

**China Animation Characters Company Limited
Environmental, Social And Governance Report
For The Year Ended 31 March 2019**

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1. OVERVIEW

China Animation Characters Company Limited (“**China Animation**” or the “**Company**”) is delighted to present the Environmental, Social and Governance Report. This report is prepared in accordance to the Environmental, Social and Governance Reporting Guide (hereinafter referred to as the “**Guide**”) as set out in Appendix 27 of the Rules Governing the Listing of Securities (hereinafter referred to as the “**Listing Rules**”) on Hong Kong Exchanges and Clearing Limited (hereinafter referred to as “**HKEx**”).

China Animation understands the vital importance of the environment, society and governance to the Company’s future, and recognises the far-reaching influence caused by the business model of China Animation on the environment and society. The disclosure of key performance indicators not only represents the consistent practice of China Animation in compliance with the governing rules, but also indicates the Company’s dedication and commitment to the integration of its grave concerns on environment and society into its daily operations.

This report gives a brief overview of the environmental, social and governance concepts of China Animation, the overall performance and work highlights of the Company’s core business in respect of the economy, environment and society, as well as its plans and goals to be achieved in the short and long run.

This report is designed to enable the shareholders, investors (including potential investors) and the public to have a more comprehensive understanding of the Company’s corporate governance and culture. The Company is willing to take up more social responsibilities in order to maintain the balance between the interest of shareholders and social benefits. Data contained in this report is derived from various Company’s documents and reports, as well as summary and statistical data provided by the Company’s subsidiaries.

2. REPORTING PRINCIPLES AND REFERENCE STANDARDS

This report is prepared mainly with reference to the Environmental, Social and Governance Reporting Guide issued by HKEx, in order to disclose the relevant information under the general industry and international standards.

The reporting principles emphasize the following four areas:

- **Materiality:** the threshold at which environmental, social and governance issues become sufficiently important to investors and other stakeholders is the core content of this report.
- **Measurability:** the key performance indicators involved in the effectiveness of environmental, social and governance policies and management systems may be presented in the form of quantitative data accompanied by a narrative, explaining its purposes and impacts.

- Balance: this report provides objective presentation of the Company's performance to avoid selections, omissions, or through presentation formats that may inappropriately influence report readers' decisions or judgments.
- Integrity: comprehensive description of the substance contained in this report is given, in order to avoid omission of any details important to stakeholders.

3. REPORTING SCOPE AND KEY SECTORS

This report includes the environmental, social and governance performance of China Animation and certain of its major subsidiaries, including China Animation Group (HK) Limited (華夏動漫集團(香港)有限公司, "**Animate HK**"), Huajiayi Cultural Communication (Shenzhen) Company Limited (華嘉益文化傳播(深圳)有限公司, "**Shenzhen Huajiayi**") and CA SEGA (Qingdao) Entertainment Park Co., Ltd (華夏世嘉(青島)娛樂遊藝有限公司, "**Sega Qingdao**") (hereinafter together referred to as "**Reporting entities**" or "**we**" or "**us**").

This report covers the period from 1 April 2018 to 31 March 2019.

4. EMPLOYMENT AND LABOUR PRACTICES

Employees are our most valuable treasure and the core of our development, success and value creation. We have formulated numerous policies on human resources management to protect employees' basic rights and enable employees to grow along with us and build up a strong sense of belonging to be a member of us.

Development and Training

We cherish every employee and believe that they will grow along with our business expansion. We provide targeted, systematic and forward-looking training for our employees, to ensure that our employees can quickly meet the needs of the relevant positions while exploring the potentials of employees to support our sustainable development.

We provide every new recruit with induction and basic trainings, covering our vision and corporate culture training, fundamental rules and regulations, staff manual and introduction of the reward and rectification system. We request operators of large-scale equipment to receive pre-job training and pass relevant assessment tests. Personnels failing to pass assessments are not allowed to work. In addition, emergency response plans are made and emergency drills for all employees are arranged in batches.



