華夏視聽

CATHAY MEDIA

CATHAY MEDIA AND EDUCATION GROUP INC.

華夏視聽教育集團

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1981

GLOBAL OFFERING

Joint Sponsors, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

MACQUARIE

CMS 招商證券國際

Joint Bookrunners and Joint Lead Managers

CICC 中金公司

招銀国际 CMB INTERNATIONAL

ICBC 工银国际

华泰国际 HUATAI INTERNATIONAL

海通國際 HAITONG

國泰君安國際 GUOTAI JUNAN INTERNATIONAL

IMPORTANT: If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

CATHAY MEDIA AND EDUCATION GROUP INC.

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GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	**400,000,000 Shares (subject to the Over-allotment Option)**
Number of Hong Kong Public Offer Shares	:	**40,000,000 Shares (subject to reallocation)**
Number of International Offer Shares	:	**360,000,000 Shares (subject to reallocation and the Over-allotment Option)**
Maximum Offer Price	:	**HK$3.10 per Offer Share plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars, subject to refund)**
Nominal value	:	**US$0.00001 per Share**
Stock code	:	**1981**

Joint Sponsors, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

Joint Bookrunners and Joint Lead Managers

A copy of this document, having attached thereto the documents specified in "Documents delivered to the Registrar of Companies and available for inspection" in Appendix VI, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this document or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around Wednesday, July 8, 2020 and, in any event, not later than 6:00 p.m. on Monday, July 13, 2020, or such other date as agreed between parties. The Offer Price will be no more than HK$3.10 per Offer Share and is currently expected to be no less than HK$2.86 per Offer Share unless otherwise announced. If, for any reason, the Offer Price is not agreed by 6:00 p.m. on Monday, July 13, 2020, or such other date as agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse.

The Joint Global Coordinators may, with our consent, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range below that stated in this document at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of such reduction will be published on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.cathaymedia.com as soon as practicable but in only event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. See "Structure of the Global Offering" and "How to apply for Hong Kong Public Offer Shares" for more details.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. See "Underwriting – Underwriting arrangements and expenses for Hong Kong Public Offering – Grounds for termination" for more details.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this document, including the risk factors set out in the section headed "Risk factors".

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws of the United States and may not be offered and sold within or to the United States, except pursuant to an exemption from, or in transactions not subject to, the registration requirements of the U.S. Securities Act and any applicable state securities laws. Accordingly, the Offer Shares may only be offered or sold to QIBs in reliance on Rule 144A or another exemption from registration under the U.S. Securities Act or outside the United States in accordance with Regulation S.

June 30, 2020

Latest time to complete electronic applications under **HK eIPO White Form** service through one of the below ways[2]:

(1) the **IPO App**, which can be downloaded by searching "**IPO App**" in App Store or Google Play or downloaded at **www.hkeipo.hk/IPOApp** or **www.tricorglobal.com/IPOApp**
(2) the designated website **www.hkeipo.hk**[2] . . . . 11:30 a.m. on Wednesday, July 8, 2020

Application lists of the Hong Kong Public Offering open[3] . . . . 11:45 a.m. on Wednesday, July 8, 2020

Latest time to lodge **WHITE** and **YELLOW** Application Forms . . . . 12:00 noon on Wednesday, July 8, 2020

Latest time to give **electronic application instructions** to HKSCC[4] . . . . 12:00 noon on Wednesday, July 8, 2020

Latest time to complete payment for **HK eIPO White Form** applications by effecting internet banking transfer(s) or PPS payment transfer(s) . . . . 12:00 noon on Wednesday, July 8, 2020

Application lists of the Hong Kong Public Offering close . . . . 12:00 noon on Wednesday, July 8, 2020

Expected Price Determination Date[5] . . . . Wednesday, July 8, 2020

(1) Announcement of:

- the Offer Price;
- the indication of the level of interest in the International Offering;
- the level of applications in the Hong Kong Public Offering; and
- the basis of allocation of the Hong Kong Public Offer Shares

to be published on the website of the Stock Exchange at **www.hkexnews.hk** and our website at **www.cathaymedia.com**[6][11] on or before . . . . Tuesday, July 14, 2020

(2) Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels (see the section headed "How to apply for Hong Kong Public Offer Shares") from[11] . . . . Tuesday, July 14, 2020

Results of allocations in the Hong Kong Public Offering will be available at the "Allotment Result" function in the **IPO App** or at **www.tricor.com.hk/ipo/result** or **www.hkeipo.hk/IPOResult** with a "search by ID" function from[11]	Tuesday, July 14, 2020
Dispatch of Share certificates in respect of wholly or partially successful applications on or before[7][8][11]	Tuesday, July 14, 2020
Dispatch of **HK eIPO White Form** e-Auto Refund payment instructions and/or refund checks (if applicable) in respect of wholly or partially unsuccessful applications on or before[8][9][10][11]	Tuesday, July 14, 2020
Dealings in Shares on the Stock Exchange expected to commence on[11]	9:00 am on Wednesday, July 15, 2020

Notes:

(1) All times refer to Hong Kong local time. Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this document.

(2) You will not be permitted to submit your application through the **IPO App** or the designated website at **www.hkeipo.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the **IPO App** or the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(3) If there is/are a tropical cyclone warning signal number 8 or above, or a "black" rainstorm warning and/or Extreme Conditions at any time between 9:00 a.m. and 12:00 noon on Wednesday, July 8, 2020, the application lists will not open on that day. See "How to apply for Hong Kong Public Offer Shares – 10. Effect of bad weather and/or Extreme Conditions on the opening of the application lists". If the application lists do not open and close on Wednesday, July 8, 2020, the dates mentioned in this section headed "Expected timetable" may be affected. An announcement may be made by us in such event.

(4) Applicants who apply for Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed "How to apply for Hong Kong Public Offer Shares – Applying by giving electronic application instructions to HKSCC via CCASS" in this document.

(5) We expect to determine the Offer Price by agreement with the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or around Wednesday, July 8, 2020, and, in any event, not later than 6:00 p.m. on Monday, July 13, 2020. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and us by 6:00 p.m. on Monday, July 13, 2020, the Hong Kong Public Offering and the International Offering will not proceed and will lapse.

(6) None of the websites or any of the information contained on the websites forms part of this document.

(7) Share certificates for the Hong Kong Public Offer Shares will only become valid certificates of title at around 8:00 a.m. on Wednesday, July 15, 2020 provided that (i) the Global Offering has become unconditional in all respects, and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details before the receipt of Share certificates or before the Share certificates becoming valid certificates of title do so entirely at their own risk.

(8) Applicants who apply for 1,000,000 or more Hong Kong Public Offer Shares and have provided all required information may collect refund checks (where applicable) and Share certificates (where applicable) in person from the Hong Kong Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, July 14, 2020. Applicants being individuals who are eligible for personal collection must not authorize any other person to make collection on their behalf. Applicants being corporations who are eligible for personal collection must attend by their authorized representatives each bearing a letter of authorization from his corporation stamped with the corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar. Uncollected refund checks and Share certificates will be dispatched promptly by ordinary post to the addresses as specified in the applicants' Application Forms at the applicants' own risk. Details of the arrangements are set out in the section entitled "How to apply for Hong Kong Public Offer Shares" in this document.

