15 June 2012
《TCCLP動漫商業模式》	China Animation BVI	文字作品	PRC	00067510	30 July 2012
《〈神奇願望島〉卡通形象 (共15幅)》	China Animation BVI	美術作品	PRC	00059840	23 May 2012
《音樂少女A(共3幅)》	China Animation BVI	美術作品	PRC	00094151	9 June 2013
《音樂少女B(共3幅)》	China Animation BVI	美術作品	PRC	00094152	9 June 2013
《音樂少女C(共3幅)》	China Animation BVI	美術作品	PRC	00094153	9 June 2013
《蒼姬Aoki Lapis》	China Animation BVI	美術作品	PRC	00101909	16 September 2013

Our Directors confirm that, as of the Latest Practicable Date, all copyrights material to our business and registrable under the law of the relevant jurisdictions have been duly registered. In Hong Kong and Japan, we do not need to register our literary works and artistic works in order to obtain the copyright protection.

*(c) Domain names*

As of the Latest Practicable Date, we have registered the following domain names which, in the opinion of our Directors, are material to our business:

<u>Registrant</u>	<u>Domain name</u>	<u>Date of registration</u>	<u>Expiry date</u>
China Animation IP	animatechina.com	22/11/2014	28/5/2015
Shenzhen Wald	animatechina.hk	24/10/2014	24/10/2019
Shenzhen Wald	華夏動漫.香港	24/10/2014	24/10/2019
Shenzhen Wald	animatechina.cn	24/10/2014	24/10/2019
Shenzhen Wald	华夏动漫.中国	24/10/2014	24/10/2019

Our Directors confirm that, as of the Latest Practicable Date, all our domain names have been duly registered.

*(d) Patents*

Our Directors confirm that, as of the Latest Practicable Date, we do not have any registered patents for our business. Our Directors confirm that, as of the Latest Practicable Date, we have applied for registration of the following patents for our business:

<u>Patent</u>	<u>Type</u>	<u>Application number</u>	<u>Place of application</u>	<u>Application date</u>
利用增強現實與卡片識別 技術在移動智能終端實 現虛擬動漫角色的系統 及方法	Invention	201310202887.8	PRC	27 May 2013



**3. Further information about our subsidiaries***China Animation Holding*

<b>Name:</b>	China Animation Holding (BVI) Limited 華夏動漫集團(英屬處女島)有限公司
<b>Registration number:</b>	1829309
<b>Registered office:</b>	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands
<b>Date of incorporation:</b>	24 June 2014
<b>Place of incorporation:</b>	British Virgin Islands
<b>Issued and fully paid-up share capital:</b>	US\$1.00 of one (1) share with par value of US\$1.00 each
<b>Director:</b>	Mr. ZHUANG
<b>Scope of business:</b>	Not applicable
<b>Shareholder:</b>	Our Company

*China Animation BVI*

<b>Name:</b>	China Animation Group Limited 華夏動漫集團有限公司
<b>Registration number:</b>	1434134
<b>Registered office:</b>	Palm Grove House, P.O. Box 438, Road Town, Tortola, British Virgin Islands
<b>Date of incorporation:</b>	27 September 2007
<b>Place of incorporation:</b>	British Virgin Islands
<b>Issued and fully paid-up capital:</b>	HK\$1,000,000 divided into 1,000,000 issued and paid up ordinary shares with par value of HK\$1.00 each
<b>Director:</b>	Mr. ZHUANG
<b>Scope of business:</b>	Not applicable
<b>Shareholder:</b>	China Animation Holding

*China Animation HK*

<b>Name:</b>	China Animation Group (HK) Limited 華夏動漫集團(香港)有限公司
<b>Registration number:</b>	1528450
<b>Registered office:</b>	Unit 2102, 21/F, Greenfield Tower, Concordia Plaza, No. 1 Science Museum Road, Kowloon, Hong Kong
<b>Date of incorporation:</b>	15 November 2010

**Place of incorporation:** Hong Kong  
**Issued and fully paid-up capital:** HK\$1.00  
**Director:** Mr. ZHUANG and Mr. TING  
**Scope of business:** Not applicable  
**Shareholder:** China Animation BVI

*Shenzhen Wald*

**Name:** 深圳華爾德動漫科技有限公司  
**Registration number:** 440307503400366  
**Registered address:** 5th Floor, Building No. 10 Wulian Community Ai Lian Industry Park, Longcheng Street, Longgong District, Shenzhen, the PRC  
**Date of establishment:** 19 May 2011  
**Place of establishment:** PRC  
**Status:** Wholly foreign-owned enterprise  
**Registered capital:** RMB500,000  
**Total investment:** RMB500,000  
**Legal representative:** Mr. ZHUANG  
**Duration:** 20 years (ending on 19 May 2031)  
**Scope of business:** Development of computer animation software technology and animation and animation derivative products  
**Equity holder:** China Animation HK

*China Theme Park BVI*

**Name:** China Theme Park Limited  
中国主题乐园有限公司  
**Registration number:** 1734793  
**Registered office:** P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands  
**Date of incorporation:** 21 September 2012  
**Place of incorporation:** British Virgin Islands  
**Issued and fully paid-up capital:** US\$1.00 of one (1) share with par value of US\$1.00 each  
**Director:** Mr. ZHUANG  
**Scope of business:** Not applicable  
**Shareholder:** China Animation Holding

*China Theme Park HK*

<b>Name:</b>	China Theme Park Incorporation Limited 華夏樂園有限公司
<b>Registration number:</b>	1812572
<b>Registered office:</b>	Unit 2102, 21/F. Greenfield Tower, Concordia Plaza, No. 1 Science Museum Road, Kowloon, Hong Kong
<b>Date of incorporation:</b>	16 October 2012
<b>Place of incorporation:</b>	Hong Kong
<b>Issued and fully paid-up capital:</b>	HK\$1.00
<b>Director:</b>	Mr. ZHUANG
<b>Scope of business:</b>	Not applicable
<b>Shareholder:</b>	China Theme Park BVI