*Training program (team building)
in Sega Qingdao*



*Training program (customer relationship)
in Sega Qingdao*

Sega Qingdao arranges a formal and comprehensive training for all newly recruited employees to enhance their understanding of our operating policies and procedures. Also, different departments arrange on-the job training and conduct assessments for staff at different positions. Some key positions require employees holding qualification certificates for ensuring operational safety and standardization. We also organize management skills and leadership enhancement training for management personnels. During the reporting period, our employees received 6,578 hours of job training, and the average training hours per employee was 36 hours¹.

To ensure continuous enhancement of our services, we review and improve training courses on a continuous basis.

¹ The statistics cover the Reporting entities only.

Health and Safety

We pay great attention to the relationship with our employees, and strive to continuously enhance safety performance. Adhering to the service philosophies of safety, smile, passion, services and hygiene, we continue to improve occupational health and safety system, and provide staff with comprehensive protection measures as far as possible, to eliminate all kinds of potential health and safety risks. During the reporting period, there was no material non-compliance with the relevant laws and regulations in respect of safe working environment. Also, no work-related fatalities or major injuries were reported during the reporting period.

Employment

We are devoted to creating a good working environment for all employees. We recruit people pursuant to the principles of openness, fairness, competition and meritocracy. Recruitment is conducted in such a way that top priority is given to internal employee transfer. We encourage reasonable mobilization of employees within our organization, enhancing promotion and learning opportunities. As at 31 March 2019, we had a total of 182 employees².

We strictly observe the relevant labour laws and regulations. We have established an incentive and disciplinary mechanism whereby employees' salaries are tied with their respective position and performance, and we maintain remuneration packages at competitive level. We are committed to gender equality and adopt identical standard, structure and basis in determining remuneration for both male and female employees.

We provide suggestion boxes in staff lounge areas. Feedback collected will be directly passed to general manager, who will then assign personnel to conduct investigations and verifications. Disciplinary action will be imposed to the relevant staff if non-compliance is found. We did not note any case of non-compliance during the reporting period.

Labour Standards

We strictly comply with the relevant laws and regulations. We never employ child labour or forced labour. Currently, the minimum age requirement for our employees is 18. During the reporting period, we did not receive any reported non-compliance cases in this regard. We strictly comply with the laws regarding working hours and holidays in the places where our businesses are operated. Personnel at the back offices implement five- or six-day work per week with eight or seven working hours per day, while on-site operators work in shifts based on the actual conditions. We provide personal leave, sick leave, marital leave, compassionate leave, maternity leave, work injury leave, home leave and annual leave to help employees to achieve work-life balance.

² The statistics cover the Reporting entities only.

Employees' Background

As at 31 March 2019, we had a total of 182 employees³ and 81 of them (45%) possess a bachelor degree or above. The analysis by age, gender, position and geographic distribution of our employees are as follows³:

	Number	Percentage
By Region		
Hong Kong SAR	8	4%
Other parts of China	174	96%
By Gender		
Male	99	54%
Female	83	46%
By Type		
Management	41	23%
Non-management	141	77%
By Age		
Below 31 years old	125	69%
Over 31 years old	57	31%

The analysis of staff turnover rate by different categories are as follows:

	Number	Percentage
By Region		
Hong Kong SAR	2	25%
Other parts of China	50	28%
By Gender		
Male	29	29%
Female	23	28%
By Type		
Management	9	22%
Non-management	43	30%
By Age		
Below 31 years old	29	21%
Over 31 years old	23	40%

³ The statistics cover the Reporting entities only.

5. OPERATING PRACTICES

With sound internal compliance management, we strive to eliminate all forms of corruption through improving supply chain management, regulating tender processes, division of power and responsibilities, and enlarging the scope of supplier assessment. Furthermore, we keep on strengthening communication with our customers and actively respond to their demands by raising service quality and effectiveness.

Product Responsibility

We attach great importance to product quality and corporate credibility through strict product quality inspections. During the reporting period, there was no non-compliance with the relevant laws and regulations in respect of health and safety of our products and services.

Our quality assurance measures include inspection at suppliers' production sites, and product quality random inspection. We undertake strict control of product quality in accordance with standards such as ISO9001. All our customer service operators are provided with training in handling complaints, standardizing attitude, methods of treatment and speech skills, etc.