(9) Applicants who apply through the **HK eIPO White Form** service and paid their application monies through single bank accounts may have refund monies (if any) dispatched to the application payment account, in the form of e-Auto Refund payment instructions. Applicants who apply through the **HK eIPO White Form** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions through the **HK eIPO White Form** service, in the form of refund checks, by ordinary post at their own risk.

(10) e-Auto Refund payment instructions/refund checks will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the Offer Price is less than the price payable on application.

(11) If a typhoon warning signal no. 8 or above, a black rainstorm warning signal and/or extreme conditions announced by the government of Hong Kong in accordance with the "Code of Practice in Times of Typhoons and Rainstorms" issued by the Hong Kong Labour Department in June 2019 is/are in force on any days between Tuesday, June 30, 2020 to Wednesday, July 15, 2020, then the day of (i) announcement of results of allocations in the Hong Kong Public Offering; (ii) dispatch of Share certificates and refund checks/**HK eIPO White Form** e-Auto Refund payment instructions; and (iii) dealings in the Shares on the Stock Exchange may be postponed and an announcement may be made in such event.

The applications for the Hong Kong Public Offer Shares will commence on Tuesday, June 30, 2020 through Wednesday, July 8, 2020, being longer than normal market practice of four days. The application monies (including the brokerage fees, SFC transaction levies and Stock Exchange trading fees) will be held by the receiving banks and on behalf of the Company after the closing of the application lists and the refund monies, if any, will be returned to the applicants without interest on Tuesday, July 14, 2020. Investors should be aware that the dealings in the Shares on the Stock Exchange are expected to commence on Wednesday, July 15, 2020.

IMPORTANT NOTICE TO PROSPECTIVE INVESTORS

This document is issued by us solely in connection with the Hong Kong Public Offering and the Hong Kong Public Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Public Offer Shares offered by this document pursuant to the Hong Kong Public Offering. This document may not be used for the purpose of making, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstance. No action has been taken to permit a public offering of the Hong Kong Public Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this document in any jurisdiction other than Hong Kong. The distribution of this document for purposes of a public offering and the offering and sale of the Hong Kong Public Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this document and the Application Forms to make your investment decision. The Hong Kong Public Offering is made solely on the basis of the information contained and the representations made in this document and the Application Forms. We have not authorized anyone to provide you with information that is different from what is contained in this document and the Application Forms. Any information or representations not contained or made in this document and the Application Forms must not be relied on by you as having been authorized by us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of our or their respective directors, officers, employees, agents or representatives, or any other parties involved in the Global Offering.

CONTENTS

This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you. Moreover, there are risks associated with any investment. Some of the particular risks of investing in the Offer Shares are set out in the section headed "Risk factors". You should read the entire document (including the section headed "Risk factors") carefully before you decide to invest in the Offer Shares. Various expressions used in this section are defined in the sections headed "Definitions" and "Glossary of technical terms".

OVERVIEW

We are a media group, built on twin pillars of a leading TV/film production business and a higher education business focused on media and arts.

We were one of the pioneers in the private TV program production industry in China. TV shows produced by us have enjoyed high popularity and viewership for more than two decades – all our productions during the Track Record Period were ranked no. 1 in viewer ratings in China when first aired. This popularity among viewers across China has translated into good reception of our productions by our customers, major TV stations and online video platforms – for the last ten TV series we produced, all of their initial broadcasting rights were purchased even before we completed the production. Within the Track Record Period, the gross margin of our TV/film production business was 47.2%, as compared to the industry average of 35.0%, according to Frost & Sullivan.

We also operate 南京傳媒學院 (Pinyin: Nanjing Chuanmei Xueyuan, formerly known as Communication University of China, Nanjing) ("**CUCN**"), which was ranked first in media and arts independent colleges in China in 2020, according to the Chinese Universities Alumni Association. With 12,697 students enrolled in majors related to media and arts in the school year 2018/2019, our University is the second largest private sector provider of media and arts higher education in China, according to Frost & Sullivan. For the school year 2019/2020, over 63,000 applicants competed for entrance to our University, with only 4.3% finally being admitted.

Our University was founded as a cooperation between Nanjing Meiya and the Communication University of China ("**CUC**") in 2004. In July 2019, Nanjing Meiya and CUCN entered into a termination agreement with CUC and made a one-off payment of RMB160 million to CUC. Our University officially converted from an independent college to a private higher education institution under the new school name 南京傳媒學院 (Pinyin: Nanjing Chuanmei Xueyuan) in March 2020, and obtained the updated Private School Operating License in May 2020. Student enrolment may be affected by the termination of the cooperation agreement with CUC and the resulting name change. See "Risk factors – Risks relating to our business and industries – Our University recently terminated the cooperation agreement with CUC and renamed itself as 南京傳媒學院 (Pinyin: Nanjing Chuanmei Xueyuan). We will face significant uncertainties on student enrollment and employment in connection with the termination of the cooperation with CUC" for details.

We seek to capitalize on our national reputation, deep insights into content creation and the entertainment industry, as well as rich resources in media and arts education to expand our business into new areas. For example, we see high demand for quality training for young talent in the entertainment industry and launched our first *Star Dream* training program in August 2019 to capitalize on this market opportunity. Famous and experienced instructors attached by their previous cooperation with us and our reputation in the entertainment business work side by side with experts at our University to deliver tailored training programs for talented performers dreaming of stardom. This 16-day pilot program proved to be exceptionally popular. Within one month about 610 young actors applied in spite of a high training fee of RMB20,800, of which only 30 were admitted.

Our total revenue was RMB556.9 million, RMB368.3 million and RMB747.2 million, and our profit was RMB180.6 million, RMB148.8 million and RMB194.5 million, for 2017, 2018 and 2019, respectively. Our higher education business experienced stable growth over the Track Record Period. The revenue derived from our higher education business increased from RMB256.3 million in 2017 to RMB276.9 million in 2018 and further to RMB311.7 million in 2019. Our TV/film production business, on the other hand, fluctuated during the Track Record

Period due to our limited number of productions each year, and unexpected changes in industry policies that delayed our production and delivery. Our TV/film production business generated revenue of RMB300.6 million, RMB91.4 million and RMB435.5 million in 2017, 2018 and 2019, respectively.

INDUSTRY OPPORTUNITIES

The media business is among the fastest-growing industries in China. The total revenue of the media industry in China increased rapidly from RMB1,235.9 billion in 2014 to RMB2,096.0 billion in 2018, representing a CAGR of 14.1%, according to Frost & Sullivan. Within the overall media business, there is an increasingly strong demand for high quality content in China.

