



“Tofu Boy” Business Plan
July 3rd, 2010



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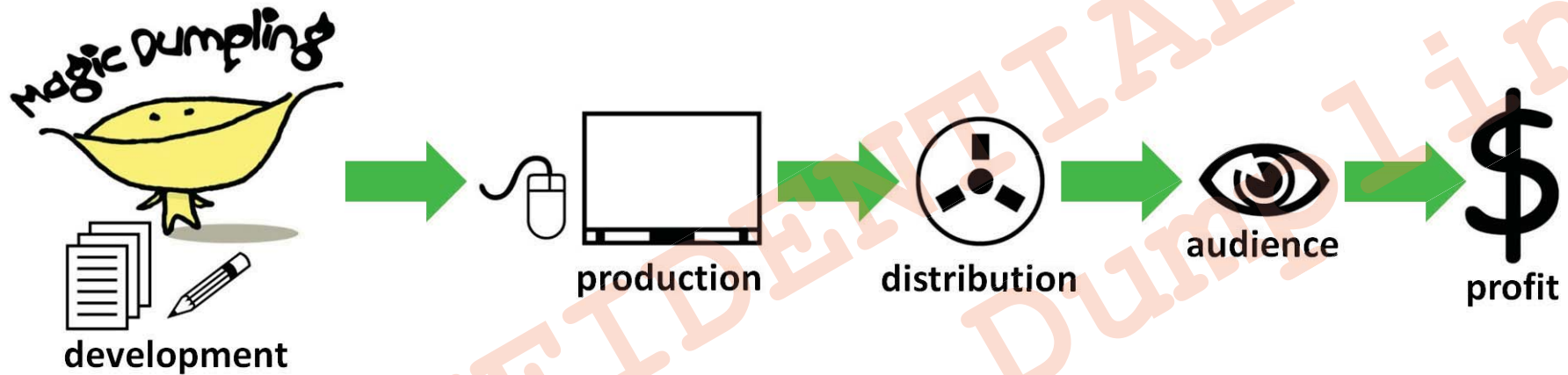
SECTION I: EXECUTIVE SUMMARY

- ❖ Magic Dumpling Entertainment is an animation development company incorporated under the laws of the People's Republic of China and headquartered in Beijing, developing a compelling slate of animated feature films, TV shows and mobile content for general Chinese and international audiences, within established & emerging markets.
- ❖ As a company, Magic Dumpling brings two core values to the table: the first is high-quality intellectual property (IP) development, encompassing story and design; the second is world-class production experience & guidance, with animation in general and 3D stereoscopic feature films in particular.
- ❖ **Magic Dumpling is currently developing the animated 3D feature DVD Premiere “Tofu Boy”: an 80-minute stereoscopic adventure/comedy co-production intended for general family audiences worldwide.**
- ❖ The market potential of stereoscopic theatrical exhibition and stereoscopic TV technology is compelling. Stereoscopic television & DVD will soon become commonplace, and should be a significant revenue stream within the next two years. Animation performs profitably in a collectible, toy-like manner on the DVD market.
- ❖ China is the fastest-growing animation market in the world, and one of the most profitable stereoscopic markets.
- ❖ Our strategy is to regard the North American and European markets as fundamental to our success as the mainland Chinese and Asian markets: focusing on DVD sales & rentals in the West, and concentrating on theatrical screenings in the East (with special attention to rural distribution on the Chinese mainland).
- ❖ **Magic Dumpling is seeking \$5 million USD (approximately 34 million RMB) in equity investment to fund development and production of “Tofu Boy”. Using conservative revenue assumptions and standard industry projections, Magic Dumpling estimates a minimum net investor profit of \$2.45 million USD on “Tofu Boy” after capital recovery (an approximately 50% ROI over a 6-18 month period of primary return after film completion).**



SECTION II: MAGIC DUMPLING OVERVIEW

Magic Dumpling's Role



As a company, Magic Dumpling brings two core values to the table: the first is high-quality intellectual property (IP) development, encompassing story and design; the second is world-class production experience & guidance, with animation in general and 3D stereoscopic feature films in particular. Magic Dumpling's development properties are sourced to qualified Chinese animation studios, providing flexible and scalable production capacity with low overhead. Artist training, technical consultation and production guidance is provided by Magic Dumpling as needed in order to ensure the best possible quality from our production partners. The result is a profitable return to our investors.



SECTION III: TOFU BOY PROJECT

Tofu Boy

Genre: Adventure comedy

Format: 80 minute, stereoscopic 3D-animated feature film

Target Audience: General family

Production Budget: \$5,000,000 USD

Production Schedule: 18 months

Story Synopsis:

Pinocchio meets Chinese cuisine as Old Wang, eccentric owner of the failing “Tofu King” shop, carves a little figure out of the tofu he cannot sell: a sad representation of the son he never had. Taking notice during a game of chess, the Lord of Hell and the Kitchen God make a bet on fate versus dreams, and Tofu Boy is brought to life!

Wobbly, but eager for the joys of existence, Tofu Boy runs off into the colorful chaos of modern Shanghai on mission to find the perfect recipe and save his “father” from eviction. On the city streets he makes two unusual friends: Ally, a carefree stray dog living for the moment, who dreams only of her next meal... and Jirou, a tasteless old chicken stuck in the past, who dreams of *being* someone’s next meal.

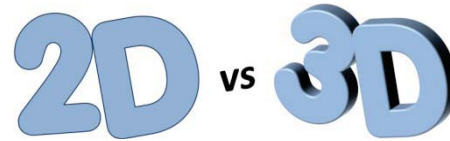
Obstructed and aided by the competing intervention of the Lord of Hell and the Kitchen God, it’s all the hopeful bean boy can do to stiffen his resolve (and his body) in preparation for the city’s biggest cooking competition. But can an insecure block of tofu measure up to a man yearning for a son?

Will fate rule, or can dreams come true?



SECTION III: TOFU BOY PROJECT

Animation Medium



2D animation has a decades-long history, made viable as a medium for feature filmmaking by Walt Disney with his groundbreaking “Snow White and the Seven Dwarves”. Although much younger than its 2D uncle, 3D animation has made great strides since Pixar broke similar ground in 1995 with the first animated 3D feature film, “Toy Story”. Since then, 3D animation has exploded into a gold rush between the good, the bad and the ugly. The renaissance in 3D stereoscopic technology has fueled an even greater demand for animated 3D feature films. To date, the biggest 3D titles have all been animation or special effects pictures. While the North American animation industry has seen the diminishment of 2D as a medium for feature films, 2D feature animation continues in the hands of masters such as Hayao Miyasaki, and through recent films such as Disney’s “The Princess & The Frog”.

When making the decision of whether to produce an animated feature in 2D or 3D, various factors must be considered. Although 2D films retain artistic respect, the demand for animated 3D films – once thought to be a fad – is clearly here to stay. We live in a 3D world, and audiences respond to the familiar visual cues of 3D animation. The colors, textures, dynamics and subtleties make for a rich viewing experience in the right hands, even on low-budget productions. Stereoscopic 3D technology accentuates the entertainment value of the medium, and provides an incredibly profitable revenue stream. Dreamworks’ “Monsters vs. Aliens” clearly demonstrated this as 55% of its \$59.3 million USD opening gross came from 2,080 3D screens, versus 45% of the opening gross from 5,349 analog screens. Although there are no shortage of ancillary products licensed from 2D animation properties, 3D films afford producers the ability to re-purpose production assets for games & toys – a particularly attractive prospect when independent producers are active partners in ancillary product design, manufacture and distribution.

The global talent pool for 3D animation production continues to grow in quantity and quality. China’s rich history of animation artistry, combined with modern technological advances and the appetite of mainland studios for equal footing in the present day industry, make fertile ground for 3D production – especially when guided by the world-class professional experience of Magic Dumpling. We view the challenges of the day as opportunities, and advocate the production of “Tofu Boy” as an animated 3D feature.



SECTION IV: INVESTMENT OPPORTUNITY

Profit Potential

Magic Dumpling is seeking \$5 million USD (approximately 34 million RMB) in equity investment to fund development and production of the animated 3D feature DVD Premiere “Tofu Boy”. Using conservative revenue assumptions and standard industry projections, Magic Dumpling estimates a net investor profit of \$2.72 million USD after capital recovery (an approximately 54% ROI over a 6-18 month period of primary return after film completion).

Global box office numbers are thriving in the midst of a stereoscopic technology revolution that is making the theater experience even more attractive to audiences and offsetting the impact of movie piracy. China is the fastest-growing animation market in the world, and one of the most profitable stereoscopic markets (see “Markets” appendix for more details). The market potential of stereoscopic theatrical exhibition and stereoscopic TV technology is compelling. Stereoscopic television & DVD will soon become commonplace, and should be a significant revenue stream by the time “Tofu Boy” completes production. The vivid aesthetics of animation will be sought after more than ever to meet the demand of consumers for movies which take advantage the increased screen value presented by stereoscopic home theater equipment.

Knowing they will have a greater chance of distributing their films if they show more responsibility with regards to content, independent filmmakers have increasingly responded to market demand by producing appealing entertainment for nationwide and international release. Magic Dumpling’s animation content falls into the family comedy genre. This translates into a very broad market base, with a greater chance of distribution, theatrical success and ancillary profit, since it appeals to a large segment of the population. While most independent productions used to exhibit primarily within the specialty film circuit, they now occupy a significant percentage of mainstream multiplex theaters for general audiences. The direct-to-DVD movie pipeline has also evolved into a profitable “DVD Premiere” revenue stream.

These developments have combined to increase the chances for a well-made, low-budget animated film to make money – especially animation, which performs profitably in a collectible, toy-like manner on the DVD market.

A significant advantage that Magic Dumpling has is the lower risk involved in investing in a smaller production. When the negative cost (the actual price paid through production to the completion of a master film negative), overhead and P&A (prints and advertising) costs are factored



SECTION IV: INVESTMENT OPPORTUNITY

in, a major studio picture must gross 2 to 2.5 times the film's budget to recoup the costs of making the film. Therefore, an animated film costing \$60 million USD would have to make \$120-150 million USD just to break even. By the same token, an animated film budgeted at \$10 million USD would need only gross \$20-25 million USD to recoup its costs. This fiscally conservative figure is more readily achieved through domestic and international theatrical distribution, DVD sales and ancillaries.

A low-budget, animated co-production such as Magic Dumpling's "Tofu Boy" profitably combines the best aspects of East & West in terms of development, production and distribution:

- **DEVELOPMENT:** By combining Chinese storytelling traditions with Hollywood development techniques and speaking to common human experience & dreams, Magic Dumpling creates original animation content that crosses borders, appealing to audiences in China and around the world.
- **PRODUCTION:** By combining low-cost Chinese production capabilities with the practical Hollywood experience of producer Kevin Geiger, Magic Dumpling ensures the highest possible quality at the lowest possible cost.
- **DISTRIBUTION:** By analyzing and capitalizing on trends in China & around the world, and adjusting our strategy to suit the realities of different regions, Magic Dumpling obtains maximum revenues from both traditional & new media sources, within established & emerging markets.

Risk Factors

Despite the potential for profit, it is important to note that investment in the animation industry is highly speculative and inherently risky. There can be no guarantee of the economic performance of any project, since the revenues derived from the production and distribution of animation depend on the acceptance of the viewing public, which can be estimated based upon precedent, but cannot be predicted with certainty. The commercial success of an animation property also depends on the quality and acceptance of competing content released into the marketplace at or near the same time, general factors such as the economic climate, and other tangible and intangible factors. Every studio has at times counted on a project's success only to see it perform poorly in the marketplace. In short, despite the potential for high returns, there are no guarantees of any animation property's profitability.



SECTION V: DISTRIBUTION STRATEGY

Distribution Considerations

Release Windows

The typical method of releasing animated feature films begins with domestic theatrical exhibition, which gives value to the various film “windows” (the period following a domestic release before a film can be released in other markets). Historically in the United States and Europe, the sequencing pattern for feature films has been to license international theatrical exhibition, home video & DVD, cable television distribution, broadcast television rights and other ancillary rights. As the rates of return shift among these different sources, changes are made to the sequencing strategy. Not only are release windows currently shrinking, but there is speculation that they may compress completely in favor of a distribution model in which content is delivered simultaneously on the “big screen” (theaters), the “mid screen” (TV displays) and the “small screen” (mobile phones). Regardless, it is important to note that the release windows for gaming and publishing ancillaries usually precede the initial theatrical release of a film or broadcast release of a show by one to three months, and this aspect is unlikely to change.

Distributors around the world plan their release windows with certain target audiences in mind. Low-budget films will often receive platform release windows in selected major cities that feature substantial populations of cosmopolitan filmgoers. In this way, the film is given a build-up to a wider release that may occur several weeks later. With the high costs of film prints, even a relatively modest theatrical distribution of 1,000 screens can exceed \$2 million USD in initial expenses, although digital delivery may eventually drive distribution costs down to almost nothing.

Theaters

Ideally, the best possible initial release for an animated feature film is release in theaters. In addition to its own potential revenue, theatrical release can generate demand for other media release platforms such as broadcast television and DVD, as well as consumer interest in ancillary products. For a film in initial release, the exhibitor will pay a percentage of the revenues from ticket purchases to the distributor (referred to as the “film rentals”, and not to be confused with home video rentals). Film rentals customarily diminish over the length of a film’s theatrical run. Depending on the distribution agreement, the producers and investors are entitled to a percentage of film rentals, after the distributor recovers its distribution fee, marketing expenses and distribution expenses.



SECTION V: DISTRIBUTION STRATEGY

Other media releases for the film are calculated in a similar fashion. For instance, in the U.S., a home video company pays an amount to the distributor for the right to stock its DVD stores with the title. From these fees, the distributor will deduct its distribution fee, advertising costs and other distribution expenses in order to recover costs. The producers and investors then receive their agreed-upon revenues as set out in the distribution agreement. The same goes for television and ancillary rights. The total of the money received by the distributor from the exercise of all rights that it is entitled to is called the “distributor’s gross”. Every distribution agreement is different; however, there are similarities common to all. The distributor receives a distribution fee, which is the percentage of the profits that the distributor will receive from the gross. The distributor is then entitled to recover its marketing costs and distribution expenses. The remaining sum is payable to the producers and investors, and is generally called the “producer’s gross” or the net sum.