*Huajiatai PRC*

<b>Name:</b>	華嘉泰(上海)兒童室內遊樂有限公司
<b>Registration number:</b>	310000400747202
<b>Registered address:</b>	Shop L3008, 3rd Floor, Shanghai Global Harbour, 3200 Zhongshan North Road, Putuo District, Shanghai, the PRC
<b>Date of establishment:</b>	26 September 2014
<b>Place of establishment:</b>	PRC
<b>Status:</b>	Sino-foreign joint venture
<b>Registered capital:</b>	RMB11.0 million (of which RMB1.0 million has been paid)
<b>Total investment:</b>	RMB15.71 million
<b>Legal representative:</b>	Mr. ZHUANG
<b>Duration:</b>	30 years (ending on 25 September 2044)
<b>Scope of business:</b>	Indoor amusement facilities for children (other than amusement rides)
<b>Equity holders:</b>	China Theme Park HK (49.0%) Pingan Taisheng (49.0%) Shenzhen Wald (2.0%)

*Network China BVI*

<b>Name:</b>	Network China Technology Limited 華夏網路科技有限公司
<b>Registration number:</b>	1828989
<b>Registered office:</b>	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands

**Date of incorporation:** 20 June 2014  
**Place of incorporation:** British Virgin Islands  
**Issued and fully paid-up capital:** US\$1.00 of one (1) share with par value of US\$1.00  
**Director:** Mr. ZHUANG  
**Scope of business:** Not applicable  
**Shareholder:** China Animation Holding

*Network China HK*

**Name:** Network China Technology Limited  
華夏網絡科技有限公司  
**Registration number:** 1528436  
**Registered office:** Unit 2102, 21/F, Greenfield Tower, Concordia Plaza, No. 1 Science Museum Road, Kowloon, Hong Kong  
**Date of incorporation:** 15 November 2010  
**Place of incorporation:** Hong Kong  
**Issued and fully paid-up capital:** HK\$1.00  
**Director:** Mr. ZHUANG and Mr. TING  
**Scope of business:** Not applicable  
**Shareholder:** Network China BVI

*Animate BVI*

**Name:** Animate China Technology Limited  
華夏動漫科技有限公司  
**Registration number:** 1828948  
**Registered office:** P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands  
**Date of incorporation:** 20 June 2014  
**Place of incorporation:** British Virgin Islands  
**Issued and fully paid-up capital:** US\$1.00 of one (1) share with par value of US\$1.00 each  
**Director:** Mr. ZHUANG  
**Scope of business:** Not applicable  
**Shareholder:** China Animation Holding

*Animate HK*

<b>Name:</b>	Animate China Technology (HK) Limited 華夏動漫科技(香港)有限公司
<b>Registration number:</b>	2127997
<b>Registered office:</b>	Suite 2102, 21/F, Concordia Plaza, 1 Science Museum Road, Tsim Sha Tsui East, Kowloon, Hong Kong
<b>Date of incorporation:</b>	1 August 2014
<b>Place of incorporation:</b>	Hong Kong
<b>Issued and fully paid-up capital:</b>	HK\$1.00
<b>Director:</b>	Mr. ZHUANG and Mr. TING
<b>Scope of business:</b>	Not applicable
<b>Shareholder:</b>	Animate BVI

*China Animation IP*

<b>Name:</b>	China Animation IP Limited 中國動漫知識產權有限公司
<b>Registration number:</b>	1828949
<b>Registered office:</b>	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands
<b>Date of incorporation:</b>	20 June 2014
<b>Place of incorporation:</b>	British Virgin Islands
<b>Issued and fully paid-up capital:</b>	US\$1.00 of one (1) share with par value of US\$1.00 each
<b>Director:</b>	Mr. ZHUANG
<b>Scope of business:</b>	Not applicable
<b>Shareholder:</b>	China Animation Holding

**4. Further information about our Directors***(a) Directors' service contracts and letters of appointment*

Each of our executive Directors, namely Mr. ZHUANG, Mr. TING and Ms. LIU, has entered into a service contract with our Company for three years commencing from the Listing Date, which will continue thereafter until terminated by not less than six months notice in writing served by either party on the other, which notice shall not expire until after the respective initial fixed term.

Each of our independent non-executive Directors, namely Mr. NI Zhenliang, Mr. TSANG Wah Kwong and Mr. HUNG Muk Ming, has entered into an appointment letter with our Company for three years commenced from 20 November 2014.

The appointments are subject to the provisions of the Articles with regard to vacation of office of Directors, removal and retirement by rotation of Directors.

Each of our Directors is entitled to the respective basic salary set forth below (subject to an annual increment after consultation with remuneration committee at the discretion of our Directors):

<b>Name of our executive Directors</b>	<b>Annual salary</b>
Mr. ZHUANG	HK\$1,800,000
Mr. TING	HK\$1,600,000
Ms. LIU	HK\$400,000
<b>Name of our independent non-executive Directors</b>	<b>Annual fee</b>
Mr. NI Zhenliang	HK\$250,000
Mr. TSANG Wah Kwong	HK\$250,000
Mr. HUNG Muk Ming	HK\$250,000

All reasonable travelling and travel-related expenses, entertainment expenses and other out-of-pocket expenses reasonably incurred by the executive Directors in the process of discharging their duties on behalf of our Group will be borne by our Company.