In the education sector, the private media and arts higher education industry has experienced rapid growth. In the school year 2018/2019, 1.0 million students competed for 0.6 million places offered by media and arts universities in China. Driven by excessive demand for talents and media professionals, private media and arts higher education enjoys a premium tuition fee structure, managing to charge on average RMB19,029 per student in the school year 2018/2019, as compared to RMB13,530 per student for general private higher education in China. Compounded by the growing student body size, the total market size of private media and arts higher education has grown from RMB8.9 billion in 2014 to RMB12.9 billion in 2018, and is expected to grow further to RMB18.1 billion in 2023 according to Frost & Sullivan.

OUR COMPETITIVE STRENGTHS

Leading TV/film production and media and arts education businesses

We were one of the pioneers in the private TV program production industry in China, having delivered high quality TV shows to audiences in China and abroad for over two decades. The programs produced under our brand Cathay Media (Hua Xia Shi Ting/華夏視聽) have a long-standing reputation for high quality and have consistently achieved high viewership. Our works have also received acclaim from television critics and won numerous accolades. For example, our *Movies and TV Shows (影視同期聲)* won one of the highest national awards, the Star Award (星光獎), in 2000, 2002 and 2003, and the TV series *Demi-Gods and Semi-Devils (天龍八部)* won Best Ten TV Series, Best Cinematography, Audience Favorite Actor & Actress in China and TV Golden Eagle Awards (金鷹獎) in 2004, and the TV series *The Heaven Sword and Dragon Saber (倚天屠龍記)* won Outstanding Original Program in 2019. A total of 231 episodes produced by us were broadcasted in 2019, representing approximately 1.0% of the total episodes broadcasted in China for the same year.

Media and arts higher education is another driving force for our Group's continuing success. Established in 2004, our University has quickly grown into a reputable media and arts university, and we were ranked the first among all private media and arts independent colleges, as recognized by the Chinese Universities Alumni Association for five consecutive years from 2016 to 2020.

These two cornerstone businesses cooperate with each other closely, and are showing strong synergies. We believe they will further fuel the development of our Group with a virtuous cycle. Our TV/film production business brings us reputation and recognition across the country and helps connect our University with the industry. By leveraging our resources in the TV/film production industry, we introduce industry leaders to join as our faculty and generate a large number of internship and employment opportunities for our students. Our University at the same time also serves as a source for the recruitment of talent and supply of creative content for our TV/film production business. For example, we have established a scriptwriting award in our University to encourage students to convert their innovative ideas into stories, and we benefit from this creative source of story ideas.

Deep trusted cooperation relationship with major online video platforms and TV stations

Delivering high-quality content to the satisfaction of our customers is our highest priority. To this end, we have established a comprehensive cooperation model for content creation. As soon as we develop an idea for a TV series, we start working closely with potential customers, and update them frequently on production progress. Our production team proactively responds to feedback from our customers, for example, in respect of storylines and choice of leading actors. These efforts ensure that our final products are well received by our customers. For the last ten TV series we produced, all of their initial broadcasting rights were purchased even before we completed the production.

Through consistently delivering high-quality content for over two decades, we have successfully built great trust with major TV stations and online broadcasting channels across China. This trust can be demonstrated by our customers' willingness to co-invest in our TV shows. For example, Mango TV invested 41% in *The Gods (封神)* which was aired in 2019 and Tencent invested 50% in *Don't Call Me Jiushen (别叫我酒神)* which has been broadcasted online since June 2020.

Ability and experience to deliver high quality content

We are home to an exceptionally experienced and dedicated internal creative team, led by Mr. Pu, our chairman and a team of seasoned TV producers. We have historically cooperated with top scriptwriters, producers, directors and actors in the industry, which include ZHANG Jizhong (張紀中), ZHAO Baogang (趙寶剛), HU Jun (胡軍), and Joe CHEN (陳喬恩).

In production, we carefully examine thousands of potential opportunities and make highly selective investments in high return projects amid the fast changing content creation industry. Adaptation from popular novels and plays has been one important successful strategy for us historically. While the whole industry has been enthusiastically rushing to purchase adaptation rights of popular literature, we excel as our visionary content creation team has managed to identify novels before they become national bestsellers, which ultimately lowers our production costs significantly.

High quality media and arts curriculum that prepares our students to stand out in the job market

The curriculum of our University is designed to cater to the needs of the evolving media and arts industry. For instance, we established a major in animation in 2004 and another one in game commentating in 2016, which was one of the earliest in the industry. These market-oriented courses, combined with numerous internship opportunities in collaboration with industry-leaders, equip our students with the ability to excel even when they are still on campus. As a result of our market-oriented curriculum and internship networks that prepare our students to excel professionally, the initial employment rate of our graduates was 92.7% for those graduating in the school year 2016/2017, compared to 78.4% in all higher education institutes in China, according to Frost & Sullivan. In addition, according to a survey by the College Admissions and Career Guidance Service Center of Jiangsu Province, our University ranked first in employment competitiveness from 2012 to 2015 and first in average starting salary of graduates in 2015, among all private universities in Jiangsu Province.

Experienced University faculty and extensive international cooperation

As of December 31, 2019, we had 706 full-time faculty at our University, with another group of 524 experienced professionals serving as adjuncts (who on average have 10 years' industry experience). Our faculty are not only experienced and reputable in academia, but also have deep connections to the media industry.

As of December 31, 2019, our University had exchange or joint degree programs with over 50 universities around the world, including universities in New York, Tokyo, London and Hong Kong. More than 1,000 students have benefitted from these programs and gained international exposure. Additionally, 410 students are currently enrolled in our international preparatory program, which prepares them for overseas studies.

Experienced management team with a long and proven track record

Our founder and Chairman of the Board, Mr. Pu, was a pioneer in the TV industry. Mr. Pu founded Beijing Pushengda Advertising Co., Ltd. (北京普聖達廣告有限公司) in December 1998 and Huaxia Online in December 2001 to invest in TV series production. Mr. Pu from there led Huaxia Online and later Huaxia Audio-Visual to become a TV series production powerhouse in China, having made dozens of highly popular TV shows in the past two decades.

BUSINESS STRATEGIES

We intend to maintain and strengthen our leading position in the TV series production industry and private media and arts university field, and at the same time expand our reach into areas like film production and talent agency to develop into a leading media group. To achieve this goal, we plan to pursue the following strategies:

- Continue to produce high quality content;
- Expand the capacity of our University and optimize our pricing to improve profitability;
- Explore new growth opportunities;
- Continue to improve the education quality of our University; and
- Selectively pursue strategic alliances, investments and acquisitions.

BUSINESS MODEL

TV/film production business

We create a variety of content for distribution through cable network, internet and silver screen in our TV/film production business. During the production process, we utilize our in-house creative team and also engage external resources such as reputable scriptwriters, directors and actors. Upon completion, we license the broadcasting rights of our productions to TV stations and online video platforms.