Independent animation producers have several ways of distributing feature films:

- For the widest distribution, independent producers must partner with a major studio, although this means giving up significant rights. Typically, when major studios get involved early in the production, they finance most or all of the animated film’s development and production budget and also handle distribution. In return, they receive all rights (including the copyright) and control all creative, marketing and distribution decisions. While filmmakers can benefit financially from the guaranteed exhibition and broad audience reach provided by such deals, final compensation may be far less than expected once significant studio fees and expenses are deducted.
- Major studios and independent distributors (such as Lionsgate and The Weinstein Company) can also simply distribute an animated film, controlling marketing and distribution but not production. The distributor usually gets involved only after it sees the completed film, and production funding comes from elsewhere. In this scenario, the distributor takes 20%-35% of gross distribution revenues returned from the theaters, and then deducts expenses before remitting the remainder to the producer. While the relatively lower distribution take and the retention of creative control and copyright are attractive incentives to the producer, there is the very real risk of creating an animated film that is considered “unmarketable”. Distributors routinely reject films that they suspect will be under-performers at the box office due to lack of audience appeal or a clear market position.



SECTION V: DISTRIBUTION STRATEGY

- A “middle way” is to negotiate with a major international distributor to distribute the film upon delivery of a master negative (or digital equivalent) – a deal known as “negative pickup”. The distributor’s early involvement brings valuable market insight to the development and production process, may include an advance against revenues, and provides the benefit of helping the producer to gain financing. Signed distribution agreements can be used as collateral for bank loans, and as incentives for other investors to join the enterprise. The distributor receives distribution rights, usually in all media, for a specified length of time (often “in perpetuity”). When possible, it is in the producer’s best interest to negotiate options based upon performance milestones, which allow the distribution rights to return to the producer if the distributor fails to actively market the film.
- Some studios and distributors may also choose to come on board as co-producers, which creates a level of involvement somewhere between owning all rights and simply distributing the film. The studio provides a degree of production financing, has creative input, oversees marketing and distribution, and shares back-end revenues, but does not take full control. The financial details of such arrangements vary greatly.

As these examples demonstrate, studios and distributors can license animated films at various points during the production process: while the film is being financed, during production, or after completion. The more that existing elements seem to point to box office success, the more likely a distributor is to pick up the film early in the process. However, distributors are generally reluctant to get involved early in the production process of independent animated films. The independent producer usually must finance and produce the film without any distribution presale money, and then try to find distribution through success on the international film festival circuit in venues such as Sundance and Cannes, or at markets where films are sold such as the American Film Market and MIPCOM. The hard reality is that only a small percentage of companies pitching their films at festivals succeed in securing distribution deals.

DVD

The home video & DVD market is currently undergoing dramatic transformation. DVD sales are dropping as much as 25% at some studios, and low-cost DVD rental kiosks are challenging traditional DVD distribution & release strategies. But a bright spot in the midst of this downturn is animation, which continues to perform better than ever in theaters, and to hold its own on DVD and in ancillary media. In fact, animated movies



SECTION V: DISTRIBUTION STRATEGY

on DVD appear to perform in a unique, toy-like manner: purchased as both collectibles and as “electronic babysitters” (children love to watch animation over and over again).

Once a “graveyard” for movies which could not obtain theatrical distribution, the direct-to-DVD pipeline is becoming increasingly important to mainstream film franchises. While many direct-to-DVD (D2DVD) releases are sequels to popular theatrical films, others start out as direct-to-DVD franchises and have built their success without a box-office track record. Disney, Lionsgate and Marvel are among the distributors who have made millions on so-called “DVD Premieres” (DVDP) over the past decade. Disney started making sequels to most of its animated films for video/DVD release beginning with “The Return of Jafar” (the sequel to “Aladdin”) in 1994. Universal began its long line of “Land Before Time” sequels that same year. The number of direct-to-DVD films worldwide grew almost 40 percent between 2005 and 2008. In 2008, Disney’s “Tinker Bell” direct-to-DVD movie grossed over \$50 million USD. In 2009, the direct-to-DVD title “Barbie and the Three Musketeers” grossed an estimated \$14 million USD in North America alone (not counting HD-DVD and Blu-Ray sales).

DVD Premieres are now a substantial source of revenue for movie studios, collectively grossing over \$3 billion USD in the last few years. DVDP movies can be shot on budgets much smaller than those of films intended primarily for theaters, allowing studios to profit easier with the combined revenues of home video sales & rentals, broadcast licensing, and theatrical release in international territories. High-profile producers, such as Joel Silver of the “Matrix” trilogy, are signing major deals to produce direct-to-DVD titles, bringing with them top directing, acting and production talent.

DVD Premieres are not only reserved for larger Hollywood studios. Many independents distribute DVDP's almost exclusively. In fact, DVD Premieres have become a lifeline for independent filmmakers and smaller companies who may not have the resources for a competitive international theatrical release. In Japan, the so-called “V-Cinema” movement has a broad consumer base, and is valued by film directors for the greater creative freedoms allowed. For anime, this is called Original Video Animation (OVA) – often used to tell stories too long for a theatrical feature film and too short for a full TV season.



SECTION V: DISTRIBUTION STRATEGY

TV

In the area of broadcast animation, the United States remains the largest and potentially most lucrative television market in the world. The traditional method of selling animation content to U.S. broadcast and cable networks is to license 13 to 26 episodes (a half-year's or a year's worth of shows) for a flat fee per episode, which gives the network the right to air each show at least twice, and often indefinitely. Around the world, license fees paid to content creators have shrunk dramatically over the last decade, with networks usually demanding that producers cut their budgets as a precondition of acquisition. These fees, ranging from \$0 USD to \$100,000 USD per half-hour episode, vary dramatically by budget, country, population, economic conditions and many other factors.

The important point is that a considerable amount of most broadcast animation production budgets remains in deficit, and must be covered through international presales, co-production partnerships, ancillary sales or other means. Partly because of this, networks in the U.S. and around the world commonly become co-producers and co-financers in the productions they air, purchasing part or full ownership of the property, rather than simply licensing the rights to broadcast the show. As stake holders, they also receive revenues from international broadcast sales, home video & DVD, merchandising and other ancillaries. The total number of broadcast networks around the world is on the rise, and the growth in channels provides more points of entry for animated programming. Increasingly in the digital era, television rights are often “bundled”, without separate splits for each media type.

Ancillaries

Interactive gaming software is an increasingly important revenue stream for animation properties. This category can easily amount to 50% or more of all ancillary activity, and can rival the revenue of the core theatrical or broadcast distribution for animated films and television shows. Gaming software is also a good way to increase awareness for an animated property, especially when released prior to the screening or airing of the production. On 3D CGI productions, digital assets can be shared between the producers of the animation and the producers of the games. This is often done simultaneously, and can enhance the development of story and characters for both. Games often introduce new story lines and sometimes new characters that expand the world established in the original entertainment property. Platforms include PC, console, mobile and Internet formats.



SECTION V: DISTRIBUTION STRATEGY

While book and comic book publishing is usually not the top ancillary category in the United States, books and comics are still an important revenue stream in the West, and an extremely popular and profitable one in the East. Book and comic ancillaries generate awareness with the target audience, provide a means to extend story lines, backstory and character development beyond the original animation property, and enhance the brand image. Typical formats, depending on the age of the consumer and the nature of the content, include board books, story books, magazines, comic books and graphic novels, film novelizations (adaptations of the animation script) and derivative novels (“prequel” and “sequel” stories).

Many animation producers and executives take soundtrack sales into account when they plan the music for a film. By including musical acts that are popular with children and pre-teens (the primary purchasers of animation sound tracks), the producer can enhance sales of the album even among those consumers who have not seen the film. This marketing synergy can also work in the other direction: having a popular singer or band play an important role in the soundtrack can bring people into the theaters who might not otherwise see the film. Music videos are naturally an important part of this equation, and are often planned in conjunction with animation production to create tie-ins between the live action performers and the animated characters.

Toys are the main ancillary product category for most children’s animation projects, with dolls, action figures and board games among the most popular items. There is also an expanding market for collectible “urban vinyl” toys and cast resin figurines among teenaged and adult animation fans. Toys are often one of the first licenses granted for an animation property due to the long lead times required for product development and manufacturing. Some animation-based toy lines are narrowly focused. A licensor of a new, relatively unknown animation property might choose to self-distribute toys, or to license the sale of a small range of toys over the Internet. This approach allows the producer to test the market and gauge demand. For example, Cartoon Network chose to test a dozen products based on its “Samurai Jack” series, with sales initially limited to their website.

While interactive games, publishing and toys are the primary ancillary categories for animation properties, the number of possible products is unlimited, depending on the nature of the content and its audience. Clothing, stationery, food and beverages are among the available revenue streams. Tactical considerations for maximum profits include the timing of product introduction in each country where the property is released, the product categories chosen, whether to grant exclusive or non-exclusive rights, and the choice of retail outlets. While under-stocking can



SECTION V: DISTRIBUTION STRATEGY

reduce revenues, over-stocking can shorten the life of the product licensing program, and even have an adverse impact on the animation property itself by creating a negative consumer reaction.

Product placement within a film, common to American live-action properties, is generally not encouraged within animation properties, as it tends to reduce the “classic” status of the animated film. Threshold Animation Studios’ animated feature “Food Fight” launched a direct assault on this principle by setting a story in an American supermarket filled from top to bottom with name-brand household products, and using the fees charged to fund production. The ultimate results of this approach remain to be seen, but the negative online buzz from animation fans prior to release is noteworthy, as is the film’s ongoing difficulty in finding theatrical distribution. A more acceptable phenomenon common in mainland China is the inclusion of corporate logos in the end credits of feature films in exchange for production financing.

The Internet

The Internet is a global market that can be accessed from almost anywhere in the world. Independent animation filmmakers can now obtain a bigger audience through a website than through traditional TV or film distribution. For animation producers motivated to tell stories to the widest possible audience, the Internet offers over a billion potential viewers through more than 300 million broadband households.

Much can be said about the revolutionary potential of online delivery. In short, the opportunity and the challenge that all producers & distributors now face is how to manage the continuation of traditional revenue streams, while also embracing the uncertain (but unquestionable) potential of digital distribution through online media.

“Tofu Boy” Distribution Strategy

“Tofu Boy” is being planned as a \$5 million USD 3D stereoscopic direct-to-DVD (DVD Premiere), with tentpole theatrical screenings in major Western cities and widespread theatrical release in China & Asia. While producing a 3D animated direct-to-DVD feature with associated theatrical distribution is nothing new, the idea of creating a 3D stereoscopic DVD Premiere may sound unusual, perhaps even contradictory. However our research shows that this “dual core” approach is forward-thinking, can be achieved inexpensively and should result in significant



SECTION V: DISTRIBUTION STRATEGY

revenues. The market potential of stereoscopic theatrical exhibition and stereoscopic TV technology is compelling. Japan's Arisawa Manufacturing Co. expects interest in stereoscopic movies to boost sales of 3D TVs. Sony, Panasonic and LG are among the companies who plan to sell 3D TVs and Blu-ray DVD players this year. Stereoscopic television & DVD will soon become commonplace, and should be a significant revenue stream by the time "Tofu Boy" completes production. Although stereoscopic "retrofitting" of monoscopic animated films (such as "The Nightmare Before Christmas" and soon the original "Toy Story") is costly, stereo production can be relatively inexpensive if integrated into the production plan from the start. Fortunately, Magic Dumpling's team has experience in this area.

Our strategy is to regard the North American and European markets as fundamental to our success as the mainland Chinese and Asian markets: focusing on DVD sales & rentals in the West, and concentrating on theatrical screenings in the East (with special attention to rural distribution on the Chinese mainland). We hope to premiere a "Tofu Boy" teaser at the 2010 MIPCOM market in Cannes, and are targeting the film's Western and Eastern theatrical premieres for the Cannes and Shanghai International Film Festivals in the summer of 2012. This should position "Tofu Boy" well for the American Thanksgiving holiday in November, with an "Eat tofu, not turkey!" advertising campaign. Based upon feedback to our current development work, we anticipate the market potential of "Tofu Boy" to be significant in both the East and the West.

Independent distributors have an advantage in releasing low-budget animated films, since they have the experience and patience necessary to handle the slower "platform" method of release. A platform release strategy involves opening a film in a select few cities, building on the film's word-of-mouth, and gradually widening the release to add more cities and more screens to the release schedule. Positive buzz, festival success and strong reviews all add to a film's platform.

Regarding the broadcast potential of "Tofu Boy", Magic Dumpling will pursue all available windows of opportunity in mainland China and internationally, not only for the original "Tofu Boy" story but also for derivative treatments of the property. In particular, we see the potential for an episodic "Tofu Boy" television series, which could be created for release as a "spin-off" from the original film, or possibly broadcast prior to the release of the film.

With the understanding that animated films and television properties generally turn a profit not on the initial theatrical or broadcast release, but through the exploitation of ancillary revenue streams, Magic Dumpling actively develops appealing ancillary media and product lines for each of



SECTION V: DISTRIBUTION STRATEGY

its animation projects in strategic partnerships with innovative design, publishing & manufacturing companies. These creative collaborations will go beyond traditional license agreements to produce toys, games, books and other products that are more engaging and faithful than typical movie-related merchandise, and more resistant to piracy. Magic Dumpling's plans for the popular "Tofu Boy" concept include role-playing games, board games, electronic hand-held games, console games, online games, mobile games and arcade games. The game-play value of "Tofu Boy" is built directly into the story concept & scenarios, and will adapt quite naturally to these ancillaries.

Magic Dumpling's creative team will work in direct partnership with our various ancillary manufacturing and publishing contacts throughout China in order to take advantage of the appetite for these products among Asian and international animation audiences – especially our target audience of children & youth, who have the most obsessive purchasing habits. We expect to generate high quality content-related merchandise at an extremely attractive price point, leveraging on the unique capabilities of China's material production system.

Finally, while Internet users are quick to migrate to other sites when fees are charged for content, free access to online entertainment is commonly used as a "hook" for the advertising and sales of related products and content, something Magic Dumpling intends to leverage on for "Tofu Boy". A strong website presence is essential for any movie, especially for a "word-of-mouth" film like "Tofu Boy". By providing a certain amount of online content for free, including digital wallpapers, character dialog ringtones, games and other promotional considerations, we aim to increase our overall revenue potential.

Summary

The global animation industry is highly competitive, with much of a project's success being directly related to the skills of the distributor's marketing strategy. Magic Dumpling actively solicits early feedback from potential distribution partners within the U.S. and China, including independent companies, major studios and government entities. Magic Dumpling is committed to the creation of appealing animation content for mass markets, and values the guidance of experienced distributors. This open strategy directly benefits the market position and profit potential of our properties. Our goal is to make quality animated films and programs that people will enjoy and that distributors will be interested in acquiring prior to completion, thereby increasing the chances of financial success.



SECTION VI: FINANCIAL PROJECTIONS

Financial Considerations

The revenue models contained in this document are based on certain assumptions of fact, are presented for illustrative purposes only and do not represent a forecast of the anticipated results of Magic Dumpling's operations. Potential investors must recognize that the projections are only estimates, are not guaranteed, and should not be relied upon by any investor in connection with Magic Dumpling and its projects. No independent review of the financial projections or assumptions has been performed.