In addition, all of our executive Directors and our Honourable Chairman, Mr. IKEDA, will be entitled to an annual discretionary bonus in the aggregate amount of not more than one per cent. of the net profit of our Group during the relevant year to be decided by the remuneration committee of our Board commencing from the year ending 31 March 2016.

Save as aforesaid, none of our Directors has or is proposed to have a service contract with our Company or any of our subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

***(b) Directors' remuneration during the Track Record Period***

Our policies concerning remuneration of executive Directors are (i) the amount of remuneration is determined on the basis of the relevant Director's experience, responsibility, workload and the time devoted to our Company and (ii) non-cash benefits may be provided to our Directors under their remuneration package.

During the three years ended 31 March 2014, the aggregate of the remuneration (including salaries, allowance, benefits in kind and retirement scheme contributions) paid to our Directors (including the remuneration paid prior to their appointment as Directors) was nil, HK\$0.17 million and HK\$0.37 million, respectively. During the five months ended 31 August 2013 and 2014, the aggregate amount of the remuneration (including salaries, allowance, benefits in kind and retirement scheme contributions) paid to our Directors (including the remuneration paid prior to their appointment as Directors) amounted to HK\$0.12 million and HK\$0.28 million, respectively.

Save as disclosed in this prospectus, no other emoluments have been paid or are payable during the Track Record Period by our Company to our Directors.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (excluding the discretionary bonus) by our Company for the year ending 31 March 2015 will be HK\$0.93 million.

## DISCLOSURE OF INTERESTS

### 1. Disclosure of interests

#### *(a) Interests and short positions of our Directors in our Shares or the shares or debentures of our Company and associated corporation following completion of the Global Offering and the Capitalisation Issue*

Immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme), the interests or short positions of our Directors and the chief executive of our Company in our Shares, underlying shares and debentures of our Company and our associated corporations, within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he or she is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, will be as follows:

<u>Name of Directors</u>	<u>Capacity/ Nature of interest</u>	<u>Name of the controlled corporations</u>	<u>Name of company</u>	<u>Number of Shares<sup>(1)</sup></u>	<u>Approximate percentage of interest in our Company</u>
Mr. ZHUANG	Interest in a controlled corporation <sup>(2)</sup>	Bright Rise <sup>(2)</sup>	Our Company	179,583,000 (L)	41.85
	Interest in persons acting in concert <sup>(3)</sup>	–	Our Company	240,048,000 (L)	55.95
	Spouse interest <sup>(4)</sup>	–	Our Company	240,048,000 (L)	55.95
Mr. TING	Interest in a controlled corporation <sup>(5)</sup>	Bonville <sup>(5)</sup>	Our Company	6,450,000 (L)	1.50
	Interest in persons acting in concert <sup>(3)</sup>	–	Our Company	240,048,000 (L)	55.95

*Notes:*

- (1) The letter “L” denotes the person’s long position in our Shares.
- (2) All issued shares of Bright Rise are held by Newgate (PTC) Limited. Newgate (PTC) Limited is a company incorporated in the BVI on 12 September 2014 and acts as the trustee of the trust created in the Cayman Islands by Mr. ZHUANG on 18 November 2014, namely The Fortune Trust. The beneficiaries of The Fortune Trust currently include Mr. ZHUANG and his family members.

- (3) Pursuant to the Concert Party Agreement, the Concert Parties have agreed with certain arrangements pertaining to their Shareholding. Further information on the terms and conditions of the Concert Party Agreement is set forth in the section headed “Controlling Shareholders and Substantial Shareholders — Summary of the Concert Party Agreement” in this prospectus.
- (4) Ms. LI is the spouse of Mr. ZHUANG. Mr. ZHUANG is deemed to be interested in our Shares interested by Ms. LI under the SFO.
- (5) All issued shares of Bonville are held by Mr. TING.

**(b) *Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO***

Immediately following completion of the Global Offering and the Capitalisation Issue (without taking into any Shares which may be taken under the Global Offering and allotted and issued pursuant to the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme), in addition to the interests disclosed under paragraph (a) above, so far as our Directors are aware, the following are the persons who will have or be deemed or taken to have interests or short positions in our Shares, underlying shares of our Company which will be required to be disclosed to under the provisions of Divisions 2 and 3 of Part XV of the SFO or, would fall to be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group or has any option in respect of such capital:

	<u>Name of Shareholders</u>	<u>Capacity</u>	<u>Number of Shares</u>	<u>Shareholding percentage (%)</u>
Long position	Bright Rise	Beneficial owner	179,583,000	41.85
		Interest in persons acting in concert <sup>(1)</sup>	240,048,000	55.95
	Newgate (PTC) Limited as trustee of The Fortune Trust created by Mr. ZHUANG	Interest in a controlled corporation <sup>(2)</sup>	179,583,000	41.85
		Interest in persons acting in concert <sup>(1)</sup>	240,048,000	55.95
	Mr. ZHUANG, Ms. LI and their children, being the beneficiaries of The Fortune Trust	Interest in a controlled corporation <sup>(2)</sup>	179,583,000	41.85
		Interest in persons acting in concert <sup>(1)</sup>	240,048,000	55.95
	Fortress Strength	Beneficial owner	8,046,000	1.88
		Interest in persons acting in concert <sup>(1)</sup>	240,048,000	55.95