We take the quality of our production seriously, and have always been actively involved in the production of TV series, variety shows and films, whether we were the sole producer or we co-produced together with others, except for the two films produced in 2012, where we were passive investors. We expect to continue this practice in the near future, while we also started leading the production of films tailor-made for online viewing in 2019, which are considered to be less risky than feature films for theater screening.

We had three TV series premier during the Track Record Period, namely the *The Gods (封神)* on Hunan TV and Mango TV in 2019, *Untouchable Lovers (鳳囚凰)* on iQiyi in 2018 and *The Heaven Sword and Dragon Saber (倚天屠龍記)* on Tencent Video in 2019. The table below sets forth information relating to these series.

Title	Amount of our investment	% of investment from us	Number of episodes	Gross profit margin for the Track Record Period	Viewership measurement[1]	Revenue generated for the year ended December 31, 2017	2018	2019
						(in thousands of RMB)		
The Gods (封神)	RMB62.0 million	39%	65	38%	0.72%	–	61,230	28,072
Untouchable Lovers (鳳囚凰)	RMB144.1 million	80%	52	49%	1.06%	296,607	7,251	–
The Heaven Sword and Dragon Saber (倚天屠龍記)	RMB236.2 million	100%	50	46%	6.4 billion views	–	13,453	405,109

Note:

(1) Viewership measurement for TV series broadcast via cable networks is expressed as a percentage of the potential TV audience viewing, while the measurement for series broadcast via internet is expressed as view counts of the respective online platforms.

Additionally, as of the Latest Practicable Date, six TV series and two web films tailor-made for online viewing were in our production pipeline, the details of which are set forth below.

Title	Genre	% of investment from us	Current status	Expected completion of production
Mrs. Qing (清夫人)	TV	100%	Pre-production (screenwriting)	2021
Ashes of Time (東邪西毒)	TV	100%	Pre-production (screenwriting)	2021
Copper Wedding (銅婚)	TV	100%	Pre-production (screenwriting)	2021
Kangxi Emperor (康熙大帝)	TV	100%	Pre-production (screenwriting)	2021
Hi, Shichahai (嗨, 什剎海)	TV	35%	Post-production (editing)	2020
Quiet (安靜)	TV	Not finalized	Principal photography	2020
Nantaihang Xuechi Village I (南太行血池村第一部)	Web film	100%	Pre-production (filing with NRTA)	2020
Nantaihang Xuechi Village II (南太行血池村第二部)	Web film	100%	Pre-production (filing with NRTA)	2021

The below table sets forth the carrying amount/total amount capitalized, budget, percentage of completion of all TV series and films completed or under production as of December 31, 2019 on a title-by-title basis:

	Carrying amount/ total amount capitalized	Budget	Percentage of completion
	(in thousands of RMB)		
Completed production			
The Gods (封神)	3,747	NA	NA
Zhaoge (朝歌)	45,000	NA	NA
Under-production			
Kangxi Emperor (康熙大帝)	4,915	330,000	1.5%

Among all our customers, online video platforms are an important distribution channel to us, generating over 98% of our total revenue from TV/film production business for the years ended December 31, 2017 and 2019. The table below sets out a breakdown of contribution of revenue by distribution channels for our TV/film production business during the Track Record Period:

	Year ended December 31,					
	2017		2018		2019	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except percentages)					
TV stations	–	–	55,971	61.2	1,059	0.2
Online video platforms	296,835	98.7	6,035	6.6	428,245	98.3
Overseas markets	3,766	1.3	29,390	32.2	6,225	1.5
Total	300,601	100.0	91,396	100.0	435,529	100.0

We were the sole producer for some of our TV programs, and we also cooperate and co-produce together with others from time to time. Please see "Business – Products and services – TV/film production" for details of how we cooperate with other production firms in such cases.

In most cases, we contract with TV stations and online video platforms to broadcast our programs for a period of two to eight years after the initial broadcast. Licensing fees are generally negotiated on a per episode basis with a pre-determined range of total episodes. The licensing fee is paid in installments – customers normally pay the first installment of 20%-30% of the total price after signing the contract and receiving certain basic documents (for example, our business license), which we recognize as contract liabilities on our balance sheet, then another 30%-40% when we deliver the master tapes, and the remaining amount after the TV programs are broadcast or become available online. Some contracts with our customers include protective clauses which allow our customers to terminate the licensing agreement if the master tapes we deliver do not meet their technical criteria or the TV programs we produced are subject to any restraint from broadcasting in unexpected circumstances, for example, change of regulations or industry policies. None of our contracts were terminated by our customers during the Track Record Period.

Higher education business

In respect of our education business, we operate CUCN with a focus on majors related to media and arts. The table below sets out the student enrollment and tuition fees charged for undergraduate study for the relevant school years:

	School year			
	2016/2017	**2017/2018**	**2018/2019**	**2019/2020**
Total students enrolled	12,468	13,008	13,515	14,256
Tuition fees (range) (in RMB)	14,000~18,000	14,000~18,000	14,000~18,000	14,000~18,000

SUMMARY OF FINANCIAL INFORMATION

The following table presents our consolidated income statement items in absolute amount and as a percentage of our total revenue for the years indicated:

	Year ended December 31,					
	2017		**2018**		**2019**	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except percentages)					
Revenue	556,878	100.0	368,318	100.0	747,186	100.0
Cost of revenue	(275,733)	(49.5)	(163,387)	(44.4)	(374,361)	(50.1)
Gross profit	281,145	50.5	204,931	55.6	372,825	49.9
Selling expenses	(30,620)	(5.5)	(8,124)	(2.2)	(8,999)	(1.2)
Administrative expenses	(68,675)	(12.3)	(62,356)	(16.9)	(74,212)	(9.9)
Other income	13,234	2.4	12,474	3.4	17,504	2.3
Other gains/(losses) – net	4,113	0.7	(730)	(0.2)	(72,871)	(9.8)
Operating profit	199,197	35.8	146,195	39.7	234,247	31.3
Finance income	7,727	1.4	8,087	2.2	6,705	0.9
Finance costs	(2,741)	(0.5)	(1,056)	(0.3)	(621)	(0.1)
Finance income – net	4,986	0.9	7,031	1.9	6,084	0.8
Profit before income tax	204,183	36.7	153,226	41.6	240,331	32.1
Income tax expense	(23,621)	(4.3)	(4,401)	(1.2)	(45,814)	(6.1)
Profit for the year	180,562	32.4	148,825	40.4	194,517	26.0

The following table sets forth a breakdown of our revenue by segment for the years indicated:

	Year ended December 31,					
	2017		**2018**		**2019**	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except percentages)					
Segment revenue:						
TV/film production	300,601	54.0	91,396	24.8	435,529	58.3
Higher education	256,277	46.0	276,922	75.2	311,657	41.7
Total	556,878	100.0	368,318	100.0	747,186	100.0

Our revenue and net profit fluctuated during the Track Record Period, as a result of the fluctuating performance of our TV/film production business. We only completed delivery of TV series *The Gods (封神)* in 2018, in which our investment was 39%. Therefore, the revenue from TV/film production in 2018 was low and the total net profit for our Group in 2018 declined compared to 2017. Our net other losses increased significantly for the year ended December 31, 2019, mainly attributable to the payment of termination fee of RMB95.0 million to CUC in the third quarter of 2019.