Magic Dumpling proposes to secure development and production financing primarily from equity partners by means of limited partnership investments. With funding in place from our investors, Magic Dumpling can negotiate the most advantageous distribution deals. This strategy will permit maximum flexibility in a rapidly changing marketplace where supply and demand is in constant flux.

Many factors affect the financial projections of animated entertainment properties. Commercial appeal is the most important factor in determining financial success, followed closely by the agreement with the distributor. Being able to self-finance development & production in cooperation with our partners puts Magic Dumpling in the strongest position to control the quality and cost of its projects, and strike the best financial arrangements with the various distribution channels. In acquiring animation projects, distributors consider the following factors, among others:

- Compelling story
- Appealing characters
- Profitable genre
- Clear market position
- Creative team's track record
- Alternate media tie-ins (books, comics...)
- Attached talent
- Attached money



SECTION VI: FINANCIAL PROJECTIONS

Magic Dumpling's animation properties already meet many of these criteria, with the remainder subject to acquisition. Although film and DVD sales depend upon a mix of these factors, with variations from country to country, first and foremost is the appeal of the story and the characters. This is Magic Dumpling's core value.

The independent animation producer must secure the best distribution deals possible, with distributors who will commit appropriate financial resources and secure favorable distribution release patterns. This is essential to an animation project's success, for when distributors commit funds to the prints and advertising (P&A) budget of a film, it signals their desire to see the film become successful and make a profit. The distributor can ensure this by securing enough screens for the film, retail space for the DVDs, and channels for broadcast to ensure that sufficient numbers of the viewing public pay to see the movie in one form or another. As with any business, when revenue exceeds cost, profits are realized.

Despite the incredible box office grosses of major studio animated hits from Disney/Pixar and PDI/DreamWorks, the returns for independent productions are much more modest, and can fluctuate wildly from company to company. Following is a list of independent CG animated feature film returns from 2006 through 2009, rounded to the nearest \$100,000 USD:



SECTION VI: FINANCIAL PROJECTIONS

2006-2009 Independent CG Animated Feature Film Returns (in millions of USD)

<u>Film</u>	<u>Opening B.O.</u>	<u>Global Gross</u>
<i>The Wild (2006)</i>	\$9.7m	\$102.3m
<i>The Ant Bully (2006)</i>	\$8.4m	\$55.2m
<i>Barnyard (2006)</i>	\$15.8m	\$116.5m
<i>Doogal (2006)</i>	\$3.6m	\$26.7m
<i>Everyone's Hero (2006)</i>	\$6.1m	\$16.6m
<i>Happy Feet (2006)</i>	\$41.5m	\$384.3m
<i>Arthur & The Invisibles (2007)</i>	\$4.3m	\$107.9m
<i>Happily N'Ever After (2007)</i>	\$6.6m	\$38.1m
<i>TMNT (2007)</i>	\$24.3m	\$95.6m
<i>The Ten Commandments (2007)</i>	\$0.5m	\$1.1m
<i>Fly Me To The Moon (2008)</i>	\$1.9m	\$41.4m
<i>The Pirates Who Don't... (2008)</i>	\$4.3m	\$13.2m
<i>Star Wars: The Clone Wars (2008)</i>	\$14.6m	\$68.3m
<i>Space Chimps (2008)</i>	\$7.2m	\$64.8m
<i>Igor (2008)</i>	\$7.8m	\$30.6m
<i>Roadside Romeo (2008)</i>	\$0.1m	\$2.0m
<i>Delgo (2008)</i>	\$0.5m	\$0.7m
<i>The Tale of Despereaux (2008)</i>	\$10.1m	\$86.7m
<i>Battle for Terra (2009)</i>	\$1.1m	\$2.9m
<i>9 (2009)</i>	\$10.7m	\$48.0m
<i>Astro Boy (2009)</i>	\$6.7m	\$23.0m
<u><i>Planet 51 (2009)</i></u>	<u>\$12.3m</u>	<u>\$63.5m</u>
AVERAGE:	\$6.8m	\$48.5m



SECTION VI: FINANCIAL PROJECTIONS

We have employed the good practice of culling the highest and the lowest performers (“Happy Feet” and “Delgo”, respectively) and also removing properties based upon popular, pre-existing franchises (“Star Wars”, “Teenage Mutant Ninja Turtles”, “Astro Boy”) and special venue films (“Fly Me To The Moon”) before determining the average. The result is a \$6.8 million USD average opening weekend, with a \$48.5 million USD average global box office gross.

Independent filmmakers often proceed with supposedly “conservative” financial projections that are in reality quite unrealistic, or budgets that qualify as “lean” only in comparison to the excessive expenditures of major studio productions. People are commonly interested in how much an animated production cost, when all that really matters is what revenues were returned. Through analysis of what comparative films have earned at the box office, such as those listed above, we can plan our own production costs according to the average returns, in order to ensure the best possible profit position.

Revenue Assumptions

In keeping with good business practices, the financial projections for Magic Dumpling’s animation properties assume a conservative level of success for each project. For the purposes of this business plan and specific to “Tofu Boy”, we have used current industry results for independent animated films of comparable size, theme and budget as our starting point. Several assumptions have been included in our income projections, and these are noted accordingly, with the understanding that actual revenues can vary widely according to genre, territory and distribution approach.

- *Global Box Office Revenue.* Total worldwide gross box office receipts. Animated films which have comparative values in any of the following categories: story, shooting style, budget, production values, distribution method, target audience, etc. were examined for purposes of our financial projections. Those films are noted in the “Financial Considerations” section above. (NOTE: Most of the global box office revenue for “Tofu Boy” is expected to come from China and the rest of Asia, with tentpole releases in major Western cities.)



SECTION VI: FINANCIAL PROJECTIONS

- *Global Home Video/DVD Revenue.* Potential income from this source is estimated to be roughly equal to Global Box Office Revenue for a theatrical release. Direct-to-DVD movies use a different projection. DVD revenues have been trending downward in recent years, although holding up well for animation which performs in a collectible, “toylike” manner compared to live-action. (NOTE: Most of the global home video/DVD revenue for “Tofu Boy” is expected to come from North America & Western Europe, with little or no DVD revenue in Asia and China.)
- *Global TV/Cable/VOD Revenue.* The value of the various broadcast revenue streams vary by international region as noted in this plan. Based upon our research, we estimate the average potential income from all likely worldwide broadcast sources at 40% of Global Box Office Revenue.
- *Global Ancillary Revenue.* Magic Dumpling intends to develop ancillary merchandise lines in strategic creative partnerships for toys, games, books and other products. Accordingly, we estimate the value of this revenue stream to be 15% or more of Global Box Office Revenue, although it can be much less for movies with low merchandise potential. Animation typically performs quite well in this revenue stream.
- *Global Non-theatrical Revenue.* This includes rural (a major potential market in China), educational, hotel, airline and other non-theatrical venues, and is estimated at 5% or more of Global Box Office Revenue.
- *Total Revenues.* Total worldwide revenues from all sources, prior to the deduction of fees and expenses.
- *Theatrical Exhibition Fees.* A global average of 55% to the exhibitor is used for our projections. (Exhibitors in North America take 50% on average, while international exhibitors can take 60% or more.)
- *Theatrical Distribution Fees.* On average, the fees a distributor charges for distributing a film internationally may be slightly higher than the domestic fees. We have assumed an average of 35% in theatrical distribution fees worldwide. P&A expenses and sub-distribution expenses are generally handled by the specific buyer in the territory for which the rights to the picture are being licensed.



SECTION VI: FINANCIAL PROJECTIONS

- *Theatrical Distribution Expenses (P&A)*. The print and advertising costs (P&A) include the manufacture and delivery of all film prints worldwide, as well as global marketing costs. We have placed the distributor's P&A expenditure at an amount equal to actual production costs in consideration of the minimum amount of exposure required for profitable box office returns.
- *Home Video/DVD Distribution Fees*. An industry average fee of 25% is assumed against Global Home Video/DVD Revenue.
- *Home Video/DVD Expenses*. An industry average expense of 55% Global Home Video/DVD Revenue is assumed for home video/DVD manufacturing and marketing, bringing combined Home Video/DVD Fees & Expenses to 80%.
- *TV/Cable/VOD Distribution Fees*. Increasingly in the digital era, television rights are often "bundled", without separate splits for each media type. An average distribution fee of 25% is assumed against Global TV, Cable and Video-On-Demand (VOD) Revenues.
- *TV/Cable/VOD Expenses*. An average expenses rate of 5% against revenues is assumed worldwide, bringing combined TV, Cable & VOD Fees & Expenses to 30%.
- *Ancillary Fees & Expenses*. Fees and expenses of 50% Global Ancillary Revenue are anticipated for the strategic partnerships that Magic Dumpling intends to establish in this revenue stream.
- *Non-theatrical Fees & Expenses*. Fees and expenses of 50% Global Non-theatrical Revenue are assumed.
- *Total Expenses*. Total fees and expenses (including P&A) assessed against all global revenue sources.
- *Producer's Gross*. The balance to Magic Dumpling of Total Revenues minus Total Expenses.



SECTION VI: FINANCIAL PROJECTIONS

- *Production Costs (Negative Cost)*. Expenses incurred by the producer up to and including a master print of the film, including taxes, financing and insurance. All screen print manufacturing and marketing costs are included under P&A, and are the responsibility of the distributor. Production Costs as defined here may cover reimbursement of investment principal and/or repayment of loan principal.
- *Producer Net Profits*. The total net profits to Magic Dumpling & its investors, once Production Costs (including reimbursement of associated investment principal) have been subtracted from Producer's Gross.

The distributor is at the top of the “food chain”, as all revenues come back to the distribution company first. The distributor's expenses and fees are deducted before any net profits are remitted to the producer and the investors. The box office receipts for independent films are divided into exhibitor and distributor shares just as they are for major studio releases. The revenue split between the exhibitor and the distributor is averaged at 55/45, although this split may vary on a weekly basis, and by international territory. Additional revenues are added to the sum total as they flow in, generally over a period of one to two years. From the first revenues, the film prints & advertising and distribution fees are paid off. Then the production costs (referred to as the “negative cost”) of the film is paid back to the investors. Finally, net profits are shared.

“Tofu Boy” Revenue Projection

Following is a global revenue projection for Magic Dumpling's animated DVD Premiere feature film “Tofu Boy” over a 6-18 month period of primary return, assuming a \$5m USD production budget and equivalent international P&A expenditure. Our conservative goal is approximately 25% of the \$48.5 million USD global box office average of the independent animated CG films listed above. In other words, we anticipate our cumulative global box office revenue from all international territories to total approximately \$12 million USD. Projected international revenues for DVD, TV and ancillary revenue streams are based upon the information in the “Revenue Assumptions” section above, and then adjusted to the particulars of our DVD Premiere distribution strategy, which includes staged theatrical release concurrent with DVD sales and aggressive TV/Cable/VOD distribution windows. It is important to emphasize that these figures are only an estimate, not a guarantee.



SECTION VI: FINANCIAL PROJECTIONS

"Tofu Boy" Revenue Projection (in millions of USD)

Global Box Office Revenue	\$12.00m
Global Home Video/DVD Revenue	\$16.00m
Global TV/Cable/VOD Revenue	\$6.00m
Global Ancillary Revenue	\$3.50m
Global Non-theatrical Revenue	\$1.50m
TOTAL REVENUES:	\$39.00m

Theatrical Exhibition Fees	\$6.60m
Theatrical Distribution Fees	\$1.89m
Theatrical Distribution Expenses (P&A)	\$5.00m
Home Video/DVD Distribution Fees	\$4.00m
Home Video/DVD Expenses	\$8.80m
TV/Cable/VOD Distribution Fees	\$1.50m
TV/Cable/VOD Expenses	\$0.30m
Ancillary Fees & Expenses	\$1.75m
Non-theatrical Fees & Expenses	\$0.75m
TOTAL EXPENSES:	\$30.59m

Producer's Gross	\$8.41m
Production Costs (Negative Cost)	\$5.00m
PRODUCER NET PROFITS:	\$3.41m



SECTION VI: FINANCIAL PROJECTIONS

According to this projection, “Tofu Boy’s” investors stand not only to recover their initial \$5m USD investment towards production costs, but also to see at least \$2.45 million USD in net profits (an approximately 50% ROI), with the possibility of much greater returns.

MINIMUM INVESTOR RECOUPMENT = \$5,000,000 principal + \$1,000,000 premium (at 20%) + \$1,446,000 profit share (60/40 split)

A simple way to look at the profit potential of “Tofu Boy” is based upon “quitclaim” sales of all rights in all media for all international territories. Total sales of \$5 million USD puts “Tofu Boy” into break-even, with a 50% ROI to investors for the projected sales total of \$8.5 million USD:

“Tofu Boy” Sales Profit Potential (in millions of USD)
(on \$5m USD production budget)

<u>Total Sales</u>	<u>Investor Share</u>	<u>(ROI)</u>	<u>Producer Share</u>
\$5,000,000	\$5,000,000	(0%)	\$0
\$6,000,000	\$6,000,000	(20%)	\$0
\$7,000,000	\$6,600,000	(32%)	\$400,000
\$8,000,000	\$7,200,000	(44%)	\$800,000
\$8,500,000	\$7,500,000	(50%)	\$1,000,000
\$9,000,000	\$7,800,000	(56%)	\$1,200,000
\$10,000,000	\$8,400,000	(68%)	\$1,600,000
\$11,000,000	\$9,000,000	(80%)	\$2,000,000
\$12,000,000	\$9,600,000	(92%)	\$2,400,000

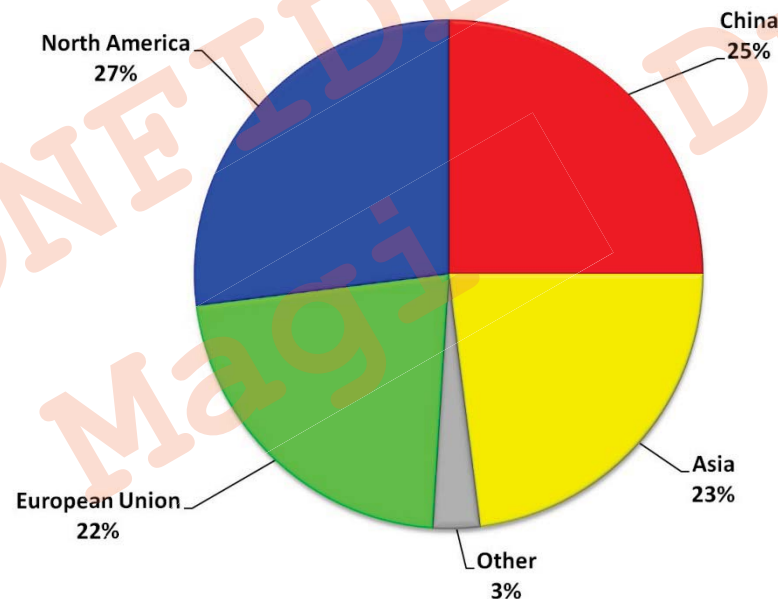


SECTION VI: FINANCIAL PROJECTIONS

Territorial Revenue

The chart below represents projected revenue from all primary and ancillary sources by territory, with “North America” including the United States and Canada; “China” representing the Chinese mainland, Taiwan & Hong Kong; “Asia” representing the entire Orient including Australia but excluding India, and “European Union” including all member countries. “Other” includes large geographical territories such as South America, Russia & Eastern Europe, Africa & India. Despite their size, these latter territories typically return nominal revenues for independent films (for example, India often accounts for 1% or less of a non-Indian independent film’s total revenue).