	<u>Name of Shareholders</u>	<u>Capacity</u>	<u>Number of Shares</u>	<u>Shareholding percentage (%)</u>
	Ms. LI	Interest in a controlled corporation <sup>(3)</sup>	8,046,000	1.88
		Interest in persons acting in concert <sup>(1)</sup>	240,048,000	55.95
		Spouse interest <sup>(4)</sup>	240,048,000	55.95
	Dragon Year	Beneficial owner	25,140,000	5.86
		Interest in persons acting in concert <sup>(1)</sup>	240,048,000	55.95
	Mr. IKEDA	Interest in a controlled corporation <sup>(5)</sup>	25,140,000	5.86
		Personal interest	6,000,000	1.40
		Interest in persons acting in concert <sup>(1)</sup>	240,048,000	55.95
	Bonville	Beneficial owner	6,450,000	1.50
		Interest in persons acting in concert <sup>(1)</sup>	240,048,000	55.95
	Mr. TING	Interest in a controlled corporation <sup>(6)</sup>	6,450,000	1.50
		Interest in persons acting in concert <sup>(1)</sup>	240,048,000	55.95
	East Jumbo	Beneficial owner	14,829,000	3.46
		Interest in persons acting in concert <sup>(1)</sup>	240,048,000	55.95
	Ms. OR	Interest in a controlled corporation <sup>(7)</sup>	14,829,000	3.46
		Interest in persons acting in concert <sup>(1)</sup>	240,048,000	55.95
Short position	Nil	Nil	Nil	Nil

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*Notes:*

- (1) Pursuant to the Concert Party Agreement, the Concert Parties have agreed with certain arrangements pertaining to their Shareholding. Further information on the terms and conditions of the Concert Party Agreement is set forth in the section headed “Controlling Shareholders and Substantial Shareholders – Summary of Concert Party Agreement” in this prospectus.
- (2) Newgate (PTC) Limited is the sole shareholder of Bright Rise and it holds all the shares of Bright Rise in its capacity as the trustee of The Fortune Trust created by Mr. ZHUANG in the Cayman Islands. The beneficiaries of The Fortune Trust currently include Mr. ZHUANG and his family member. Bright Rise is the registered and beneficial owner of 179,583,000 Shares.
- (3) Ms. LI is the sole beneficial owner of all issued shares of Fortress Strength which is the registered and beneficial owner of 8,046,000 Shares.
- (4) Ms. LI is the spouse of Mr. ZHUANG and she is deemed to be interested in our Shares interested by Mr. ZHUANG under the SFO.
- (5) Mr. IKEDA is the sole beneficial owner of all issued shares of Dragon Year which is the registered and beneficial owner of 25,140,000 Shares.
- (6) Mr. TING is the sole beneficial owner of all issued shares of Bonville which is the registered and beneficial owner of 6,450,000 Shares.
- (7) Ms. OR is the sole beneficial owner of all issued shares of East Jumbo which is the registered beneficial owner of 14,829,000 Shares.

## **2. Disclaimers**

Save as disclosed in this prospectus:

- (a) none of our Directors has any interest or short position in any of our Shares, underlying shares or debentures of our Company and associated corporations within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he or she is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code of Securities Transactions by Directors of Listed Companies, in each case once our Shares are listed;
- (b) none of our Directors nor any of the parties listed in the section headed “Other information — 14. Consents of experts” of this Appendix is interested in the promotion of our Company, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Company or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any of our subsidiaries;
- (c) none of our Directors has any direct or indirect interest in the promotion of, or in any assets which have been, within two years immediately preceding the date of this prospectus, acquired or disposed of or by or leased to any member of our Group;

- (d) none of our Directors nor any of the parties listed in the section headed “Other information — 14. Consents of experts” of this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our Company’s business;
- (e) our Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately after completion of the Global Offering and Capitalisation Issue (taking no account of our Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme), have an interest or a short position in Shares or underlying shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group or has any option in respect of such capital;
- (f) save in connection with the Underwriting Agreements, none of the parties listed in the section headed “Other information — 14. Consents of experts” of this Appendix:
  - (i) is interested legally or beneficially in any securities of our Company or any of our subsidiaries; or
  - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of our Company or any of our subsidiaries; and
- (g) none of our Directors or their associates (as defined in the Listing Rules) or the existing Shareholders (who, to the knowledge of our Directors, owns more than 5% of our Shares) has any interest in any of the five largest customers or the five largest suppliers of our Group.

#### SHARE OPTION SCHEME

The following is a summary of principal terms of the Share Option Scheme conditionally adopted by our Shareholders in the general meeting held on 16 February 2015 (the “**Adoption Date**”). The terms of the Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules.

Our Company will disclose details of the Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

As of the Latest Practicable Date, no option had been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Share Option Scheme, being 42,910,800 Shares in total.

### 1. Purpose

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

### 2. Conditions of the Share Option Scheme

The Share Option Scheme shall come into effect on the date on which the following conditions are fulfilled:

- (a) subject to (b) and (c) below, the approval of our Shareholders for the adoption of the Share Option Scheme;
- (b) the approval of the Stock Exchange for the listing of and permission to deal in, a maximum of 42,910,800 Shares to be allotted and issued pursuant to the exercise of the Options (as mentioned in the following paragraph) in accordance with the terms and conditions of the Share Option Scheme;
- (c) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with its terms or otherwise; and
- (d) the commencement of dealing of our Shares on the Main Board of the Stock Exchange on the Listing Date.

### 3. Who may join

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

- (a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of our Group (“**Executive**”), any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of our Group (“**Employee**”);
- (b) a director or proposed director (including an independent non-executive director) of any member of our Group;
- (c) a direct or indirect shareholder of any member of our Group;
- (d) a supplier of goods or services to any member of our Group;

- (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our Group;
- (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of our Group; and
- (g) an associate of any of the persons referred to in paragraphs (a) to (c) above.