The following table sets forth our gross profit and gross margin by segment for the years indicated:

	Year ended December 31,					
	2017		**2018**		**2019**	
	Gross profit (RMB)	*Gross margin (%)*	*Gross profit (RMB)*	*Gross margin (%)*	*Gross profit (RMB)*	*Gross margin (%)*
	(in thousands of RMB, except percentages)					
Gross profit and gross margin by segments:						
TV/film production	141,650	47.1	45,804	50.1	203,319	46.7
Higher education	139,495	54.4	159,127	57.5	169,506	54.4
Total	281,145	50.5	204,931	55.6	372,825	49.9

KEY BALANCE SHEET ITEMS

The table below sets forth key items of our consolidated balance sheets as of the dates indicated, which have been extracted from our audited consolidated financial statements included in Appendix I to this document:

	As of December 31,		
	2017	**2018**	**2019**
	(in thousands of RMB)		
Non-current assets	727,806	762,865	680,337
Current assets	966,542	1,130,567	1,088,419
Net current assets	505,038	602,412	729,977
Total assets	1,694,348	1,893,432	1,768,756
Total equity	1,214,341	1,363,418	1,376,753
Non-current liabilities	18,503	1,859	33,561
Current liabilities	461,504	528,155	358,442
Total liabilities	480,007	530,014	392,003
Total equity and liabilities	1,694,348	1,893,432	1,768,756

The net assets/total equity increased from RMB1.21 billion as of December 31, 2017 to RMB1.36 billion as of December 31, 2018 and further to RMB1.38 billion as of December 31, 2019, mainly as a result of our net profit during this period. See "Financial information – Discussion of certain key balance sheet items" for key balance sheet items by segments.

NON-HKFRS MEASURE

In order to supplement our consolidated financial statements, which are presented in accordance with HKFRS, we also use Adjusted Net Profit (defined below) as an additional financial measure. We present this financial measure because it is used by our management to evaluate our financial performance by eliminating the impact of certain items that we do not consider to be indicative of our performance during the Track Record Period. We also believe that this non-HKFRS measure provides additional information to investors and others in their understanding and evaluating our results of operations in the same manner as they help our management and in comparing financial results across accounting periods and to those of our peer companies. We believe the one-off payment to CUC is non-recurring in nature because the termination agreement with CUC provides all transition arrangements and we do not foresee any additional fees being payable to CUC after we completely switched to run our University by ourselves. These non-HKFRS figures are non-recurring in nature and provide an unbiased presentation for investors to understand our results of operations. However, this non-HKFRS measure does not have a standardized meaning prescribed by HKFRS and therefore it may not be comparable to similar measures presented by other companies listed on the Stock Exchange.

The adjusted net profit, which is unaudited, represents profit for the year adding back listing expenses and termination fee payment to CUC (the "**Adjusted Net Profit**"). For the years ended December 31, 2017, 2018 and 2019, our Adjusted Net Profit was RMB199.0 million, RMB156.5 million and RMB300.7 million, respectively.

The following table reconciles our Adjusted Net Profit to the most directly comparable financial measure calculated and presented in accordance with HKFRS (profit for the year).

	Year ended December 31,		
	2017	**2018**	**2019**
	(in thousands of RMB)		
Revenue	556,878	368,318	747,186
Profit before income tax	204,183	153,226	240,331
Income tax expense	(23,621)	(4,401)	(45,814)
Profit for the year	180,562	148,825	194,517
Add: Listing expenses	18,420	7,665	11,223
Add: One-off payment to CUC	–	–	95,000
Adjusted net profit	198,982	156,490	300,740

See "Financial information – Non-HKFRS measure" for details.

FINANCIAL RATIOS

	As of/for the year ended December 31,		
	2017	**2018**	**2019**
Net profit margin(1)	32.4%	40.4%	26.0%
Return on equity(2)	15.7%	11.5%	14.2%
Current ratio(3)	2.09	2.14	3.04

Notes:

(1) Net profit margin is calculated using net profit divided by revenue and multiplied by 100%.

(2) Return on equity is calculated using net profit divided by average equity and multiplied by 100%.

(3) Current ratio is calculated using current assets as of year end divided by current liabilities as of year end.

SEGMENTS

Our operation can be divided into two segments, namely TV/film production and higher education. Our chief executive officer and executive Directors review internal reporting, evaluate performance and allocate resources between these two segments.

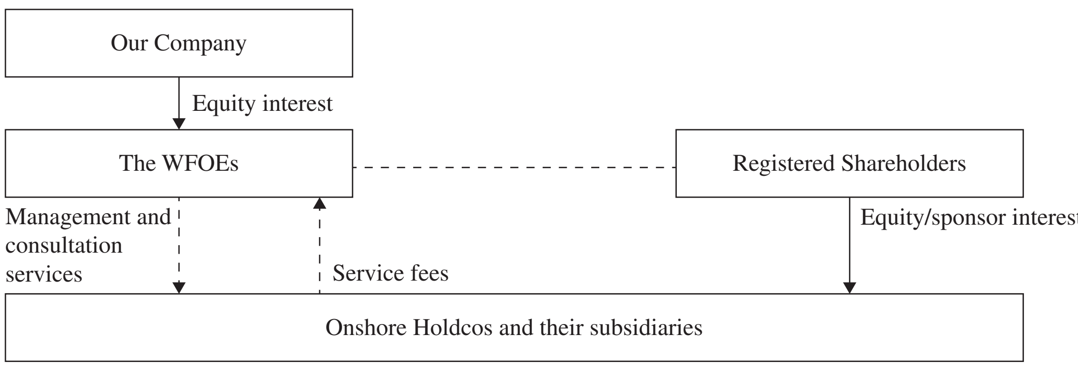
Between the two segments, the TV/film business fluctuated during the Track Record Period, primarily because, considering our resources and, most importantly, quality of our production, we only produced a very limited number of TV series each year, and therefore the timing of completion and sale of one single TV series may result in a significant difference in revenues from period to period. Higher education, on the other hand, remained stable during the three years ended December 31, 2019, constantly delivering operating profit of approximately RMB100 million and generating cash of more than RMB130 million from operating activities each year (in each case excluding the impact of an one-off termination fee payment to CUC in 2019).

See "Financial information" for details of the results of operations and financial positions of our two segments during the Track Record Period. In particular, see "Financial information – Segment information" for details of the results of operation of our two segments during the Track Record Period, "Financial information – Discussion of certain key balance sheet items" for key balance sheet items by segments and "Financial information – Liquidity and capital resources" for our cash flow by segments.