We expect that the majority of the Asian revenue will consist of theatrical, broadcast & ancillary streams (with almost no DVD revenue), while the majority of Western revenue will consist of DVD sales & rentals combined with staged theatrical release.



SECTION VI: FINANCIAL PROJECTIONS

Projected Cashflow

Following is rough cashflow projection of expenses and revenues for “Tofu Boy”, in millions of USD. Please note that this is only an estimate. Actual cashflow is dependent upon the terms of contracts with vendors, sales agents & distributors.

Tofu Boy	Year 1				Year 2				Year 3				Year 4			
	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4
		<i>Cannes, SIFF</i>		<i>MIP, AFM</i>		<i>Cannes, SIFF</i>		<i>MIP, AFM</i>		<i>Cannes, SIFF</i>		<i>MIP, AFM</i>		<i>Cannes, SIFF</i>		
			<i>dev</i>	<i>pre</i>	<i>prod</i>	<i>prod</i>	<i>prod</i>	<i>prod</i>	<i>post</i>							
Production Expenses			(0.15)	(0.6)	(1.0)	(1.0)	(1.0)	(0.75)	(0.5)							
P&A Expenses									(0.25)	(2.0)	(1.0)	(1.25)	(0.5)			
Box Office Revenue										2.4	3.0	3.6	2.4	0.6		
Home Video/DVD Revenue										8.0	3.2	2.4	0.8	1.6		
TV/Cable/VOD Revenue													6.0			
Ancillary Revenue								0.175	0.35	1.05	0.7	0.525	0.35	0.35		
Non-theatrical Revenue														1.5		
Theatrical Exhibition Fees										(1.32)	(1.65)	(1.98)	(1.32)	(0.33)		
Theatrical Distribution Fees										(0.378)	(0.473)	(0.567)	(0.378)	(0.094)		
Home Video/DVD Fees/Exp.										(6.4)	(2.56)	(1.92)	(0.64)	(1.28)		
TV/Cable/VOD Fees													(1.8)			
Ancillary Fees/Expenses								(0.087)	(0.175)	(0.525)	(0.35)	(0.263)	(0.175)	(0.175)		
Non-theatrical Fees/Exp.														(0.75)		
BALANCE FORWARD:			(0.15)	(0.75)	(1.75)	(2.75)	(3.75)	(4.412)	(4.987)	(4.16)	(3.293)	(2.748)	1.989	3.41		



SECTION VI: FINANCIAL PROJECTIONS

Return On Investment

Magic Dumpling proposes to pay back the limited partners who invest in “Tofu Boy” in the following manner:

A) Production investors will share combined international profits from all sources based upon their percentage contribution of the final production budget. (For example, if the final production budget is 34 million RMB, a 10 million RMB investor would be a 29% shareholder on the “money” side of the venture. However, if the final production budget is only 25 million RMB, a 10 million RMB investor would be a 40% shareholder on the “money” side of the venture).

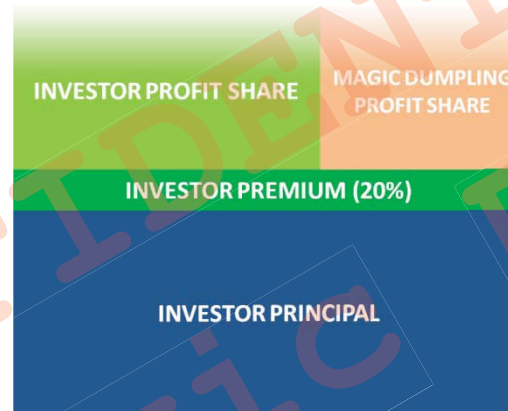
B) Production investors are paid back as revenues return to the company from international theatrical distributors, broadcast distributors, DVD distributors, and ancillary distributors, in the following manner:

- 1) From the producer’s gross, Magic Dumpling will cover any and all outstanding production costs, including talent salary deferrals and other such expenses.
- 2) After deducting any deferred fees or outstanding expenses, 100% of the remaining producer’s gross will go directly to the limited partners proportionate to each partner’s investment in the project, whether this principal has come in the form of cash or equivalent production resources. Funds will be distributed to all limited partners at the same time, with priority given to partners who invested in the development phase of the project. Accounting statements from distribution companies are usually handled on a quarterly basis for the first two years of the distribution agreements and semi-annually thereafter for a period of two years. Accounting statements are then handled on an individual basis. Generally, the distribution companies are responsible for providing statements and paying any sums due to Magic Dumpling within sixty days of the end of each quarter. Magic Dumpling will provide the limited partners with any accounting statements and payments due within sixty days of the receipt of those statements and funds from the distributors.



SECTION VI: FINANCIAL PROJECTIONS

- 3) After each limited partner has recovered their initial investment principal, 100% of the producer's net profits will continue to go directly to the limited partners proportionate to each partner's investment in the project, until each partner has received a 20% premium on their capital investment.
- 4) After each limited partner has received a 20% premium on their capital investment, 60% of the producer's net profits will continue to be divided among the limited partners according to their equity stake, which is based upon the value of their investment principal relative to the final budget.



C) With respect to production credits and logos, all investors will receive mention in the end credits of the film, regardless of the size of their investment. Investors who wish to be featured in the opening credits of the film (including "Executive Producer" or "In Association With" credits) must contribute at least 20% of the total production budget for this distinction. Investors can also receive an "Executive Producer" credit by contributing 50% or more of the development budget in cash, during development.



SECTION VI: FINANCIAL PROJECTIONS

Magic Dumpling is confident that it will create animated content that family audiences around the world will enjoy, thereby reaping the financial rewards of that success. No animation company can guarantee that every one of its films and programs will be profitable, but Magic Dumpling stands by its commitment to ensure that the most favorable distribution deals will be arranged, thereby maximizing the potential return to our investors and/or co-production partners.

Copyright

The concept of copyright is fundamental to the film industry, since nearly every film transaction relates to the ownership or licensing of copyright. Copyright can be compared with real estate: you can sell part or all of it, lease it temporarily (licensing) and so on. Some people focus on ownership of copyright as though it has some particular significance by itself, but what truly matters are the rights granted to exploit the work (and all derivative works) in different media throughout various territories.

A producer initially needs to be the owner of all the copyright in a film so that they can grant the necessary rights in order to profitably exploit the property. Copyright and/or associated licensed rights are typically acquired by investors and distributors in the course of producing and distributing a film.

Magic Dumpling Entertainment currently holds the copyright to all intellectual property associated with “Tofu Boy”, registered in both China and the United States with a clear chain of title.

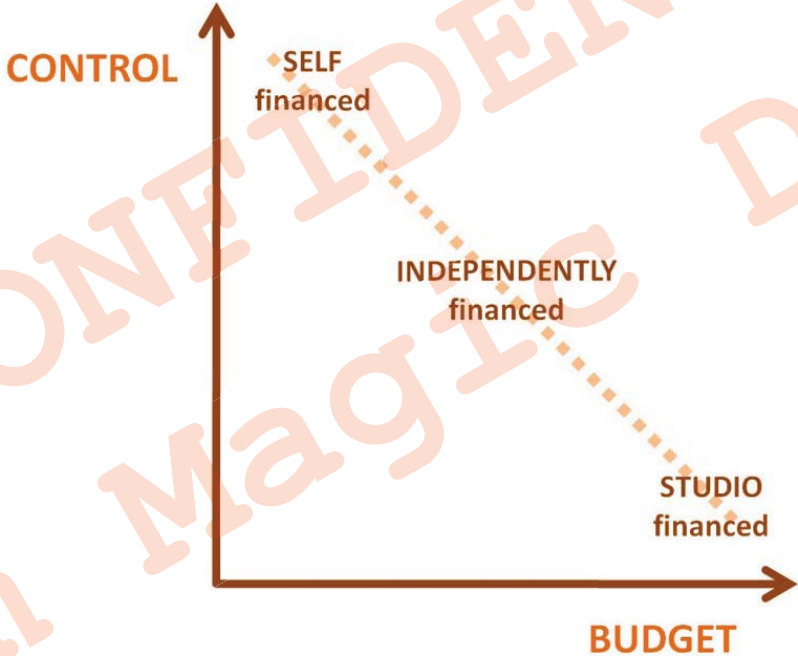
The various ways in which copyright may be transferred or licensed are too numerous to fully describe here. Nevertheless, Magic Dumpling is committed to the principle of fair copyright ownership & exploitation based upon the equity stakes held by its investment partners in the “Tofu Boy” venture. In other words, profit participants will also share appropriately in the copyright.



SECTION VII: PRODUCTION BUDGET

Budget Considerations

Filmmaking is a mixture of art and commerce, and sometimes these co-exist rather uneasily. But the fact remains for any independent producer that the business and aesthetic aspects of independent animation must be balanced in order to have a chance at success. Every step of the way, the animation producer walks a fine line between the financial and artistic goals of the film – which although not always compatible, are definitely entwined. Ultimately, the goal is to find a business model that best suits the particular project, its “production culture” (the way the production company prefers to operate), and the intended audience. It is a hard fact of the film business that the amount of control an animation producer has over their project will be inversely proportional to the budget: the more money at stake, the less control given to the filmmakers.



SECTION VII: PRODUCTION BUDGET

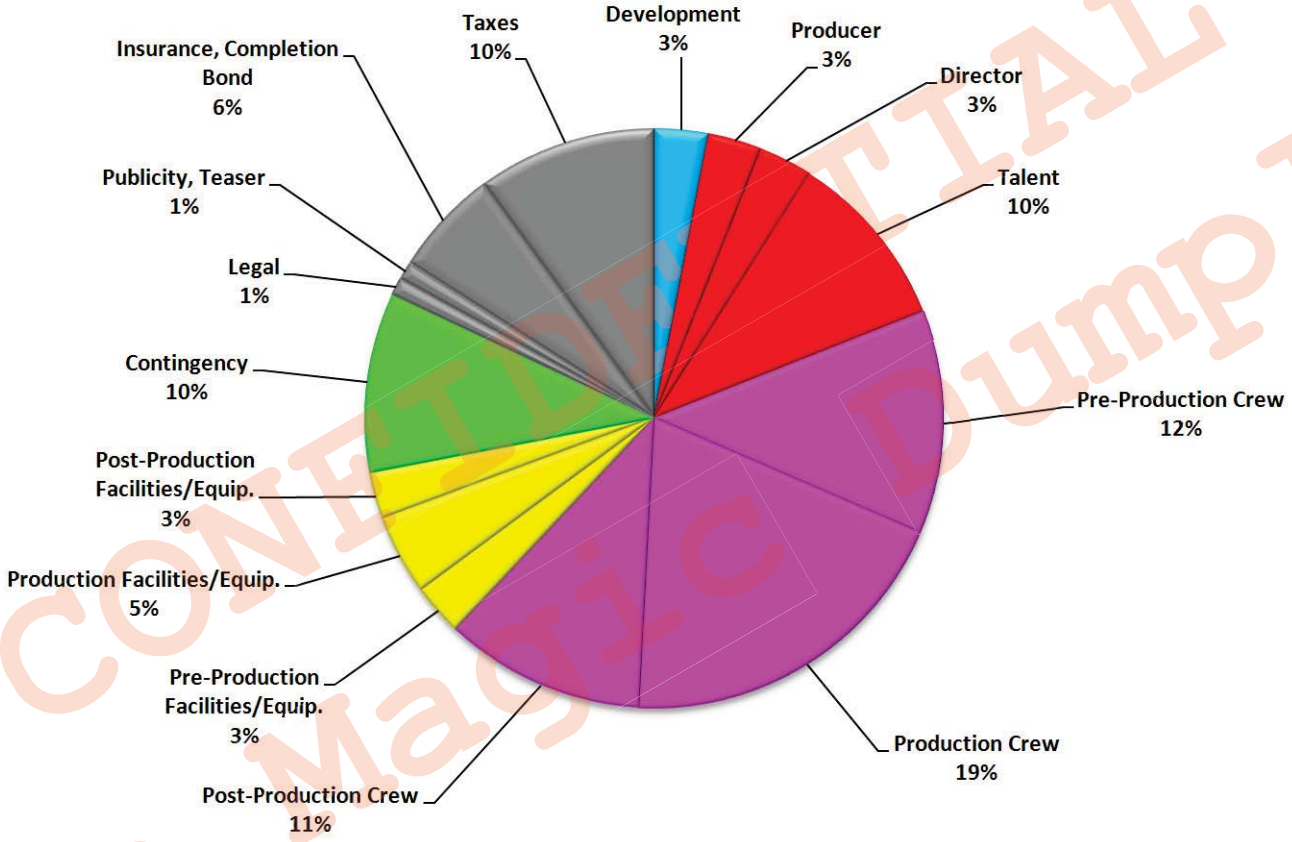
Based on our research & analysis, there has also been a notable phenomenon recently where the most profitable independent film ventures are either sub-\$5 million USD direct-to-DVD features with limited theatrical release, or independent animated films with budgets over \$15 million USD. The in-between zone appears to be a region which is too costly to make a profit under the former scenario, and too cheap to compete on the international stage as a full theatrical release.

With these factors in mind, and with full consideration of our projected revenue target and market analysis, “Tofu Boy” is budgeted as a \$5 million USD animated 3D feature DVD Premiere movie, with a direct production cost of \$3.6 million USD. This is the “sweet spot” in which we can produce an animated 3D stereoscopic feature film which is of high enough quality to be competitive in Western DVD markets and Asian theatrical markets, at a price point economical enough to provide a significant ROI to our investors.