(the persons referred above are the “**Eligible Persons**”)

#### 4. Maximum number of Shares

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

- (a) Our Company may at any time as our Board may think fit seek approval from our Shareholders to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of our Company shall not exceed 10 per cent. of our Shares in issue as of the date of approval by Shareholders in general meeting where the Scheme Mandate Limit is refreshed. Options previously granted under the Share Option Scheme and any other schemes of our Company (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the Share Option Scheme or any other schemes of our Company) shall not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed. Our Company shall send to our Shareholders a circular containing the details and information required under the Listing Rules.
- (b) Our Company may seek separate approval from our Shareholders in general meeting for granting Options beyond the Scheme Mandate Limit, provided that the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Person specified by our Company before such approval is obtained. Our Company shall issue a circular to our Shareholders containing the details and information required under the Listing Rules.
- (c) The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of our Group shall not exceed 30% of our Company’s issued share capital from time to time. No options may be granted under the Share Option Scheme and any other share option scheme of our Company if this will result in such limit being exceeded.

**5. Maximum number of Option to each participant**

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

**6. Offer and grant of Options**

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

**7. Granting Options to connected persons**

Subject to the terms in the Share Option Scheme, only insofar as and for so long as the Listing Rules require, where any offer of an Option is proposed to be made to a director, chief executive or a substantial shareholder (as defined in the Listing Rules) of our Company or any of their respective associates, such offer must first be approved by the independent non-executive Directors of our Company (excluding the independent non-executive Director who or whose associates is the grantee of an Option).

Where any grant of Options to a substantial shareholder (as defined in the Listing Rules) or an independent non-executive Director of our Company, or any of their respective associates, would result in the securities issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:-

- (a) representing in aggregate over 0.1% of the relevant class of securities in issue; and
- (b) (where the securities are listed on the Stock Exchange), having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK\$5 million,

such further grant of Options must be approved by shareholders of our Company (voting by way of a poll). Our Company shall send a circular to Shareholders containing the information required under the Listing Rules. The grantee, his associates and all core connected persons of our Company must abstain from voting in favour at such general meeting.

Approval from our Shareholders is required for any change in the terms of Options granted to a participant who is a substantial shareholder or an independent non-executive Director of our Company, or any of their respective associates. The grantee, his associates and all core connected persons of our Company must abstain from voting in favour at such general meeting.

#### **8. Offer period and number accepted**

An offer of the grant of an Option shall remain open for acceptance by the Eligible Person concerned for a period of 28 days from the offer date provided that no such grant of an Option may be accepted after the expiry of the effective period of the Share Option Scheme. An Option shall be deemed to have been granted and accepted by the Eligible Person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the Option duly signed by the Grantee together with a remittance in favour of our Company of HK\$1.0 by way of consideration for the grant thereof is received by our Company on or before the date upon which an offer of an Option must be accepted by the relevant Eligible Person, being a date not later than 28 days after the Offer Date (the “**Acceptance Date**”). Such remittance shall in no circumstances be refundable.

Any offer of the grant of an Option may be accepted in respect of less than the number of Shares in respect of which it is offered provided that it is accepted in respect of board lots for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer letter comprising acceptance of the offer of the Option. To the extent that the offer of the grant of an Option is not accepted by the Acceptance Date, it will be deemed to have been irrevocably declined.

#### **9. Restriction on the time of grant of Options**

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

#### **10. Minimum holding period, vesting and performance target**

Subject to the provisions of the Listing Rules, our Board may in its absolute discretion when offering the grant of an Option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Share Option Scheme as our Board may think fit (to be stated in

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

### **11. Amount payable for Options**

The amount payable on acceptance of an Option is HK\$1.0.

### **12. Subscription price**

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

- (a) the nominal value of a Share;
- (b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the offer date; and
- (c) the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the 5 business days (as defined in the Listing Rules) immediately preceding the offer date.

### **13. Exercise of Option**

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



- (iii) The exercise of any Option shall be subject to the members of our Company in general meeting approving any necessary increase in the authorized share capital of our Company.
- (iv) Subject as hereinafter provided:
- (a) in the event that the grantee dies or becomes permanently disabled before exercising an Option (or exercising it in full), he (or his legal representative(s)) may exercise the Option up to the Grantee's entitlement (to the extent not already exercised) within a period of 12 months following his death or permanent disability or such longer period as our Board may determine;
  - (b) in the event that the grantee ceases to be an Executive for any reason (including his employing company ceasing to be a member of our Group) other than his death, permanent disability, retirement pursuant to such retirement scheme applicable to our Group at the relevant time or the transfer of his employment to an affiliate company or the termination of his employment with the relevant member of our Group by resignation or termination on the ground of misconduct, the Option (to the extent not already exercised) shall lapse on the date of cessation of such employment and not be exercisable unless our Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as our Board may in its absolute discretion determine following the date of such cessation;
  - (c) if a general offer is made to all holders of Shares and such offer becomes or is declared unconditional (in the case of a takeover offer) or is approved by the requisite majorities at the relevant meetings of shareholders of our Company (in the case of a scheme of arrangement), the Grantee shall be entitled to exercise the Option (to the extent not already exercised) at any time (in the case of a takeover offer) within one month after the date on which the offer becomes or is declared unconditional or (in the case of a scheme of arrangement) prior to such time and date as shall be notified by our Company;
  - (d) if a compromise or arrangement between our Company and its members or creditors is proposed for the purpose of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company, our Company shall give notice thereof to the Grantees who have Options unexercised at the same time as it dispatches notices to all members or creditors of our Company summoning the meeting to consider such a compromise or arrangement and thereupon each Grantee (or his legal representatives or receiver) may until the expiry of the earlier of:
    - (i) the Option Period (in respect of any particular Option, the period commencing immediately after the business day (as defined in the Listing Rules) on which the Option is deemed to be granted and accepted in accordance with the Share Option Scheme and expiring on a date to be determined and notified by our Directors to each Grantee provided that such period shall not exceed the period of 10 years from the date of the grant of a particular Option but subject to the provisions for early termination thereof contained in the Share Option Scheme);

- (ii) the period of two months from the date of such notice; or
  - (iii) the date on which such compromise or arrangement is sanctioned by the court,
- exercise in whole or in part his Option.
- (e) in the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it dispatches such notice to each member of our Company give notice thereof to all Grantees and thereupon, each Grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than two business days (as defined in the Listing Rules) prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the business day (as defined in the Listing Rules) immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the Grantee credited as fully paid.