We request our operators of large-scale equipment to receive pre-job assessment. Professional personnels are placed to conduct on-site management for all park facilities and equipment and to provide explanations to customers in regard to the facility and points to note. In addition, signs are put up at the entrances of facilities to demonstrate the points to note in accordance with the operational regulations. At the same time, we strictly implement equipment inspection, conduct daily testing and inspection on indicators of all facilities, handled abnormal situations on a timely basis and record the reasons therefor. If the reason for such abnormal situations cannot be identified, the operation of the facility will be halted to ensure customer safety. We have formulated a comprehensive emergency response plan to cope with emergency situation caused by power failure, earthquake, fire and customers. Operators conduct drills under the emergencies response plan regularly and are examined by specialists to ensure that they are able to handle emergency.

We participate in fire and safety drills in operating premises (leased commercial buildings or offices) regularly. During the reporting period, we did not have any casualty accidents or non-compliance with the relevant laws and regulations in respect of products, services, health and safety.

Personal Data Privacy Policy

We strictly comply with the laws in maintaining a high level of security and privacy protection on personal data. Great importance is attached to the privacy of personal data to resolutely maintain and protect personal information. We only collect personal data that we believe to be relevant and required to conduct our business. We use personal data only for the purpose for which data is collected or for a directly related purpose unless consent is obtained from customers. Personal data will not be transferred or disclosed to any entities other than the members of our organization without consent from customers, unless otherwise required by the laws or notification is given to customers in advance. In addition, we maintain appropriate safety measures and systems to prevent unauthorized access to personal data.

We observe and protect intellectual property rights, and oppose any form of intellectual property infringement. We have ensured its strict implementation through established corporate policies, systems and processes.

Supply Chain Management

We select major suppliers through bidding. We ensure that all our suppliers have fulfilled the required qualifications, for example ISO9001, Japan Bandai's certification, etc, so that our products can meet the relevant international standards.

The suppliers of the Reporting entities are mainly from Japan and China, which represent 45% and 55% of total purchases respectively for the reporting period.

Anti-corruption

We have established relevant internal policies and formulated Moral Code of Conduct which stipulates management's scope of responsibility about anti-corruption. We undertake daily work inspection through conducting internal audits. We have set up suggestion boxes, whistle-blowing hotlines and mailboxes to strengthen supervision over management, and promote an anti-corruption work environment.

All our procurement personnels have signed integrity protocols. We strictly follow the relevant laws and regulations on anti-bribe, extortion, fraud and money laundering. During the reporting period, we did not have corruption cases.

6. ENVIRONMENT

We proactively advocate the concepts of “reduce”, “reuse” and “recycle”, and are committed to protecting the environment and contributing to the society by promoting these concepts. We keep pace with the development of the international environmental protection laws and ensure that our environmental policy meets the relevant international standards.

Use of Resources

We actively participate in various environmental protection events such as “Earth Hour”, “National Energy Saving Publicity Week” and “National Low Carbon Day”. We endeavor to create a corporate culture of valuing resources, increase employees’ awareness of environmental protection, and encourage them to actively take part in environmental protection. We post promotional slogans such as “Save energy by turning off lights”, “Energy saving is everyone’s duty”, “Save every drop of water”, “Treasure forests by using both sides of papers”, etc. next to lights, air-conditioners, washrooms and photocopiers.

Emissions

As a multimedia animation entertainment provider, we do not involve industrial production, and hence no hazardous wastes such as chemical wastes are produced in the course of operation. Our businesses do not involve packaging work of finished products and thus no material amount of packaging materials are consumed. During the reporting period, we fully complied with the laws and regulations in respect of emissions. For non-hazardous wastes such as used paper, we minimize production of waste at source by such means as promoting paperless office and promoting reduction of using bottled water. Recycling of non-hazardous wastes is managed by independent building management firm of the property where our operations are located. In our theme parks, different types of recycling bins with recycling labels are used to collect various non-hazardous wastes.

The Environment and Natural Resources

Although our operation does not have material adverse impacts on the environment and natural resources, we still pay great attention on possible impacts to the environment. We regularly assess impacts on the environment and natural resources, and formulate measures to mitigate any possible risks.