SECTION VII: PRODUCTION BUDGET

“Tofu Boy” Preliminary Production Budget



\$5,000,000 USD

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From Magic Dumpling



SECTION VII: PRODUCTION BUDGET

“Tofu Boy” Preliminary Production Budget Top Sheet

Item #	Category Description	Total USD	Total RMB
DEV_01	OUTLINE/TREATMENT/SCREENPLAY	\$90,000	¥612,000
DEV_02	CHARACTER & ENVIRONMENT CONCEPT ART	\$60,000	¥408,000
Total Development:		\$150,000	¥1,020,000
ATL_01	PRODUCER	\$135,000	¥918,000
ATL_02	DIRECTOR	\$135,000	¥918,000
ATL_03	TALENT	\$450,000	¥3,060,000
ATL_04	FRINGE BENEFITS	\$80,000	¥544,000
Total Above-The-Line:		\$800,000	¥5,440,000
PRE_01	PRE-PRODUCTION MANAGEMENT	\$76,000	¥516,800
PRE_02	PRE-PRODUCTION SUPERVISION	\$32,000	¥217,600
PRE_03	PRE-PRODUCTION TECH SUPPORT	\$23,000	¥156,400
PRE_04	STORYBOARDING & ANIMATIC	\$52,000	¥353,600
PRE_05	ART DIRECTION & DESIGN	\$73,000	¥496,400
PRE_06	3D MODELING & RIGGING	\$191,000	¥1,298,800
PRE_07	3D TEXTURING & SURFACING	\$115,000	¥782,000
PRE_08	PRE-PRODUCTION FACILITIES/EQUIPMENT	\$145,000	¥986,000
PRE_09	FRINGE BENEFITS	\$62,000	¥421,600
Total Below-The-Line Pre-Production:		\$769,000	¥5,229,200
PRO_01	PRODUCTION MANAGEMENT	\$133,000	¥904,400
PRO_02	PRODUCTION SUPERVISION	\$87,000	¥591,600
PRO_03	PRODUCTION TECH SUPPORT	\$77,000	¥523,600
PRO_04	2D BACKGROUNDS & 3D LAYOUT	\$84,000	¥571,200
PRO_05	2D & 3D ANIMATION/CLEANUP	\$187,000	¥1,271,600

PRO_06	2D & 3D EFX	\$87,000	¥591,600
PRO_07	LIGHTING & COMPOSITING	\$193,000	¥1,312,400
PRO_08	RENDERING	\$24,000	¥163,200
PRO_09	PRODUCTION FACILITIES/EQUIPMENT	\$225,000	¥1,530,000
PRO_10	FRINGE BENEFITS	\$96,000	¥652,800
Total Below-The-Line Production:		\$1,193,000	¥8,112,400
PST_01	POST-PRODUCTION MANAGEMENT/SUPERVISION	\$33,000	¥224,400
PST_02	EDITORIAL	\$67,000	¥455,600
PST_03	MUSIC	\$180,000	¥1,224,000
PST_04	VOICE/SOUND RECORDING & MIX	\$100,000	¥680,000
PST_05	TITLES	\$50,000	¥340,000
PST_06	DIGITAL/FILM MASTERS	\$100,000	¥680,000
PST_07	POST-PRODUCTION FACILITIES/EQUIPMENT	\$130,000	¥884,000
PST_08	FRINGE BENEFITS	\$28,000	¥190,400
Total Below-The-Line Post-Production:		\$688,000	¥4,678,400
OTH_01	CONTINGENCY	\$500,000	¥3,400,000
OTH_02	LEGAL	\$50,000	¥340,000
OTH_03	PUBLICITY/TEASER	\$50,000	¥340,000
OTH_04	INSURANCE, COMPLETION BOND	\$300,000	¥2,040,000
OTH_05	TAXES	\$500,000	¥3,400,000
Total Below-The-Line Other:		\$1,400,000	¥9,520,000

TOTAL ABOVE-THE-LINE:		\$950,000	¥6,460,000
TOTAL BELOW-THE-LINE:		\$4,050,000	¥27,540,000
GRAND TOTAL:		\$5,000,000	¥34,000,000



SECTION VIII: PRODUCTION SCHEDULE

“Tofu Boy” Production Schedule

The animated 3D feature DVD Premiere “Tofu Boy” is being developed with a 18-month total production schedule, planned as follows. This schedule presumes a completed screenplay and the completion of financing as a starting point, with a sellable movie 18 months from commencement.

Storyboard & Animatic	█	█	█	█							█						█			
Reading & Recording		█		█							█						█			
Art Direction & Design	█	█	█	█							█						█			
Art Packet			█	█							█						█			
Previz & Workbook			█	█							█						█			
Software		█																		
Modeling & Rigging			█	█	█	█	█	█	█	█	█	█	█	█	█	█	█			
Texturing & Surfacing			█	█	█	█	█	█	█	█	█	█	█	█	█	█	█			
Backgrounds & Layout																				
2D & 3D Animation																				
2D & 3D EFX																				
Lighting & Compositing																				
Digital Workreel																				
Test Screening																				
Final Score/Sound																				
Digital Master Print																				



A detailed breakdown of assumptions regarding production crew size, departmental organization, and start and end dates may be provided upon request.



APPENDIX A: COMPANY

Magic Dumpling Entertainment is an animation development company incorporated under the laws of the People's Republic of China and headquartered in Beijing. Magic Dumpling creates entertaining stories and appealing characters for family audiences within mainland China and around the world. Our company is staffed and managed by a seasoned team of animation professionals from China and the United States, possessing a successful combination of entrepreneurial experience and major studio production knowledge. This in-house team is complemented by an insightful advisory board comprised of distinguished figures in the U.S. and Chinese animation and media industries.

Magic Dumpling is actively developing a compelling slate of animated feature films, TV shows and mobile content for general Chinese and international audiences, building on a proven market base. Magic Dumpling expects each of its animation properties to produce profits that will be used to reward investors and fund future development and production. Our projects combine Chinese themes and cultural cues with proven Hollywood story structures for resonance with contemporary audiences, and have been profiled in media outlets including Animation Magazine, 3D World magazine, Animation World Network and the popular entertainment website O-meon.com.

As a company, Magic Dumpling brings two core values to the table: the first is high-quality intellectual property (IP) development, encompassing story and design; the second is world-class production experience & guidance, with animation in general and 3D stereoscopic feature films in particular. Magic Dumpling's development properties are sourced to qualified Chinese animation studios, providing flexible and scalable production capacity with low overhead. Artist training, technical consultation and production guidance is provided by Magic Dumpling as needed in order to ensure the best possible quality from our production partners.

The global animation industry is highly competitive, with much of a project's success being directly related to the skills of the distributor's marketing strategy. On each project, Magic Dumpling solicits early feedback from potential distribution and co-production partners in the U.S. and China, including independent companies, major studios and government entities. Magic Dumpling is committed to the creation of appealing animation content for mass markets, and values the guidance of experienced distributors. This open strategy directly benefits the market position and profit potential of our properties. With the understanding that animated films and television properties usually turn a profit not on the initial theatrical or broadcast release, but through the exploitation of ancillary revenue streams, Magic Dumpling actively develops appealing ancillary media and product lines for each of its animation projects in strategic partnerships with innovative design, publishing & manufacturing companies.





Kevin Geiger
President, Magic Dumpling

A resident of Beijing since 2008, Kevin Geiger has over 15 years of technical, artistic and organizational experience in the animation and special effects industry, including 12 years with Walt Disney Feature Animation and Cal Arts. Mr. Geiger has supervised and consulted on successful animated feature film productions with budgets of more than \$100 million USD to less than \$10 million USD, and is a highly-regarded expert on production pipelines and workflow efficiencies.

Kevin Geiger's career in digital animation and effects began under the mentorship of Academy Award winner Richard Edlund, whose supervision of the original "Star Wars" film established an industry. At Edlund's Boss Film Studios, Mr. Geiger was charged with seminal 3D CGI character work for the MGM release "Species" – the first feature film to direct a digital actor in real-time. Shortly thereafter, Kevin Geiger joined Walt Disney Feature Animation to create articulated digital characters for the groundbreaking "Steadfast Tin Soldier" segment of "Fantasia/2000". Mr. Geiger's technical and artistic proficiency quickly led to his appointment as a founding member of WDFAs Digital Visual Development Department, which saw his contributions on several confidential projects including Disney's cutting-edge digital human initiative. The production leadership and innovation that Kevin Geiger displayed on films such as "Dinosaur" and "Reign of Fire" culminated in his role as CG Supervisor on "Chicken Little" – where his team established a comprehensive CGI pipeline from the ground up while also retraining dozens of traditional artists and setting a new bar for cartoony 3D character animation. The principles and conventions of the innovative CG pipeline that Kevin Geiger architected on "Chicken Little" are still in use today at Walt Disney Animation Studios.

After supervising character R&D and pipeline architecture on Disney's upcoming animated feature "Tangled" (fka "Rapunzel"), Mr. Geiger left Disney to pursue his independent ventures full-time. As an award-winning animation producer and the former Director and Co-founder of the non-profit Animation Co-op, Kevin Geiger is a hub of experience, information and support within the animation community. His outreach extends to academia, where Mr. Geiger was a 12-year instructor of computer graphics and digital applications at Cal Arts, and is the first foreign Guest Professor at the Animation School of the Beijing Film Academy. A prolific international lecturer, Kevin is known for his engaging and insightful presentations at conferences and institutions around the world, on topics ranging from creative development to production efficiency and independent distribution.





Wen Feng
VP of Creative Development, Magic Dumpling

An award-winning independent animation filmmaker, Wen Feng is the creative spirit of Magic Dumpling. Ms. Feng has guided development of the animated feature film “Road to Home” (aka “Snow Wolf”) from its inception, and is actively cultivating Magic Dumpling’s current slate of animation properties in all media. A native of Taiwan, Wen Feng has created many distinguished short films, is the author of six books on animation, numerous essays & articles, and has taught advanced animation courses at the Beijing Film Academy and the Central Academy of Fine Arts in China.

Ms. Feng’s early career was marked by a series of critically-acclaimed animated short films. The most notable of these was “Lost”, which won numerous awards at international film festivals across China, Taiwan, Japan and South Korea. The jury of Germany’s Stuart Animation Festival praised “Lost” for “creating a new animation language”. Wen Feng’s “Best of Both Worlds” aired on Beijing Television (BTV) as an instructional animation designed to teach English in an entertaining way. Her “Scientific Story of Little S” likewise aired on China Central Television (CCTV) as an instructional science animation. CCTV’s “Chronicle” program also featured Ms. Feng’s animated short film “About Memory” in a profile of up-and-coming young animation Chinese directors.

Wen Feng’s professional animation industry experience includes work at Taiwan’s e21, where she animated on projects for major clients such as Asus, Acer and Taiwan Semi-conductor Manufacturing Company (TSMC). Ms. Feng’s leadership ability was honed as a project supervisor at China’s Spring Advertising Company, where she led a creative team to organize a design competition, choose a corporate mascot, and create a product application & marketing plan for China Unicom – China’s largest mobile phone carrier.

Wen Feng has lectured on animation in Asia and Europe, and her publishing history includes a half-dozen volumes on the subject of animation. Ms. Feng’s “Foundations of Animated Film & Television” was officially designated as a “classic textbook standard” by both the Beijing Film Academy and China’s Ministry of Education. Her “Language of Animated Films” was likewise designated by officials of An Hui province in mainland China.





Yi Yan
Head of Story, Magic Dumpling

Yi Yan is a prolific award-winning screenwriter with many Chinese film and television productions to his credit. A graduate of the Beijing Film Academy's Directing Department, Mr. Yan has taught in the Animation School of the Beijing Film Academy, the Animation Department of Central Fine Arts College in Beijing, and was the Film Department Chairman of Ying's Television & Film School at Beijing Ji Li University.

Yi Yan's writing career includes teleplays and screenplays for projects in various stages of production. Mr. Yan's 2005 teleplay "Soybean Milk Shop & Café" was purchased by China Central Television (CCTV) at the A+ grade level, CCTV's highest quality designation. "Dancing in Youth", written & directed by Yi Yan, was the first made-for-TV movie about tap dancing in mainland China. "Dancing in Youth" received a "Best Film" nomination in the 8th Digital Lily Film Festival, and was included in CCTV's "Best Films of the Year" collection for 2006. Mr. Yan's other broadcast work includes the TV movie "Love Comes and Goes", the badminton-themed TV drama "White Plume", and episodes of the Chinese TV drama "Firemen".

2006 also saw Yi Yan's feature film screenplay, "Ai Meimei's Date", receive the Xia Yan Cup Script Award from China's State Administration of Radio, Film & Television (SARFT). Mr. Yan has written screenplays for the as-yet-unproduced feature films "Love Affairs", "Xiao Tian's Olympics", "Affair", and "Zhao's Orphan". Yan's screenplay for the feature film "May Love Live" is currently in production in South Korea, while his screenplay for "The Story of Tang Bohu & Qiu Xiang" is in production in China.

In addition to his directing role on "Dancing in Youth", Yi Yan has co-directed the made-for-TV movie "Soybean Milk Shop & Café", and the feature films "The Results" and "Papa Dean". "Road to Home" (aka "Snow Wolf") is Yan's first animated feature film script, and his first screenplay to be developed in both Mandarin and English – with Chinese and Western audiences in mind. Yan Yi is currently writing the screenplay to Magic Dumpling's next animated feature film in development, "Tofu Boy".



APPENDIX C: ADVISORY BOARD

Bob Bacon, Animation Industry Consultant

As Executive Vice President of Walt Disney Feature Animation with more than 15 years at the Disney Company, Bob Bacon headed production, technology and finance at Disney Feature Animation, managing a crew of more than 2000 and film budgets exceeding \$150 million USD. His responsibilities included developing annual operating and long-range studio plans that balanced artistic and technical resources against creative and production requirements. Mr. Bacon currently provides production and financial consulting for the animation industry through Magic Bag Productions.

Margaret Dean, Animation Production Specialist/Producer

Margaret Dean has a long and distinguished career in animation production. Currently the General Manager at W!LDBRAIN Animation Studios, Ms. Dean was previously the Vice President of Animation at Technicolor, and before that Producer of Omaton's Emmy-award-winning series "Back at the Barnyard" animated TV series, where she established the studio's television arm. Margaret Dean spent five years as a Producer for Warner Bros. Animation on "What's New Scooby Doo?", was the Director of Animation Production at Columbia Tri-Star Television, worked as an Associate Producer at DIC Entertainment, and as a Production Manager on "The Ren and Stimpy Show".

Laura Dohrmann, Business Development & Marketing Manager

Laura Dohrmann's global marketing of NVIDIA software and hardware products in animated & live-action film production includes the emerging markets of China, Russia and India. Ms. Dohrmann has been responsible for all facets of marketing and support of NVIDIA professional products. Laura Dohrmann has spearheaded development and training consultations with studios around the world to develop best practices for digital production. Ms. Dohrmann came to NVIDIA from Exluna, the NVIDIA-acquired software startup where, from founding to acquisition, she was responsible for all operations development.