#### **14. Ranking of Shares**

Our Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the memorandum and articles of association of our Company and the laws of the Cayman Islands from time to time and shall rank *pari passu* in all respects with the then existing fully paid Shares in issue on the allotment date or, if that date falls on a day when the register of members of our Company is closed, the first date of the re-opening of the register of members, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the allotment date or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members, other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be before the allotment date.

A Share issued upon the exercise of an Option shall not carry rights until the registration of the Grantee (or any other person) as the holder thereof.

#### **15. Life of Share Option Scheme**

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

**16. Lapse of Share Option Scheme**

An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (a) the expiry of the option period;
- (b) the expiry of any of the period referred to paragraphs related to exercise of Option;
- (c) subject to the period mentioned in paragraph headed “Exercise of Option” in this section, the date of the commencement of the winding-up of our Company and the date on which the scheme of arrangement of our Company becomes effective;
- (d) the date on which the grantee ceases to be an Eligible Person by reason of the termination of his relationship with our Group on any one or more of the following grounds:
  - (i) that he has been guilty of serious misconduct;
  - (ii) that he has been convicted of any criminal offence involving his integrity or honesty or in relation to an employee of our Group;
  - (iii) that he has become insolvent, bankrupt or has made arrangements or compositions with his creditors generally; or
  - (iv) on any other ground as determined by our Board that would warrant the termination of his employment at common law or pursuant to any applicable laws or under the Grantee’s service contract with our Group. A resolution of our Board or our board of directors of the relevant subsidiary to the effect that the relationship of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; and
- (e) the date on which our Board shall exercise our Company’s right to cancel the Option at any time after the grantee commits a breach of the restriction on transferability of Option or the Options are cancelled.

No compensation shall be payable upon the lapse of any Option, provided that our Board shall be entitled in its discretion to pay such compensation to the grantee in such manner as it may consider appropriate in any particular case.

## 17. Adjustment

In the event of any capitalisation issue, rights issue, open offer, sub-division or consolidation or reduction of the share capital of our Company in accordance with applicable laws and regulatory requirements, such corresponding alterations (if any) shall be made (except on an issue of securities of our Company as consideration in a transaction which shall not be regarded as a circumstance requiring alteration or adjustment) in:

- (a) the number of Shares subject to any outstanding Options;
- (b) the subscription price of each Option;
- (c) the Shares to which the Option relates;
- (d) the method of exercise of the Option; and/or
- (e) any combination thereof,

as the auditors or an independent financial adviser shall certify in writing to our Board to be in their opinion fair and reasonable in compliance with Rule 17.03 (13) of the Listing Rules and the notes thereto and the supplementary guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes and any future guidance or interpretation of the Listing Rules issued by the Stock Exchange from time to time. The capacity of the auditors or the independent financial adviser, as the case may be, in this paragraph is that of experts and not arbitrators and their certificate shall, in the absence of manifest error, be final and conclusive and binding on our Company and the grantees. The costs of the auditors or the independent financial adviser to our Company shall be borne by our Company. Notice of such adjustment shall be given to the grantees by our Company.

## 18. Cancellation of Options not exercised

Our Board shall be entitled for the following causes to cancel any Option in whole or in part by giving notice in writing to the Grantee stating that such Option is thereby cancelled with effect from the date specified in such notice (the “**Cancellation Date**”):-

- (a) the Grantee commits or permits or attempts to commit or permit a breach of the restriction on transferability of Option or any terms or conditions attached to the grant of the Option;
- (b) the Grantee makes a written request to our Board for the Option to be cancelled; or
- (c) if the Grantee has, in the opinion of our Board, conducted himself in any manner whatsoever to the detriment of or prejudicial to the interests of our Company or its subsidiary.

The Option shall be deemed to have been cancelled with effect from the Cancellation Date in respect of any part of the Option which has not been exercised as of the Cancellation Date. No compensation shall be payable upon any such cancellation, provided that our Board shall be entitled in its discretion to pay such compensation to the Grantee in such manner as it may consider appropriate in any particular case.

#### **19. Termination**

Our Company may by resolution in general meeting at any time terminate the operation of the Share Option Scheme. Upon termination of the Share Option Scheme as aforesaid, no further Options shall be offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All Options granted prior to such termination and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme.

#### **20. Transferability of Options**

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

#### **21. Amendment**

The Share Option Scheme may be altered in any respect by a resolution of our Board except that the following shall not be carried out except with the prior sanction of an ordinary resolution of our shareholders of our Company in general meeting, provided always that the amended terms of the Scheme shall comply with the applicable requirements of the Listing Rules: (i) any material alteration to its terms and conditions or any change to the terms of Options granted (except where the alterations take effect under the existing terms of the Scheme); (ii) any alteration to the provisions of the Scheme in relation to the matters set forth in Rule 17.03 of the Listing Rules to the advantage of Grantee; and (iii) any alteration to the aforesaid termination provisions.