Resources Consumption

Our operation does not involve material emissions of exhaust gas and water, and paper consumption is mainly for office uses. Greenhouse gas emission is mainly caused by using electricity transformed from fossil fuels. Resources consumption for the Reporting period are summarized below:

Category of resources	Unit	Value	Intensity
Electricity	kWh	1,531,117	183/m ²
Water	m ³	2,619	0.3/m ²
Paper	kg	472	2.6/person

Greenhouse Gas Emissions

Carbon emissions come from emissions indirectly related to electricity consumption. During the reporting period, the total carbon emissions for the Reporting entities was approximately 964 tonnes (0.115 tones per m²).

As the Reporting entities do not have vehicles, there is no emissions of SO_x and NO_x.

7. COMMUNITY

We take active initiatives to fulfill corporate citizenship and encourage staff to participate in charitable activities.

Community Investment

As a key cultural enterprise in Shenzhen, Guangdong Province, China and a “Culture + Tourism” demonstration base of Shenzhen, China Animation, through the annually held event (Cultural Industry Fair), showcased the latest achievements of “Innovation + Technology” and the novelty of multi-dimensional development of the animation industry, promoting the rapid development of cultural industry and undertakings of Longcheng Jiedao.

Communication with stakeholders

We value the opinions of stakeholders and are committed to responding to their concerns and improving our performance in sustainable development by optimizing communication strategies and taking concrete actions. We have launched various measures in continuous efforts to improve communication with stakeholders. Below are the communication channels between us and stakeholders and their concerned topics.

Stakeholders	Concerned Topics	Communication Channels	Frequency
Investors and shareholders	Corporate governance, financial performance	Shareholders’ meeting, financial reports and ESG report	Annually
Suppliers and customers	Product quality and customer service	Company website, E-mails, feedback from employees	Irregular
Employees	Compensation, health & safety, development	Regular meetings, internal complaint mechanism, training	Irregular
Government	Regulation compliance, occupational safety	Proactive liaison with relevant government departments	Irregular
Community	Involvement in cultural and social development	Proactive liaison with the relevant bodies	Irregular

8. ESG SUMMARY AND REPORTING GUIDE INDEX

KPIs	HKEX ESG Report Index	Section/Remarks
A1 Emissions		
General Disclosure	Information on: <ul style="list-style-type: none"> (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and nonhazardous waste. 	Section 6
KPI A1.1	The types of emissions and respective emissions data.	Section 6
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Section 6
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Section 6
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Section 6
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Section 6
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Section 6

KPIs	HKEX ESG Report Index	Section/Remarks
A2 Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Section 6
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Section 6
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Section 6
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Section 6
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Section 6
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Section 6
A3 The Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Section 6
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Section 6

KPIs	HKEX ESG Report Index	Section/Remarks
B1 Employment		
General Disclosure	Information on:	Section 4
	(a) the policies; and	
	(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Section 4
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Section 4
B2 Health and Safety		
General Disclosure	Information on:	Section 4
	(a) the policies; and	
	(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	
KPI B2.1	Number and rate of work-related fatalities.	Section 4
KPI B2.2	Lost days due to work injury.	Section 4
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Section 4

KPIs	HKEX ESG Report Index	Section/Remarks
B3 Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Section 4
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Section 4
KPI B3.2	The average training hours completed per employee by gender and employee category.	Section 4
B4 Labour Standards		
General Disclosure	Information on: <ul style="list-style-type: none"> (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour. 	Section 4
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Section 4
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Section 4
B5 Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Section 5
KPI B5.1	Number of suppliers by geographical region.	Section 5
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Section 5

KPIs	HKEX ESG Report Index	Section/Remarks
B6 Product Responsibility		
General Disclosure	Information on:	Section 5
	(a) the policies; and	
	(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	No relevant circumstances occurred.
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Section 5
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Section 5
KPI B6.4	Description of quality assurance process and recall procedures.	Section 5
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Section 5

KPIs	HKEX ESG Report Index	Section/Remarks
B7 Anticorruption		
General Disclosure	Information on:	Section 5
	(a) the policies; and	
	(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Section 5
KPI B7.2	Description of preventive measures and whistleblowing procedures, how they are implemented and monitored.	Section 5
B8 Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Section 7
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Section 7
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	Section 7