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Jill Gilbert, Animation Executive

Jill Gilbert has been instrumental in the development and production of over 60 live-action and animated feature films. Ms. Gilbert is the Founder and President of One Plus Productions, a global consulting and production company dedicated to creating highly innovative, engaging and cost-efficient movies, television, web and mobile entertainment content. Currently, Ms. Gilbert is producing theme park attractions for Universal Studios Singapore, set to open in Fall 2009. Prior to founding One Plus Productions, Jill Gilbert served as Vice President of Creative Affairs for The Walt Disney Company's DisneyToon Studios, where she spearheaded the creation of over 20 top-selling direct-to-video family feature films.

Masakazu Kubo, Entertainment Executive

Masakazu Kubo is a legendary figure in the world of Japanese animation and entertainment. His creative influence has global reach, not only in animation but in publishing, music, games and other forms of digital entertainment. Mr. Kubo is perhaps best known for the incredibly popular "Pokemon" property, which he has produced in television, on film and through games & manga for over a decade. Masakazu Kubo has been with Japan's historic Shogakukan Inc. for more than 25 years. He currently serves as head of Shogakukan's Animation division, Director of Shogakukan's Character Business Center, and Director of its Music & Digital Entertainment division. Mr. Kubo holds numerous distinguished industry posts. He is Executive Producer of the Tokyo Anime Center, a member of Japan's Intellectual Property Cabinet, a member of Japan's Task Force on Media Content Business, and Director of the Tokyo International Film Festival and the Tokyo International Anime Fair.

Stephane Le Cam, Financial Analyst & Fund Manager

A former officer of the French alpine troops, Stephane Le Cam is the CEO of Paragon Capital Management Funds, which has approximately 100 million Euros under management for institutional investors and high net worth individuals. Prior to Paragon, Mr. Le Cam was the Chief Financial Officer of French retail banking network Financiere OCEOR, the Europe-U.S. Director of CDC-Ixis Capital Market, and has held many other key management roles in his 20-year international finance career.



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Xin Chen Liu, Wildlife Expert

Xin Chen Liu is widely regarded as the foremost wildlife expert in mainland China. A pioneering researcher of animal behavior, Mr. Liu has served as a consultant on many Chinese films and television shows, and has been a guest host of BTV's "Animal Land" program. Xin Chen Liu graduated from China's Northeast Forestry University with a Ph.D in animal studies, and has since worked towards the protection and research of wild animals. Mr. Liu was instrumental in building the mainland's largest Siberian tiger protection base. He then moved to Beijing where he designed, constructed and maintains the Peking Wild Animal Zoo in the position of Chief Engineer. Xin Chen Liu is a member of the Beijing Wildlife Conservation Society and the Committee of Experts on the Protection of Birds. He also lectures as a Guest Professor at Northeast Forestry University, serves as the Vice President of China's Zoological Society, and is China's Senior Advisor to the International Convention on Wetlands.

Karen Malach, Animation Producer

Karen Malach began her career on one of the biggest animation hits in history, Rankin/Bass' "ThunderCats". Since then, her expertise and world-wide reputation as an expert in her field has continued to grow. Ms. Malach supervised digital effects at Sony Pictures Family Entertainment. As a Production Executive and then Visual Effects Supervisor, she was instrumental in bringing to life Hanna-Barbera's first venture into 3D animation: the series revival of "Johnny Quest". In her role as 3D Development Producer for DisneyToon Studios, Karen Malach developed the successful "Tinker Bell" direct-to-DVD movie, which proved to be a ground-breaking accomplishment in low-cost, high-quality home entertainment. As an Executive Producer with The Walt Disney Company, Ms. Malach specialized in international co-productions, establishing relationships with partners in France, India and China.



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Yintang Miao, Comic Artist

A well-known Chinese caricaturist and Deputy Director of the Comics Art Committee of the China Artists Association, Yintang Miao is also Senior Consultant of “Comics Periodical”, a consultant of “King of Comics” and Guest Professor at the Beijing Film Academy. Mr. Miao’s works have earned him many awards, including first prize in China’s prestigious Golden Monkey Awards. In addition, Yintang Miao has written many books including “A Selection of Miao Yintang’s Comics”, “Comic Art”, “Introduction to Science Comics Creation”, “Appreciation of World Humor” and “Educational Cartoons for Children”.

Bangben Pang, Artist

Bangben Pang is Director of the Animated Cartoon Art Center of the China Artists Association, and a consultant of the Research & Collection Department at China’s Oil Painting Academy and the Central Academy of Fine Arts. As a grade-one master of Painting and Calligraphy, Mr. Pang is also a distinguished member of the American Portrait Association. He has been a visiting professor at the Xu Beihong Art College, China People’s University, and the Beijing Film Academy. Bangben Pang is also the Vice Chairman of the Comic Strip Branch of the China Eastern Culture Research Academy, Vice Secretary General of the Comic Strip Art Committee of the China Publishers Association, and a mascot judge for the 2008 Olympic and Paralympic Games.

Tom Sito, Animation Director, Professor & Historian

Named as one of the most important people in animation by Animation Magazine, Tom Sito was trained by the notable artists of Hollywood’s “Golden Age” and has worked in most aspects of animation production, including feature films, television, titles, industrials and commercial advertising. Among his many professional accomplishments, Tom Sito was a key member of Walt Disney Feature Animation during its renaissance in the late 1980’s to early 1990’s, a story artist at DreamWorks, and a director at Warner Bros. Feature Animation. Mr. Sito is a professor at the UCLA Film School and USC, and served as the Vice President of ASIFA/Hollywood and the President of The Animation Guild for many years.



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Blake Snyder, Screenwriter & Author †

In his successful 20-year career as a screenwriter and producer, Blake Snyder has sold dozens of scripts, including million-dollar sales to Disney and Steven Spielberg. His book, “Save the Cat! The Last Book on Screenwriting You’ll Ever Need”, is now in its twelfth printing, and has prompted “standing room only” appearances in New York, London, San Francisco, Seattle, Chicago, Vancouver, Toronto, Barcelona, and Beijing. Blake’s method has become the “secret weapon” of many development executives and producers for its precise, easy, and honest analysis of what it takes to develop and write stories that resonate.

David Stainton, CEO

During his career with The Walt Disney Company, David Stainton served as the President of each of the animation divisions, including Walt Disney Feature Animation. In these roles, he attained unparalleled experience as a global leader in creating, developing, and producing family entertainment. His theatrically released movies alone earned over \$800 million at the box office worldwide. Under his leadership, the Disney Video Premieres business flourished with revenues of over \$1.7 billion. In all, Mr. Stainton oversaw the release of 11 feature films, four animated shorts, 22 video premieres, and 12 animated TV series -- generating nearly \$3.5 billion in worldwide revenues. David Stainton is currently the CEO of Henry’s World Media, which he founded in 2006 to create high-quality family entertainment.

Lijun Sun, Animation Dean, Professor & Director

Regarded as one of the pioneers of contemporary independent Chinese animated feature film, Lijun Sun has a long and distinguished record in the Chinese animation industry and academia. Lijun Sun is currently Dean and Professor of the Animation School of the Beijing Film Academy, President of the Beijing Film Animation Association, Vice-president of the China Animation Association, Vice-president of the China e-Game Industry Association, Director of the China Television Artists Association Animation Committee, Microsoft Research Asia Visiting Fellow, and a leader of many other industry organizations and committees, including China’s Golden Hawk Awards and the 2008 Beijing Olympic Mascot Design Committee. Lijun Sun’s award-winning animated features include “Little Soldier Zhang Ga” and “Running Freely”.



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Yang Li, Voice Actor

The famous Chinese voice actor Yang Li has created vocal performances for characters in hundreds of films and TV series within China and throughout the world. Mr. Li's unique voice has touched the hearts of millions around the world in roles as diverse as Monkey in China's "Journey to the West", and Walt Disney's Donald Duck.

Jingzhi Zou, Screenwriter

Jingzhi Zou is considered "China's leading screenwriter". Mr. Zou's profound understanding of humanity and his rich life experiences have been an inspiration to his writing and to his audiences. Jingzhi Zou's works include feature films and TV series such as "Emperor Kangxi's Private Visits", "Smooth-talking Ji Xiaolan", "The 601st Telephone Call" and "Riding Alone for Thousands of Miles".



Global Animation Industry

The business of animation can be divided into two major enterprises: production and distribution. Production involves the development, financing and creation of animated content. Distribution involves the domestic and international marketing, licensing, promotion, physical reproduction, delivery and exhibition of that content. An animation distributor will typically license the rights to theatrical and broadcast exhibition, non-theatrical markets (such as educational markets, where applicable), home video (including DVD), cable and pay-per view channels and video-on-demand (VOD). Additional rights are licensed for soundtracks, games, toys, publications and other ancillary merchandise.

As a keystone of the global entertainment industry, animation is experiencing rapid development worldwide, with a compelling slate of multi-cultural intellectual property. Properties originating outside the United States are gaining distribution and finding financial success in the North American market and elsewhere, something that was rare a decade ago. The global nature of the animation business is particularly notable in the television industry, where co-productions are the norm. Licensing and financing considerations have made international co-productions and sales essential for producers seeking to maximize revenue streams. Interestingly, while the United States remains dominant in the realm of animated features, the U.S. market is considered secondary for certain television properties with strong international sales.

The global animation industry lies mainly in the U.S., Europe, Japan and South Korea, with China and India rising to prominence. Nevertheless, one may point to almost any country in the world for notable developments in animation within the last decade. The United States is the undisputed leader on the world animation stage. In the U.S. and Europe, the animation industry is worth billions of USD annually in intellectual property and related ancillary products. Canada is a main provider of global television production, with many co-production deals, a precedent of government support, and a track record of influential talent in animation studios around the world. In contrast, South America imports most of its animation content from the U.S., Europe and Japan.

As a major animation exporter, Japan has a precise industry chain and a mature operating mechanism. Japan's animation industry ranks highly in the national economy, and the output value of Japanese animation products exceeds that of steel. Anime has a market value of nearly \$2.5 billion USD in the United States alone, with global merchandising worth almost \$5 billion USD. South Korea is second only to the U.S. and Japan in the output value of its animation industry, which has become one of the six “pillar industries” in South Korea's national economy. By the same



APPENDIX D: INDUSTRY

token, mainland China is aggressively building an animation industry with widespread state support. While lacking China's level of government intervention, the animation industry in India benefits from production costs that are lower than almost any other country in the world. The energy, influence and sheer production output of "Bollywood" are by now familiar to people around the world.

Spain offers the lowest production costs of any European country, while still maintaining a good quality level, most recently exemplified by the animated features "The Missing Lynx" and "Planet 51". (NOTE: Independent animated European features normally have budgets around 10 million Euros, or \$14 million USD. "Planet 51's" budget was reportedly in excess of \$70 million USD. To date, attempts to do "Pixar quality at half Pixar price" have not proven realistic.) The United Kingdom has a strong industry and audience for children's animated television and DVD, while Germany is Europe's third largest animation producer and largest TV market. France is the most prolific animation producer in Europe, with a strong system of government subsidies and tax breaks. Like China, France features strict quotas and regulations on foreign participation, which have alternately helped and hurt their animation industry. Russia and Eastern Europe, with distinguished records of artistic achievement, are gradually catching up to the rest of the world in commercial animation production. So is the Middle East, with Israel taking a leading role. Finally, it is worth noting that Africa broke ground with its first animated feature film production, "The Legend of the Sky Kingdom", in 2002.

Around the world, independent animation has blossomed with the advent of digital technology and in response to the conventions of major studio filmmaking. With the increase in theaters, television channels and the use of digital satellites, the rapid growth of the Internet, mobile delivery, and a wide variety of other new technologies (including the latest advances in stereoscopic and large-format projection), distributors and programmers in nearly every country require more content than ever to fill consumer demand. China is a prime example of this phenomenon.

Chinese Animation Industry

More than almost any other nation, the development of cinema and animation in China has been a mirror of the historical events and political developments that have shaped the mainland. Both influencing and being influenced by Hollywood, China's film industry is a complex, crucial and continually-evolving component of the nation's rise to prominence in the 21st century.



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Although motion pictures were first introduced to China in 1896, the history of Chinese animation dates back to 180 A.D., when inventor Ting Huan created the first zoetrope. Modern Chinese animation began with the pioneering work of Wan Laiming, Wan Guchan, Wan Chaochen and Wan Dihuan in the mid-1920s. With ambitious animated films such as the Wan brothers' "Princess Iron Fan" (released within two years of Disney's "Snow White"), China's animation industry was technically and artistically on par with the rest of the world. At the Shanghai Animation Film Studio, remarkable animated features such as "Havoc in Heaven" were created with the active support of the central government. While Chinese animation developed a distinct style early on, it is just now re-emerging on the global stage in a modern sense, mainly due to the impact of the Cultural Revolution and Japan's dominance of Asian animation markets.

By the 1980s, Japan would emerge as the official animation powerhouse in Asia, leaving China's industry decimated in reputation and productivity, reliant upon the production of outsourced animation in order to survive. During the 1980s and 1990s, China formed the largest production base for European, American and Japanese animation companies, due to the country's low labor costs and high quality artists. Although many popular animated properties from around the world were produced on Chinese soil, China had yet to develop a modern animation industry of its own.

In 1986, the Chinese film industry was transferred from the Ministry of Culture to the newly-formed State Administration of Radio, Film & Television (SARFT) to regulate and strengthen supervision over production and distribution. Following the opening of its markets, China began to allow private and overseas investment in Chinese film production in 2003. To stimulate the animation industry in China, the State Administration of Radio, Film and Television (SARFT) set a policy in April 2004 to separate the animation production industry from the movie screening business, fostering a more competitive environment for animation development and operation. Government support in recent years includes the establishment of animation industrial bases throughout mainland China, with cooperation from the Ministry of Finance and the State Administration of Taxation to grant these centers favorable financial and tax incentives. As a result, 186 animated television series were produced in China during 2007 for a total of 101,614 minutes - an increase of 50% from 2006. Six animated feature films were completed that same year. On December 9th, 2008 SARFT announced that the Beijing Cultural & Creative Industry Cluster Area, the animation film/TV industrial zone in the Xiamen Software Park and the animation industrial park in the Shenyang High-tech Industrial Development Zone have been designated as the fourth generation of national animation industry bases.