CONTRACTUAL ARRANGEMENTS

Our TV/film production business and our private education business are subject to foreign investment restrictions under PRC Laws. Therefore, our Company is unable to own or hold any direct sponsor interest or equity interest in our Consolidated Affiliated Entities. Rather, we control these entities through Contractual Arrangements, through which we are able to derive substantially all economic benefits enjoyed by the Registered Shareholders from our Consolidated Affiliated Entities. See "Contractual Arrangements" for details.

The following simplified diagram illustrates the key aspects of the Contractual Arrangements:



Notes:

(1) Registered Shareholders refer to the registered shareholders of the Onshore Holdcos (Dongyang Huaxia and Nanjing Lanchou). Dongyang Huaxia is owned by Mr. Pu as to 99% and Mr. Liu Chang as to 1%. Nanjing Lanchou is owned by Mr. Pu as to 100%.

(2) "—>" denotes legal and beneficial ownership in the equity/sponsor interest.

(3) "--->" denotes contractual relationship.

(4) "----" denotes the control by WFOEs over the Registered Shareholders and the Onshore Holdcos through (i) powers of attorney to exercise all shareholders' rights in the Onshore Holdcos, (ii) exclusive options to acquire all or part of the equity/sponsor interests held by the Registered Shareholders in our Consolidated Affiliated Entities and (iii) equity pledges over the equity interests held by the Registered Shareholders in the Onshore Holdcos, Huaxia Audio-Visual and Nanjing Meiya.

OUR CONTROLLING SHAREHOLDERS

Immediately after the completion of the Global Offering (assuming the Over-allotment Option is not exercised, no Shares are awarded under the Post-IPO Share Award Scheme, and no options are granted under the Post-IPO Share Option Scheme), Mr. Pu through Cathay Media Holding Inc. will control an aggregate of 72.19% of the issued share capital of our Company. Therefore, Mr. Pu and Cathay Media Holding Inc. will therefore be our Controlling Shareholders.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK$1,103.5 million (after deducting the underwriting fees and expenses related to the Global Offering), assuming the Over-allotment Option is not exercised and an Offer Price of HK$2.98

per Share, being the mid-point of the indicative Offer Price range of HK$2.86 to HK$3.10 per Share in this document. We intend to use the net proceeds of the Global Offering for the following purposes:

- approximately 30%, or HK$331.1 million, for investment in the production of high quality content;
- approximately 30%, or HK$331.1 million, to improve or expand the capacity, facilities and educational equipment of our University;
- approximately 30%, or HK$331.1 million, towards the acquisition of media and arts higher education institutions and/or training institutions to supplement our media and arts education business; and
- approximately 10%, or HK$110.3 million, for working capital and other general corporate purposes.

SUMMARY OF MATERIAL RISK FACTORS

Our business faces risks including those set out in the section headed "Risk factors" in this document. As different investors may have different interpretations and criteria when determining the significance of a risk, you should read the "Risk factors" section in its entirety before you decide to invest in the Offer Shares. Some of the major risks that we face include:

- Our TV/film production business is primarily dependent upon, among other factors, audience acceptance, which is extremely difficult to predict and therefore inherently risky.
- The TV/film industry is regulated extensively in China.
- We are subject to significant uncertainties brought by recent regulation in the private higher education industry.
- Our TV/film production business depends on the success of a limited number of releases each year. The commercial failure of any one of them could have a material adverse effect on us and this pattern subjects our revenues from our TV/film production business to significant seasonal fluctuation.
- We operate our TV/film production business in a highly competitive industry.
- We are exposed to the risk of high concentration of service providers in our TV/film production business.
- The private higher education business is relatively new and may not gain wide acceptance in China.
- Our University recently terminated the cooperation agreement with CUC. We will face significant uncertainties on student enrollment and employment in connection with the termination of the cooperation with CUC.
- Our higher education business depends on the level of tuition fees and boarding fees we are able to charge and the size of the student body we are allowed to enroll.
- We face intense competition in the PRC education industry, which could lead to adverse pricing pressure, reduced operating margins, loss of market share, departures of qualified employees and increased capital expenditures.
- The PRC government may find that the agreements that establish the structure for operating our business in China do not comply with applicable PRC laws and regulations, which may subject us to severe penalties and our business may be materially and adversely affected.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option), the Shares to be issued pursuant to awards under the Post-IPO Share Award Scheme and the Shares to be issued pursuant to the exercise of options granted under the Post-IPO Share Option Scheme, on the basis that, among other things, we satisfy the profit test under Rule 8.05(1) of the Listing Rules.

GLOBAL OFFERING

This document is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises the Hong Kong Public Offering of 40,000,000 Hong Kong Public Offer Shares (subject to reallocation) in Hong Kong and the International Offering of an aggregate of 360,000,000 International Offer Shares (subject to reallocation and the Over-allotment Option) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S and in the United States to QIBs in reliance on Rule 144A or another exemption from the registration requirements under the U.S. Securities Act.

The Offer Shares will represent 25% of the issued share capital of our Company immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised, no Shares are awarded under the Post-IPO Share Award Scheme, and no options are granted under the Post-IPO Share Option Scheme).

	Based on an Offer Price of HK$2.86 per Share	**Based on an Offer Price of HK$3.10 per Share**
Market capitalization of our Shares	HK$4,576 million	HK$4,960 million
Unaudited pro forma adjusted net tangible asset value per Share	HK$1.53 RMB1.40	HK$1.59 RMB1.46

LISTING EXPENSES

We expect to incur listing expenses of approximately RMB81.0 million (representing approximately 7.4% of our gross proceeds from the Global Offering, assuming an Offer Price of HK$2.98, being the mid-point of the indicative Offer Price range between HK$2.86 and HK$3.10, and assuming that the Over-allotment Option is not exercised) until the completion of the Global Offering, of which RMB58.0 million is expected to be charged to our consolidated statements of comprehensive income and RMB23.0 million is directly attributable to the issue of the Shares to the public and to be capitalized. Listing expenses represent professional fees and other fees incurred in connection with the Listing, including underwriting commissions but excluding discretionary bonus. The listing expenses above are the best estimate as of the Latest Practicable Date and for reference only and the actual amount may differ from this estimate.

DIVIDENDS

No dividend has been paid by our Company during the Track Record Period. In December 2017 and August 2019, one Consolidated Affiliated Entity declared dividends of RMB58.1 million and RMB182.0 million, respectively, to its then shareholder. No dividend has been declared or paid by our Consolidated Affiliated Entities to our WFOEs after the consolidation of our Consolidated Affiliated Entities through the Contractual Arrangements. Any amount of dividends we pay will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors which our Directors consider relevant.