### **OTHER INFORMATION**

#### **1. The Deed of Indemnity**

Mr. ZHUANG and Bright Rise have, under the Deed of Indemnity, have given joint and several indemnity to our Company for ourselves and for our subsidiaries in connection with, among other things,

- (a) any estate duty, death duty, inheritance tax, succession duty or any other similar taxation or duty which is or becomes payable by any members of our Group by the operation of any estate duty, death duty, inheritance tax, succession duty or any other similar legislation in any relevant jurisdiction outside Hong Kong as a result or in consequence of any event or transaction occurring on or before the Relevant Date (as defined below), or

- (b) any Hong Kong profits tax which is finally amended as payable by any member of our Group for any period of time but has not been provided in the financial statements of our Group during the Track Record Period, or
- (c) any Hong Kong estate duty which is or becomes payable by any member of our Group by the operation of the provisions of sections 34 to 45 (inclusive) of the Estate Duty Ordinance as a result of the death of any individual who has before death made a relevant transfer to any member of our Group, or
- (d) any loss or liability suffered by any member of our Group including, but without limitation to, any depletion in, loss or diminution in the value of the assets (including leasehold improvement) or Shares or shares in any member of our Group, or
- (e) any payment made or required to be made by any member of our Group and any costs and expenses incurred as a result of or in connection with any claim (i) falling on any member of our Group resulting from or by reference to any income, profits or gains earned, accrued or received or deemed to occur or (ii) falling on any member of our Group in respect of their current accounting periods or any accounting period commencing on or after the Relevant Date unless liability for taxation would not have arisen but for any act or omission of, or transaction voluntarily effected by, any member of our Group without the prior written consent or agreement of the indemnifier(s), whether alone or in conjunction with other circumstances and whether or not such taxation is chargeable against or attributable to any other person, firm or company, or
- (f) any claim in relation to any social insurance issue encountered by any member of our Group,
- (g) any loss and damages suffered by us in relation to the title defects of the Shenzhen Properties (including the leasehold improvement in respect of the Shenzhen Properties, detailed information on which is set forth in the section headed “Business — Properties” in this prospectus, or
- (h) any non-compliance with any applicable laws and regulations by any member of our Group prior to the Relevant Date or any litigation, arbitration or claim of material importance against any member of our Group in relation to any matter, event or incident occurred prior to the Listing.

Mr. ZHUANG and Bright Rise shall, however, not be liable under the Deed of Indemnity for taxation claim or liability to the extent that:

- (a) to the extent that provision, reserve or allowance has been made for such taxation in the audited consolidated financial information of our Group for the Track Record Period;

- (b) for which any member of our Group is liable as a result of any event occurring or income, profits or gains earned, accrued or received or alleged to have been earned, accrued or received or transactions entered into in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after the date on which the Global Offering becomes unconditional;
- (c) to the extent that such taxation or liability would not have arisen but for any act or omission by any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) voluntarily effected without the prior written consent or agreement of the indemnifiers, otherwise than in the ordinary course of business after the date on which the Global Offering becomes unconditional or carried out, made or entered into pursuant to a legally binding commitment created after the date on which the Global Offering becomes unconditional (the “**Relevant Date**”);
- (d) to the extent that such taxation or liability is discharged by another person who is not any member of our Group and that any member of our Group is not required to reimburse such person in respect of the discharge of the taxation or liability; and
- (e) to the extent that such claim arises or is incurred as a consequence of any retrospective change in the law or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the tax authorities or any other authority in any part of the world coming into force after the date on which the Global Offering becomes unconditional or to the extent such claim arises or is increased by an increase in the rates of taxation after the date on which the Global Offering becomes unconditional with retrospective effect.

## **2. Litigation**

As of the Latest Practicable Date, no member of our Group is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against any member of our Group, that would have a material adverse effect on our results of operations or financial condition.

## **3. Preliminary expenses**

Our estimated preliminary expenses are HK\$127,000 and have been paid by our Company.

## **4. Promoter**

Our Company does not have promoter. Within two years preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given or is proposed to be paid, allotted or given to any promoter in connection with the Global Offering and the related transactions described in this prospectus.

**5. Sole Sponsor**

The Sole Sponsor has made an application on our Company's behalf to the Listing Committee for listing of, and permission to deal in, our Shares in issue as mentioned in this prospectus and any Shares falling to be issued pursuant to the exercise of the Over-allotment Option and the option which may be granted under the Share Option Scheme. All necessary arrangements have been made to enable such Shares to be admitted into CCASS. The Sole Sponsor is independent of our Company in accordance with Rule 3A.07 of the Listing Rules.

The Sole Sponsor is entitled to a sponsor's fee of HK\$2.5 million.

**6. Agency fees or commissions received**

Save as disclosed in this prospectus, no commission, discounts, brokerages or other special terms were granted within the two years preceding the date of this prospectus in connection with the issue or sale of any capital of any member of our Group.

**7. No material adverse change**

Our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 August 2014 (being the date to which our Company's latest audited consolidated financial statements were made up).

**8. No interruptions to our business**

There has not been any interruption in our business which may have or has had a significant effect on our financial position in the 12 months preceding the date of this prospectus.

**9. Binding effect**

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

**10. Taxation of holders of our Shares**

Dealings in Shares registered on our branch register of members in Hong Kong maintained by the Hong Kong Share Registrar will be subject to Hong Kong stamp duty. The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred. Dividends paid on Shares will not be subject to tax in Hong Kong and no tax is imposed in Hong Kong in respect of capital gains. However, profits from dealings in the Shares derived by persons carrying on a business of trading or dealings in securities in Hong Kong arising in or derived from Hong Kong may be subject to Hong Kong profits tax.



**11. Non-compliance with the then in force Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (the “Predecessor Companies Ordinance”) during the Track Record Period*****(a) Late registration as a non-Hong Kong company***

China Animation BVI failed to register as a non-Hong Kong company within the prescribed time period under the Predecessor Companies Ordinance. China Animation BVI established a place of business in Hong Kong on 1 April 2008. The default period commenced from 3 May 2008 to 29 August 2013.