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In 2005, the Chinese animation industry achieved an important milestone with the East-meets-West production of Jean Giraud's 3D animated feature film "Thru the Moebius Strip" in Shenzhen, at a reported budget of \$130 million RMB (approximately \$19 million USD). While receiving good reviews for the quality of its animation, "Thru the Moebius Strip" was regarded as more of a graphical achievement than a storytelling accomplishment. New waves of animation production in China since the 1990's – especially Flash animations – are trying to break away from traditional thematic conventions. In 1999, FlashEmpire.com became the first online Flash community in mainland China, while in 2006 3G.NET.CN paid \$3 million RMB to produce the Flash version of Stephen Chow's "A Chinese Odyssey".

Hong Kong has historically been a live-action & animation filmmaking hub for the Chinese-speaking world and the Asia Pacific region. For decades it was the third-largest motion picture industry, after India and Hollywood. Hong Kong remains a prominent player in live-action and animated filmmaking, despite an industry crisis in the mid-90's and a migration of filmmaking talent to the Chinese mainland. Mainland China itself is currently populated by many powerful film studios, with properties leveraged across live-action and animation. These include state-owned China Film Group, Shanghai Media Group and August Films, and privately-owned Hengdian World Studios, Huayi Brothers Media Corporation and Polybona Film Group.

In 2009, a record number of 460 Chinese feature films were produced and screened on the mainland. China is currently the third-most prolific filmmaking nation in the world after India and the U.S., and a rising animation power. Tianjin Fufengda Movie & TV Technology Corp recently announced an ambitious plan to invest 960 million RMB (approximately \$141 million USD) over the next nine years to build China's largest digital stereoscopic movie studio. The company ultimately hopes to produce over 20 monoscopic & stereoscopic 3D animated feature films a year. There are more than 4000 animation production studios in China. These include large, government-financed companies such as Shanghai Animation Film Studio, the animation division of China Central Television (CCTV), privately-financed companies focusing on work-for-hire (estimated to comprise 60% of Chinese animation business), and numerous entrepreneurs specializing in Flash animation. Relatively few of these studios have been regarded as possessing the capacity or experience to produce original, high-quality animated features and television series, but this is changing with a new focus on Chinese intellectual property development. The mainland Chinese educational system is currently struggling to fill the need for skilled animation workers to meet the content demand. Other critical issues facing the contemporary Chinese animation industry in 2010 include the demands of digital technology, the challenges of global networking, the considerations of cross-cultural viewing and calls for copyright protection.



U.S. Animation Industry

The U.S. film industry is primarily based in Hollywood, California but has spread to other North American regions in recent years, lured by attractive production incentives. In 1894, the world's first commercial motion picture exhibition was given in New York City, using Thomas Edison's Kinetoscope. The next year saw the first commercial screening of a projected film, also in New York. In 1938, Walt Disney's "Snow White and the Seven Dwarfs" was released during a lackluster period of filmmaking from the major studios, and quickly became the highest-grossing film to that time. Interestingly, "Snow White" was an independently-produced animation production that did not feature any major studio talent. The United States has been at the forefront of film and animation development ever since, with a well-documented history familiar to most, and too lengthy to fully recount here. An interesting point of note, however, is that the major studios of 20th Century Fox, Universal and Paramount each started out as independents: founded by "filmmaking rebels" who moved to California partly for the good light and warm weather, and also to escape the licensing fees charged by Thomas Edison's Motion Picture Patents Company.

Similarly, the Walt Disney Studios grew from "pioneering upstart" to become the defining and dominant force in animation, with an unparalleled record of animated features and short films. This success in animation ultimately grew to encompass live-action films, theme parks, broadcast television, publishing, and a wide spectrum of other revenue streams under the auspices of the publicly traded Walt Disney Company. The renaissance of animated features at the Walt Disney Company in the late-80's and early-90's, starting with "The Little Mermaid" and culminating with "The Lion King", prompted a wave of aspiring studios to get into the game, usually with poor box office results. However, within the last decade the success of Disney's animated feature films suffered from the inevitable ebb and flow of this cyclical industry, as Pixar and direct competitor DreamWorks made incursions upon audience territory formerly ruled by the Walt Disney Company. Disney's purchase of Pixar in 2006 for over \$7 billion USD is widely regarded as a bold corrective measure. Meanwhile, the many other animation studios in the United States, large and small, make their marks where they can in film, broadcast, internet and wireless media.

The drive to produce a spectacle on the movie screen has shaped the American film and animation industry for better and for worse. Major studios such as Disney, DreamWorks and Sony depend on a handful of enormously expensive releases each year in order to remain profitable, relying upon high production values, star power and massive marketing campaigns to attract the huge audiences required. The average cost per



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film among the major U.S. studios was well over \$100 million USD in 2008, with at least 1/3 of that amount dedicated to marketing costs. It is reported that at least 60% of the total budget for DreamWorks' animated hit "Kung Fu Panda" was dedicated to advertising and distribution costs.

While a successful animated blockbuster can reap substantial profits, there is a considerable risk of failure. Most studios release films that both over-perform and under-perform in a given year. The "Big Six" major U.S. studios (Disney, Fox, Universal, Paramount, Sony and Warner) and "mini-majors" such as Lionsgate and New Line supplement their large-scale productions with independent films, created with relatively small budgets outside of the studio corporation. Independent films and animation projects typically emphasize a high level of creativity and innovation, leveraging on niche marketing and critical acclaim to garner an audience. A successful independent film can have a high profit-to-cost ratio, while a failure will incur relatively minimal losses, encouraging major studios to engage in co-production or distribution relationships with these productions in addition to their high-stakes releases. Some independent companies such as Miramax have in fact become well-financed divisions of major studios. The big studios can thus capitalize on the success of the "independent" distribution division, while the "independent" distributors maintain a certain level of autonomy within the larger corporate structure. The independent companies are able to produce animated films of comparatively smaller budgets for distribution in targeted viewer markets.



Global Animation Market

Global box office numbers are thriving in the midst of a stereoscopic technology revolution that is making the theater experience even more attractive to audiences and offsetting the impact of movie piracy. Internationally, the number of digital movie screens (both 2D and 3D) grew to more than 8,600 in 2008, an increase of 33% over the previous year. Worldwide box office for 2009 is estimated at more than \$26 billion USD, with the North American market accounting for \$10.6 billion USD, and the Asia Pacific market amounting to \$6.7 billion USD. 2009 saw more than 100 animated feature films released theatrically or direct-to-DVD worldwide, with 20 submitted for consideration in the “Animated Feature Film” category of the 82nd Academy Awards (Oscars).

The live-action/VFX/animation spectacle “Avatar” is not only the highest-grossing movie of 2009 with \$1.69 billion USD in global box office receipts, but has just replaced 1997’s “Titanic” as the highest-grossing movie of all time. Also among the top-grossing movies of 2009 were 3D animated hits “Ice Age: Dawn of the Dinosaurs” in 3rd place (\$884 million USD in worldwide box office), and “Up” in 6th place (\$723 million USD in worldwide box office).

The world is truly getting smaller. While the international landscape has historically been dominated by the major U.S. studios, international box office has grown 17% in the past 5 years. The top 5 territories by market share for 2009 are, in order: North America, Japan, United Kingdom, France and Germany. Animation in particular is becoming a truly global industry that promotes communication and exchange among different cultures, with broad development space and co-production opportunities between various nations. The international animation market has come a long way since the first public screenings of hand-painted sequences on celluloid strips. In the middle and late 20th century, developed countries began to evolve from production-oriented societies to entertainment-oriented societies. Locally produced animation properties began to succeed not only in their home territories but abroad as well, particularly in the areas of broadcast television and DVD sales. Compared to live-action, animation “travels well”: consumers around the world love animation, and it is relatively easy to tailor animated content to regional markets. This is not an option, but a necessity: animation companies in any country require international revenue in order to break even on their proprietary content, whether in film, television, the Internet or gaming. Many major studios owe more than half of their revenues to overseas theatrical distribution and ancillary sales. In a world where U.S. films usually see 50-60% of their revenue come from overseas, “Ice Age: Dawn of the Dinosaurs” saw 78% of its revenue come from outside North America. This trend is characteristic of 3D animated feature films. In



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television, international partnerships are essential to fund production, and many series can succeed in international markets without ever finding a domestic audience.

Foreign language films are often grouped with "art house films" and other independent films in U.S. DVD stores and movie listings. Unless dubbed into the native language (as most animation commonly is), foreign language films distributed in English-speaking regions usually have English subtitles. Films of this kind typically receive a limited U.S. release in coastal markets such as Los Angeles and New York. Accordingly, the marketing, popularity and gross revenues for these films are usually much less than for major Hollywood blockbusters. In addition, cultural differences between foreign and domestic films affect theatrical attendance and DVD sales. Many foreign language films never receive a DVD release outside of their home market, but foreign films that are particularly successful may be acquired by the major distribution companies for international DVD release on specialist labels. Foreign films can successfully cross cultural boundaries, particularly when the primal story, visual style and cinematic spectacle are compelling. Live-action films such as "Crouching Tiger, Hidden Dragon", "Amélie" and "Brotherhood of the Wolf" have enjoyed great success in Western cinemas and DVD sales. The first foreign film to top the North American box office was "Hero" in the fall of 2004, while Hiyao Miyazaki's animated feature film "Spirited Away" won the Academy Award for Best Animated Feature in 2003.

Increasingly, the "Big Six" Hollywood studios (Disney, Fox, Universal, Paramount, Sony and Warner) are distributing adapted and indigenous movies in Europe, Asia, South American and the Middle East. Each studio has its own strategy, but all of the studios emphasize that they are looking for films that connect with audiences in specific territories. "The international approach is really a market-by-market one," says Christian Grass of Focus Features International. "No two markets are the same. It's a global business now. There is no clear distinction anymore between domestic and international." Sony has projects in development in Russia, India, China, Brazil, Germany, Mexico, India and the U.K. Warner is mixing acquired films (many just for specific international territories) with self-funded local-language movies in Germany, Japan and India. Fox is targeting India, Japan, Brazil and Russia. Disney is concentrating on Russia, India and China, looking for culturally specific fare with indigenous origins, such as their first Chinese co-production, 2007's live-action/animated feature "The Secret of the Magic Gourd". Regarding India, Jason Reed, Disney's EVP of International and Domestic Productions says: "You have an 80% market share for local content. Indians like their own stories. Just doing a Hindi version of "Enchanted" doesn't translate into success. We really want to emphasize the localization element." Nevertheless, India remains a challenging market for all the studios. In recent years, Disney's 3D animated "Roadside Romeo," Warner's "Chandni Chowk to China" and Sony's "Saawariya" all failed at the box office, despite featuring major Bollywood stars.



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The general pace of international roll-outs is quicker than in the past, especially from the United States, and distribution windows are shrinking across all media. “Day and date” releases, in which films launch simultaneously around the world (pioneered by DreamWorks’ animated feature “The Prince of Egypt” in 1998), are increasingly common. Distributors and exhibitors continue to find new ways to expand the box office revenue pool. The growth of multiplexes in Europe and an increase in the number of screens in Asia and Latin America have all contributed to this expansion. Other factors include the privatization of overseas television stations, the introduction of direct broadcast satellite services and increased cable penetration. It is important to note that in the major European territories, typical television license fees surpass video license fees. In some instances, a license fee for animated feature films may be up to three times the amount paid by a video distributor for the same picture. Territorial value around the world is defined by media sophistication, ticket and rental costs, economic strength, expendable income, currency exchange rates, and of course – audience size. Following is a selection of the major international entertainment markets by estimated population as of 2008:



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China	1,322,000,000
India	1,046,000,000
U.S	303,000,000
Indonesia	238,000,000
Brazil	184,000,000
Russia	141,000,000
Japan	127,000,000
Mexico	109,000,000
Philippines	93,000,000
Germany	82,000,000
Thailand	66,000,000
U.K.	61,000,000
France	61,000,000
Italy	58,000,000
South Korea	49,000,000
Spain	45,000,000
Canada	33,000,000
Australia	22,000,000

(Interestingly, Australian audiences view more films than almost any country except the U.S.)

The 1980s and 1990s saw the emergence of a significant market in the form of home video. Films that performed poorly in their initial theatrical runs were now able to receive new life in the video market. On a typical Hollywood movie, DVD revenue could be relied upon for about half of a film's income, with the remainder split evenly between worldwide theatrical receipts and cable & network television. The rise of the DVD format became increasingly profitable to film studios, causing an explosion of "special editions" featuring extended versions with deleted scenes, "making of" segments, commentary tracks, and even original short films. But the home video & DVD market is currently undergoing dramatic



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transformation. DVD sales are dropping as much as 25% at some studios, and low-cost DVD rental kiosks are challenging traditional DVD distribution & release strategies. DVD sales fell by 9% in 2008 and were off by 13.5% in the first half of 2009. In contrast, DVD rentals are predicted to grow through at least 2010. A bright spot in the midst of this upheaval is animation, which continues to perform better than ever in theaters, and to hold its own on DVD and in ancillary media. In fact, animated movies on DVD appear to perform in a unique, “toy-like” manner: purchased as both collectibles by fans and as “electronic babysitters” by parents (children love to watch animation over and over again). In particular, low-budget, direct-to-DVD (or “DVD Premiere”) animated features remain quite profitable. Although the general slump in DVD sales has spread globally, three countries remarkably experienced double-digit growth in DVD sales in 2008: Russia, India and China. While their combined spending accounts for only 4% of the international DVD sales total, their market growth has attracted the attention of Hollywood studios. The research firm SNL Kagan ultimately projects an increase in DVD revenues from all sources worldwide from \$51.3 billion in 2008 to \$67.6 billion in 2017.

Meanwhile, technology is enabling the digital delivery of content through video-on-demand (VOD) internet providers, HD broadcast & cable providers and telecom providers, although the offsetting revenue gains of digital delivery are unclear. In 2009, the Mexican film studio Canana pioneered a new distribution model in its home country by releasing “Year of the Nail” to video-on-demand through Cablevision just three days after it opened in theaters. Cablevision's VOD subscribers paid roughly the price of a regular movie ticket to watch the film in the comfort of their own homes, and Canana made better profits – considering that it usually takes only 35% of the Mexican box office total as a distributor, and independent movies in Mexico are often removed from theaters after one or two weeks. American billionaire entrepreneur Mark Cuban is going so far as to advocate releasing movies to theaters, DVDs, and VOD all on the same day – a “shocking” proposal in Hollywood, although the major studios are exploring the pros & cons of shrinking the window of time between theatrical release and video-on-demand/direct-to-home distribution. Warren Lieberfarb, former head of Warner Home Entertainment, predicts that this window could eventually be as short as two weeks from opening box office day to pay TV distribution.

Direct-to-home (DTH) pay TV services have nearly 60 operating platforms all over the world and present an increasing revenue stream for animation. North America and Europe presently account for over 80% of the global direct-to-home (DTH) satellite TV revenues. However, as the major markets mature, the focus is shifting towards developing markets in Asia-Pacific and Eastern Europe, with Asia the fastest growing. Driven



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by increasing numbers of DTH subscribers, the global market for the DTH satellite TV was estimated at over \$51 billion USD in 2009. It is projected that there will be more than 133 million DTH subscribers worldwide in 2010.