RECENT DEVELOPMENTS

An outbreak of the COVID-19 coronavirus emerged in late 2019, primarily in Wuhan, Hubei Province, and it has since expanded in China and globally. The outbreak was declared a Public Health Emergency of International Concern and a Global Pandemic by the World Health Organization on January 30, 2020 and March 11, 2020, respectively. CUCN resumed teaching through online classes from the beginning of March 2020, about one month later than the spring semester was originally scheduled to begin, and resumed classroom learning from late April 2020. Such adjustments did not affect the revenue of our higher education business, as the tuition fees and the boarding fees for the school year 2019/2020 were already collected at the beginning of the school year, in September 2019, and the revenue has been recognized based on the actual progresses of the semester. Although we need to refund approximately two months' boarding fees to the students, such refund will only have a slight impact on the revenue of our higher education business. In the first half of 2020, a total of 64,891 students have taken the art entrance exams of CUCN for the school year 2020/2021, the number of which is higher than the previous school year. There has been a slight delay in resuming filming and production activities of our scheduled TV series and the delivery of the final production might be therefore delayed. Specifically, our sole-invested TV series *Copper Wedding (銅婚),* which was originally expected to be delivered and recognize revenue at the end of 2020, has been delayed to 2021 due to the coronavirus-related circumstances. In addition, our co-invested TV series *Zhaoge (朝歌*) (in which we have a 30% interest), which was delivered in 2020, is expected to contribute less revenue than our sole invested TV series *The Heaven Sword and Dragon Saber (倚天屠龍記)* delivered in 2019. We commenced principal photography of a new TV series *Quiet (安靜)* in late April 2020. Considering all of the above, as of the Latest Practicable Date, we expect we will record a decline in revenue and net profit in 2020.

We keep a relatively small team of core creative production staff in our TV/film production business and engage top talents in the industry, including actors, directors and script writers, only when the production plan of a particular TV series is confirmed. Therefore, we only incur a relatively small amount of fixed cost, compared to our cash balance, in the TV/film production business. We therefore see no financial viability issue even if the pandemic is prolonged. With respect to our higher education business, we have not and do not plan to cease offering our education programs, and our students have been attending classes online even during the lockdown accompanying the COVID-19 pandemic. Therefore our revenue from our higher education business has not been significantly affected. As such, as of the Latest Practicable Date, we did not expect the COVID-19 coronavirus outbreak to have a significant impact on our future prospects.

Assuming that (i) there will be no other sources of funding except for cash on hand, financial assets and the receipt of net proceeds from the Global Offering in relation to working capital and general corporate purposes, based on the low end of the Offer Price range and assuming the Over-allotment Option is not exercised; (ii) there will be no cash generated from our TV/film production business and higher education business; and (iii) we will keep our current employees and incur fixed cost such as administrative expenses and selling expenses, and continue to invest in the TV series that are already under production as if we were in a cash-rich situation, we expect to be able to maintain viability for at least 26 months following the Listing.

On February 21, 2020, the China Netcasting Services Association released the Guideline for Online Variety Shows (網絡綜藝節目內容審核標準細則), setting forth standards for online variety shows, mainly on content and casting. The new standards are consistent with our historical and current practice, so we do not see extra burden or adverse effect arising from this new regulation. See "Regulations – Regulations on TV series and variety shows production in the PRC – Regulations on online variety shows in the PRC" for more details.

In early April 2020, our web film *Don't Call Me Jiushen (別叫我酒神)* obtained the record-filing number from the NRTA and has been broadcasted online since June 2020. In addition, in respect of our higher education business, in late April 2020, in cooperation with Emperor Entertainment Group, we offered a joint training program on performing arts called *Golden Artist Plan* which charges from RMB45,000 to RMB98,000 per student.

MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this document, there has been no material adverse change in our financial and trading positions or prospects since December 31, 2019 (being the date on which the latest audited consolidated financial information of our Group was prepared), and there has been no event since December 31, 2019 which would materially affect the information shown in our consolidated financial statements included in the Accountant's Report in Appendix I.

In this document, unless the context otherwise requires, the following terms shall have the following meanings. Certain technical terms are explained in the section headed "Glossary of technical terms".

"Accountant's Report"	the audited consolidated financial statements of our Company for the Track Record Period, as included in the Accountant's Report in Appendix I
"affiliate(s)"	with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
"Application Form(s)"	**WHITE** Application Form(s), **YELLOW** Application Form(s) or **GREEN** Application Form(s), individually or collectively, as the context so requires, which is used in relation to the Hong Kong Public Offering
"Articles" or "Articles of Association"	the articles of association of our Company conditionally adopted on June 22, 2020 with effect from the Listing Date, as amended from time to time
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors
"business day"	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
"BVI"	the British Virgin Islands
"CAGR"	compound annual growth rate
"Cathay Media BVI"	Cathay Media Group (BVI) Inc., a company incorporated in the BVI on January 12, 2017 and a wholly-owned subsidiary of our Company
"Cathay Media HK"	Cathay Media Group (Hong Kong) Limited (華夏視聽傳媒集團(香港)有限公司), a company incorporated in Hong Kong on January 27, 2017 and a wholly-owned subsidiary of our Company
"Cayman Companies Law"	the Companies Law (2020 Revision) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time

"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"China" or "PRC"	the People's Republic of China and for the purposes of this document only, except where the context requires otherwise, references to China or the PRC exclude Hong Kong, the Macao Special Administrative Region of the People's Republic of China and Taiwan
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Companies (Winding Up and Miscellaneous Provisions) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company"	Cathay Media and Education Group Inc. (華夏視聽教育集團) (formerly known as Cathay Media Group Inc. (華夏視聽傳媒集團)), an exempted company incorporated in the Cayman Islands with limited liability on January 4, 2017
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Consolidated Affiliated Entity(ies)"	Dongyang Huaxia, Nanjing Lanchou and their subsidiaries and affiliated entities, the financial accounts of which have been consolidated and accounted for as if they were subsidiaries of our Company by virtue of the Contractual Arrangements
"Contractual Arrangement(s)"	the series of contractual arrangements entered into between, among others, the WFOEs, the Consolidated Affiliated Entities and the Registered Shareholders, as detailed in the section headed "Contractual Arrangements"

"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules and except where the context requires otherwise, refers to Mr. Pu and Cathay Media Holding Inc.
"CUCN" or "University"	南京傳媒學院 (Pinyin: Nanjing Chuanmei Xueyuan), formally known as Communication University of China, Nanjing (中國傳媒大學南廣學院), which received the certificate of registration for a privately-run non-enterprise unit on January 31, 2005
"Director(s)"	the director(s) of our Company
"Dongyang Huaxia"	Dongyang Huaxia Audio-Visual Film Culture Co., Ltd. (東陽華夏視聽影視文化有限公司), a company established in the PRC on June 18, 2019 and a Consolidated Affiliated Entity of our Company
"Extreme Conditions"	extreme conditions caused by a super typhoon as announced by the Government of Hong Kong
"Frost & Sullivan"	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.
"GAAP"	generally accepted accounting principles
"Global Offering"	the Hong Kong Public Offering and the International Offering
"**GREEN** Application Form(s)"	the application form(s) to be completed by the **HK eIPO White Form** Service Provider designated by our Company
"Group", "we" or "us"	the Company, its subsidiaries, and the Consolidated Affiliated Entities from time to time, and in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time
"**HK eIPO White Form**"	the application for Hong Kong Public Offer Shares to be issued in the applicant's own name, submitted online through the **IPO App** or the designated website at **www.hkeipo.hk**
"**HK eIPO White Form** Service Provider"	the **HK eIPO White Form** service provider designated by our Company as specified in the **IPO App** or on the designated website at **www.hkeipo.hk**
"HKSCC"	Hong Kong Securities Clearing Company Limited