Pursuant to section 333(3) of the Predecessor Companies Ordinance, China Animation BVI should have registered as a non-Hong Kong company within one month of the establishment of the place of business in Hong Kong. The principal reason for the non-compliance was due to our mistaken belief that China Animation BVI would not be required to be registered as a non-Hong Kong company on the basis that Mr. ZHUANG was a PRC resident at the time of incorporation of China Animation BVI and that most of the sale and purchase activities of China Animation BVI were conducted outside Hong Kong. A certificate of registration as a non-Hong Kong company was issued on 13 September 2013. In order to prevent future breach, we have engaged our legal advisers as to Hong Kong law to assist the company secretary to our Company in preparing the statutory corporate filings and maintenance of the corporate records of members of our Group incorporated in Hong Kong.

***(b) Late filing of the notice of change of registered office***

During the Track Record Period and up to the Latest Practicable Date, there were two incidents in which two of our subsidiaries, namely China Animation HK and Network China HK, failed to file the notice of change of registered office within the prescribed time period of 14 days pursuant to section 92(3) of the Predecessor Companies Ordinance. The reason for the non-compliance was due to unintended and inadvertent omissions by our then company secretary.

Under section 92(4) of the Predecessor Companies Ordinance, the relevant subsidiaries and their respective officers, and each director of the relevant subsidiaries, who fail to comply with the provision of this section, shall be liable to a fine of HK\$10,000 and a maximum daily default fine of HK\$300 for continued default. The aggregate amount of penalty is expected to be HK\$52,600.

As of the Latest Practicable Date, the two notices of change of registered office required to be filed have been submitted to the Companies Registry.

Our Directors consider that the above non-compliance incidents with the Predecessor Companies Ordinance were non-systemic and immaterial to us as a whole.

Pursuant to the Deed of Indemnity, Mr. ZHUANG and Bright Rise have agreed to indemnify, jointly and severally, all losses and penalties that we would be required to pay as a result of the above non-compliance incidents.

**12. Miscellaneous**

Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus,

- (a) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (b) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (c) neither our Company nor any of our subsidiaries has issued or agreed to issue any founder shares, management shares or deferred shares;
- (d) no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of our Company or any of our subsidiaries;
- (e) no commission has been paid or payable (except for the underwriting paid and payable to commission the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in our Company;
- (f) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought; and
- (g) neither our Company nor any of our subsidiaries has outstanding convertible debt securities or debentures.

**13. Qualifications of experts**

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

<b>Name</b>	<b>Qualifications</b>
BNP Paribas Securities (Asia) Limited	Licensed to conduct type 1 (dealing in securities), type 2 (dealing in future contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 7 (providing automated trading services) regulated activities under the SFO

<u>Name</u>	<u>Qualifications</u>
Deloitte Touche Tohmatsu	Certified public accountants
Russell Bedford Hong Kong	Hong Kong tax advisers
Squire Patton Boggs	Hong Kong solicitors
King and Wood Mallesons	Qualified PRC legal adviser
Conyers Dill & Pearman (Cayman) Limited	Cayman Islands attorneys-at-law
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry consultant

#### **14. Consents of experts**

Each of BNP Paribas Securities (Asia) Limited, Deloitte Touche Tohmatsu, Russell Bedford Hong Kong, Squire Patton Boggs, King and Wood Mallesons, Conyers Dill & Pearman (Cayman) Limited and Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its letter and/or opinion and/or report and references to its name included in this prospectus in the form and context in which it respectively appears.

None of the experts named above is interested beneficially or otherwise in any shares of our Company or any of our subsidiaries or has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

#### **15. Dividends**

Our Directors confirm that there is no arrangement under which future dividends are waived or agreed to be waived.

#### **16. Bilingual prospectus**

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) copies of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) the written consents referred to in the paragraphs under “Other information — 14. Consents of experts” in Appendix IV to this prospectus; and
- (c) copies of the material contracts referred to in the paragraphs under “Further information about our business — 1. Summary of the material contracts” in Appendix IV to this prospectus.

**DOCUMENTS AVAILABLE FOR PUBLIC INSPECTION IN HONG KONG**

Copies of the following documents will be available for inspection at the office of Squire Patton Boggs at 29th Floor, Edinburgh Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (i) the memorandum of association of our Company and the Articles;
- (ii) the accountants’ report prepared by Deloitte Touche Tohmatsu, the text of which is set forth in Appendix I to this prospectus;
- (iii) the audited financial statements of our Group for each of the three years ended 31 March 2014 and the five months ended 31 August 2014;
- (iv) the letter received from Deloitte Touche Tohmatsu on the unaudited pro forma financial information, the text of which is set forth in Appendix II to this prospectus;
- (v) the material contracts referred to in the paragraphs under “Further information about our business — 1. Summary of the material contracts” in Appendix IV to this prospectus;
- (vi) the written consents referred to in the paragraphs under “Other information — 14. Consents of experts” in Appendix IV to this prospectus;
- (vii) the service contracts and the letters of appointment with our Directors referred to in the paragraphs under “Further information about our business — 4. Further information about our Directors — (a) Directors’ service contracts and letters of appointment” in Appendix IV to this prospectus;
- (viii) the PRC legal opinions prepared by our PRC Legal Adviser;
- (ix) the letter of advice prepared by Conyers Dill & Pearman (Cayman) Limited summarising certain aspects of Companies Law referred to in Appendix III to this prospectus;

- (x) the confirmation letter prepared by Squire Patton Boggs, our Hong Kong legal advisers, on no change to the terms of the Phillip Sale and Purchase Agreement;
- (xi) the report prepared by Russell Bedford Hong Kong on certain Hong Kong tax matters;
- (xii) the industry report prepared by Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.;
- (xiii) the Companies Law; and
- (xiv) the rules of the Share Option Scheme.

# 華夏動漫形象有限公司

China Animation Characters Company Limited