The Internet is by its very nature a global market that can be accessed from almost anywhere in the world, evolving into what has been called a “seventh, major studio-like power”. Independent animation filmmakers can now obtain a bigger audience through a video sharing website than via traditional TV or film distribution. However, individual websites are not marketed equally in all countries, computer usage, online access and download speeds vary from region to region, and competition is stiff (from professionals and amateurs alike). The Asia Pacific region is the world’s largest Internet market, with most of the usage found in Japan, South Korea, India and China (China is currently the world’s largest internet market by user). While Internet users are quick to migrate to other sites when fees are charged for content, free access to online entertainment is commonly used as a “hook” for the advertising and sales of related products and services. Mobile wireless technology has emerged as a viable distribution outlet for gaming content and short-form animated entertainment. As opposed to web content, which consumers generally expect to access for free as they do television, there is evidence that a viable profit model exists for mobile game distribution and animated “mobisode” sales – with the potential of this market demonstrated by Apple’s highly successful \$0.99 price point for music downloads.

Last, but certainly not least, the expansive global market for interactive gaming software encourages animation property owners to pursue this lucrative ancillary revenue stream by granting developers, publishers and distributors licenses for multiple computer & gaming console platforms on a global basis. 3D animated content leverages on this ancillary stream the best by applying digital production assets to the game development process.

Chinese Animation Market

China is the fast-growing animation market in the world, named “Country of the Year” for the 2010 Cartoonsbay festival in Italy. With a total population in excess of 1.3 billion individuals, potentially 500 million people in mainland China can be identified as animation consumers. China’s total 2009 box office was 6.2 billion RMB (approximately \$912 million USD), up 44% on the year, and the 8th largest market in the world. 2009 was the sixth consecutive year that Chinese box office growth averaged at least 30%. Chinese films accounted for 56 percent, or 3.5 billion RMB



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(approx. \$515 million USD), of the total box office revenue. Box office revenue for 2010 is estimated to reach 10 billion RMB (a growth rate of over 60%).

But there is a huge disparity between the number of people in China and the number of movie screens. There are currently around 4,700 movie screens on the Chinese mainland, compared with more than 40,000 in the United States. This works out as a screen-to-viewer ratio of approximately 1:281,000 in China vs. approximately 1:7,600 in the U.S. China produced 456 films in 2009, but China's box office is still small compared to North America's. Currently, 31 cities – each with at least 1 million residents – are without commercial movie theaters, presenting a major opportunity for growth. Domestic Chinese film revenues rose from 920 million RMB (approx. \$135 million RMB) in 2003 to 4.3 billion RMB (approx. \$632 million USD) in 2008, when China had 4,000 screens. By comparison in 2008, North American movies grossed \$9.8 billion on roughly 40,000 screens. China's current 4,700 screen total includes 1,800 digital screens and 750 3D screens, one of the largest 3D markets in the world. The mainland Chinese screen total is expected to rise to 6,000 by the end of 2010, and at the current rate of growth the number of 3D screens in China is anticipated to equal the number of 2D screens in three years. IMAX is also experiencing exponential growth on the mainland, with the number of IMAX screens growing from 6 in 2006, to 19 in 2008, and a projected total of 75 in 2012, with the eventual goal of 300 Chinese screens.

China is quickly becoming the second largest market for Hollywood blockbusters. The American disaster film "2012" earned \$67.5 million USD as of January 7th, passing the previous mark of \$63 million USD set by "Transformers: Revenge of the Fallen". China's "The Founding of a Republic" made 415 million RMB earlier last year, landing in the No. 3 spot. Just days after the Jan. 4th premiere of the Hollywood blockbuster "Avatar" in China, box offices across the mainland had surpassed 100 million RMB in revenue (around \$14.7 million USD), with the Chinese box office total now well over 700 million RMB (\$100+ million USD), making "Avatar" the most popular movie ever in China. The strong results of "Avatar", "2012" and "Transformers" highlight the huge potential of the mainland box office, despite the State Administration of Radio, Film & Television's (SARFT's) quota limit of 20 imported films per year, which are typically distributed under revenue-sharing deals. To join the World Trade Organization in 2001, China agreed to double the number of imported films to 20. However, SARFT stipulated to movie exhibitors that domestic box-office revenues should not be less than half the total of any theater chain. International blockbusters such as "Avatar" challenge the balance of this quota system and have encouraged dialogue about everything from consumer viewing patterns to story development and production values. "Improving the quality of domestic films to attract more people is key," says Gao Jun of China's New Film Association.



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Concerns about domestic production targets are beginning to make room for the preferences of Chinese audiences, and a more cosmopolitan theatrical exhibition landscape.

It is estimated that 11% of the Chinese animation audience is under the age of 13, with 59% between the age of 14 to 17 and 30% over 18 years of age. China has 370 million children, more than the entire population of the United States. Today, over 18 billion RMB (more than \$2.6 billion USD) is spent by animation consumers in China, but nearly 90% of that money flows straight out of the country to Japan, and to a lesser extent the United States and Europe. Despite its visual proficiency, recent Chinese animation content has demonstratively lacked domestic market appeal due to an emphasis on education over entertainment. Like most children around the world, the viewing preferences of Chinese youth seem to indicate that they relate better to entertaining stories that provide a vivid reflection of their feelings, problems and dreams. Rigid characters, and plot lines that lack the sense of fun and innocence that children hold so dear, are roundly ignored. Chinese animators in the 21st century face not so much a technological or artistic challenge as they do a challenge in compelling storytelling.

Despite this, or perhaps because of it, the mainland market is uniquely poised for an innovative and profitable future. The gross earnings of China's animation industry across all media have already exceeded those of its live-action film industry. Building on a remarkable animation history, the Chinese animation market has grown increasingly sophisticated since the pre-Cultural Revolution days, with an appetite for content that seeks to combine Chinese cultural traditions with Hollywood story structure for contemporary resonance. In recent years, provincial Chinese governments have rolled out substantial plans to develop the homegrown market for animation artists and companies, in keeping with the policies set forth by the central authorities. These developments follow the announcement made by SARFT in August 2004 to launch three new national children's networks and more than 60 broadcast stations providing an increased volume of children's programming. 2004 was set as China's "Animation Year", and the industry generated revenue amounting to tens of millions of RMB. In light of this evolving landscape, it is no surprise that domestic animation companies and foreign co-production partners alike are eager for a place at the table.

Domestic box office returns as reported for Chinese animated feature films in 2008 range from \$1 million RMB for "The Legend of Countryside Hero", to a record-breaking \$30+ million RMB for "Storm Rider: Clash of Evils", over a theatrical run of 4 weeks each. More recently, the animated feature film "Pleasant Goat and Big Big Wolf", based on characters from the popular Chinese TV series, broke box office records with over 100 million RMB in mainland theatrical revenues in 2009, creating demand for a sequel which is now playing in theaters. However,



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revenues from the domestic Chinese market alone are not sufficient to cover the costs associated with high-quality animation productions. Successful international distribution must be part of the equation. In fact, international co-production deals and distribution presales are vital to the support of Chinese feature films on the mainland.

China's studio system is changing in response. In the past, every major city or province had its own studio – a relic of state-planning days. The regional system was broken up through consolidation over the past decade, culminating with one studio, Huayi Brothers Media Corporation going public. This shift to private sector funding put pressure on studio bosses throughout China to focus more on profit than on production quotas, with a growing understanding that the former is not necessarily guaranteed by the latter. Live-action Chinese films such as “Farewell My Concubine”, “2046”, “Hero”, and “House of Flying Daggers” have enjoyed box office success and critical acclaim around the world. In 2000, the multi-national production “Crouching Tiger, Hidden Dragon” achieved massive success at the Western box office despite being dismissed by some Chinese film-goers as pandering to Western tastes. Nevertheless, it provided an introduction to Chinese cinema for many Americans and Europeans, and increased the popularity of many Chinese films that may have otherwise been unknown to Westerners. In 2002, “Hero” was made as a second attempt to produce a Chinese film with the international appeal of “Crouching Tiger, Hidden Dragon”. The film was a phenomenal success in most of Asia (grossing \$177 million USD worldwide) and topped the U.S. box office for two weeks, making enough in the U.S. alone to cover the production costs.

The successes of these films blur the boundaries between mainland Chinese cinema and a more internationally-based "Chinese-language cinema". Chinese audiences typically shun musicals, horror and westerns, which rules out many Hollywood films. However, they like costume dramas, romances, war stories, kung-fu films and animation. Except for a few government-subsidized political films, almost all popular movies shown in China (including domestic productions such as “Sophie’s Revenge” and “Metallic Attraction”) are escapist, tapping into an increasingly affluent populace. This year, China is expected to surpass South Korea to become Asia's second-largest film market and could overtake Japan in five years at current growth rates. The merging of talent and resources from China, Hong Kong, Taiwan and the West indicate that Chinese cinema is poised to compete with the best Hollywood films. While Chinese animation productions have yet to emulate the successful precedent of their live-action counterparts, it is only a matter of time before a Chinese animated feature enjoys breakout success on the world stage.

In the area of broadcast, the Asia Pacific region has seen the steady adoption of digital TV and pay TV services in the last few years, particularly in Australia, Singapore, Japan, South Korea, India and China. Based on 2009 to 2014 forecasts, SNL Kagan predicts that India and China are



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set to develop Asia's largest populations of digital video connections at accelerated growth rates. SARFT has indicated that the Chinese government is interested in advancing video-on-demand (VOD) options for both DTH and cable. By the end of 2008, China had almost 400 million pay TV subscribers, an attractive prospect for animation studios.

However, international theatrical and broadcast distribution alone are not enough to maximize the animation industry's profits (especially when broadcast revenues reimburse just 10% of production costs on average). In 1999, \$21 million RMB (about \$3 million USD) was spent to produce "Lotus Lantern". The animated feature film nearly broke even at the box office, but failed to capitalize on any related ancillary products. However just two years later, the animated film "Crazy for Song" saw two-thirds of its profits come from the sale of related merchandise. And while the original American cartoon "Transformers" was broadcast for free on Chinese television, subsequent profits from toy sales amounted to \$5 billion RMB. Ancillary animation products occupy an increasingly large market space in China. The annual sales of related stationery products are more than \$60 billion RMB (approximately \$8.8 billion USD), while those of children's toys, food and clothing are more than \$20 billion RMB, \$35 billion RMB and \$90 billion RMB respectively. The annual sales of children's DVDs and publications in China reach only \$10 billion RMB annually, no doubt affected by the high degree of piracy on the mainland. The future development of these ancillary profit channels will depend upon effective regulation and enforcement at the state and provincial levels, as well as more creative and flexible approaches by producers & distributors.

Piracy of Hollywood blockbusters is rampant in China, and also has a negative impact upon the theatrical profitability of Chinese films (it remains to be seen whether the growing popularity of advanced stereoscopic theatrical projection and TV technology may counter the effects of DVD piracy). However, the piracy of films on the mainland has resulted in an unconventional yet functional symbiosis between the Chinese film and television industries. While piracy makes most Chinese films unprofitable, television series and consumer products based upon pirated films are incredibly popular and profitable. Savvy Chinese film directors leverage upon this phenomenon by creating television series and ancillaries based upon the movie, which ironically receives free advertising through piracy. Ultimately the complex international issue of content piracy, while never eliminated, may be mitigated through efforts by producers, distributors & manufacturers to make the purchasing experience competitive with the pirating experience in terms of access and pricing, and also to provide entertainment experiences that are not easily duplicated.



U.S. Animation Market

The North American domestic box office set a new record of \$10.6 billion USD in 2009, despite the fact that U.S. theatrical audience numbers have remained relatively flat over the past decade, and dipped in 2008 and 2009. Although fewer films were produced in the U.S. within the last couple years, an increasing percentage of these are from independent studios and producers. The recent renaissance in stereoscopic projection is driving larger per-screen profits. By the end of 2008 there were approximately 2,000 3D screens and 5,500 digital screens out of more than 40,000 total U.S. movie screens. Dreamworks' animated 3D hit "Monsters vs. Aliens" demonstrated the success of the technology as \$33.2 million USD of its \$59.3 million USD opening gross came from 2,080 3D screens, versus just \$26.1 million from 5,349 analog screens. Box office for 3D stereoscopic pictures was over \$1.5 billion USD in 2009 (a four-fold increase over 2008), and it is projected that there could be 8,000+ 3D screens in the U.S. by the end of 2010. To date, the biggest 3D titles have all been animation or special effects pictures.

Movies continue to draw more people in the U.S. than theme parks and sporting events combined, with admission prices significantly lower than alternative entertainment options. While more dramas are produced than comedies each year, comedies remain the most profitable film genre, with a market share of roughly 25% over the past 15 years. PG-13 films (the youth audience) continue to dominate the top of the North American box office charts, and the core consumer base for animated feature films is the family audience. Although family films in the U.S. (G & PG-rated) have historically outperformed more restricted content, the family market continues to be underserved. While the average profitability of G-rated U.S. films between 1989 to 2003 was \$79 million USD, G-rated films accounted for only 5% of the market share during that same period. On a related note, an independent study of the U.S. film market between 1995 and 2006 showed that computer-generated animated films outperformed all other feature film genres by a 10:1 ratio (\$153 million USD average domestic B.O. return vs. \$15 million USD average domestic B.O. return).

The United States is home to dedicated children's and animation networks that account for the majority of animation hours viewed. Formerly, the three broadcast networks of ABC, CBS and NBC dominated the television animation market with programming concentrated on weekday afternoons and Saturday mornings, but this paradigm has dissolved in favor of cable channels such as Nickelodeon and Cartoon Network which run animation at all hours.



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The Internet is not only an important production tool and distribution outlet, but also an important source of movie information. A study conducted by the MPAA and Yahoo! found that most U.S. moviegoers use the Internet to conduct research before going to the theater. Moviegoers who research films online are more likely to see a movie on opening weekend, go to the theater more often, and see some films more than once in the theater. Internet advertising expenditures continue to grow each year, but television advertising remains the largest expense at more than 1/3 of total marketing costs. About 25% of marketing costs for U.S. films is dedicated to cable TV, radio, magazines and billboards, while another 20% is spent on other non-media promotional outlets and on market research.

On the home technology front, one in seven U.S. moviegoers has invested to a great degree in content delivery and/or hardware for their households. Contrary to conventional wisdom, this segment of moviegoers goes to the movie theater more often than their lower tech counterparts. DVD rentals and video-on-demand revenues are increasing in the United States, demonstrating a shift in the way Americans obtain their home entertainment.