"HKSCC Nominees"	HKSCC Nominees Limited
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong dollars" or "HK dollars" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong Public Offer Shares"	the 40,000,000 Shares being initially offered for subscription in the Hong Kong Public Offering at the Offer Price (subject to reallocation as described in the section headed "Structure of the Global Offering")
"Hong Kong Public Offering"	the offer of the Hong Kong Public Offer Shares for subscription by the public in Hong Kong at the Offer Price (plus a brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) on the terms and subject to the conditions described in this document and the Application Forms, as further described in the section headed "Structure of the Global Offering – The Hong Kong Public Offering"
"Hong Kong Share Registrar"	Tricor Investor Services Limited
"Hong Kong Takeovers Code" or "Takeovers Code"	the Code on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
"Hong Kong Underwriters"	the underwriters of the Hong Kong Public Offering as listed in the section headed "Underwriting – Hong Kong Underwriters"
"Hong Kong Underwriting Agreement"	the underwriting agreement, dated Monday, June 29, 2020, relating to the Hong Kong Public Offering, entered into by, among others, the Joint Global Coordinators, the Hong Kong Underwriters, our Controlling Shareholders and our Company, as further described in the section headed "Underwriting"
"Huaxia Audio-Visual"	Huaxia Audio-Visual Global Media (Beijing) Holdings Co., Ltd. (華夏視聽環球傳媒(北京)股份有限公司), a company established in the PRC on December 27, 2005 and a Consolidated Affiliated Entity of our Company

"Huaxia Online"	Beijing Huaxia Audio-Visual Online Cultural Development Co., Ltd. (北京華夏視聽在線文化發展有限公司), a company established in the PRC on December 11, 2001 and a Consolidated Affiliated Entity of our Company
"Independent Third Party(ies)"	any entity or person who is not a connected person of our Company or an associate of any such person within the meanings ascribed thereto under the Listing Rules
"International Offer Shares"	the 360,000,000 Shares being initially offered for subscription in the International Offering at the Offer Price together, where relevant, with any additional Shares that may be issued pursuant to any exercise of the Over-allotment Option (subject to reallocation as described in the section headed "Structure of the Global Offering")
"International Offering"	the conditional placing of the International Offer Shares at the Offer Price outside the United States in offshore transactions in accordance with Regulation S and in the United States to QIBs only in reliance on Rule 144A or any other available exemption from the registration requirements under the U.S. Securities Act, as further described in the section headed "Structure of the Global Offering"
"International Underwriters"	the underwriters of the International Offering
"International Underwriting Agreement"	the international underwriting agreement, expected to be entered into on or about Wednesday, July 8, 2020, relating to the International Offering as further described in the section headed "Underwriting"
"IPO App"	the mobile application for **HK eIPO White Form** service which can be downloaded by searching "**IPO App**" in App Store or Google Play or downloaded at **www.hkeipo.hk/IPOApp** or **www.tricorglobal.com/IPOApp**
"Joint Bookrunners"	Macquarie Capital Limited, China Merchants Securities (HK) Co., Limited, China International Capital Corporation Hong Kong Securities Limited, CMB International Capital Limited, ICBC International Capital Limited, Huatai Financial Holdings (Hong Kong) Limited, Haitong International Securities Company Limited and Guotai Junan Securities (Hong Kong) Limited

"Joint Global Coordinators"	Macquarie Capital Limited and China Merchants Securities (HK) Co., Limited
"Joint Lead Managers"	Macquarie Capital Limited, China Merchants Securities (HK) Co., Limited, China International Capital Corporation Hong Kong Securities Limited, CMB International Capital Limited, ICBC International Securities Limited, Huatai Financial Holdings (Hong Kong) Limited, Haitong International Securities Company Limited and Guotai Junan Securities (Hong Kong) Limited
"Joint Sponsors"	Macquarie Capital Limited and China Merchants Securities (HK) Co., Limited
"Latest Practicable Date"	June 21, 2020, being the latest practicable date for ascertaining certain information in this document before its publication
"Laws"	all laws, statutes, legislation, ordinances, rules, regulations, guidelines, opinions, notices, circulars, orders, judgments, decrees, or rulings of any government authority (including, without limitation, the Stock Exchange and the SFC) of all relevant jurisdictions
"Listing"	the listing of the Shares on the Main Board
"Listing Committee"	the Listing Committee of the Stock Exchange
"Listing Date"	the date, expected to be on or about Wednesday, July 15, 2020, on which the Shares are to be listed and on which dealings in the Shares are to be first permitted to take place on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange
"Memorandum" or "Memorandum of Association"	the memorandum of association of our Company conditionally adopted on June 22, 2020 with effect from Listing, as amended from time to time
"MOE"	the Ministry of Education of the PRC (中華人民共和國教育部)

"MOF"	the Ministry of Finance of the PRC (中華人民共和國財政部)
"MOFCOM"	the Ministry of Commerce of the PRC (中華人民共和國商務部)
"MOJ"	the Ministry of Justice of the PRC (中華人民共和國司法部)
"Mr. Pu"	Mr. Pu Shulin (蒲樹林), our founder, executive Director, Chief Executive Officer, Chairman and our Controlling Shareholder
"Nanjing Lanchou"	Nanjing Lanchou Corporate Management Co., Ltd. (南京藍籌企業管理有限公司), a company established in the PRC on October 26, 2017 and a Consolidated Affiliated Entity of our Company
"Nanjing Meiya"	Nanjing Meiya Education Investment Co., Ltd. (南京美亞教育投資有限公司), a company established in the PRC on January 30, 2003 and a Consolidated Affiliated Entity of our Company
"NDRC"	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
"NRTA"	the National Radio and Television Administration (國家廣播電視總局)
"Offer Price"	the final offer price per Offer Share (exclusive of brokerage, SFC transaction levy and Stock Exchange trading fee), expressed in Hong Kong dollars, at which Hong Kong Public Offer Shares are to be subscribed for pursuant to the Hong Kong Public Offering and International Offer Shares are to be offered pursuant to the International Offering, to be determined as described in the section headed "Structure of the Global Offering – Pricing and allocation"
"Offer Share(s)"	the Hong Kong Public Offer Shares and the International Offer Shares together, where relevant, with any additional Shares to be issued by our Company pursuant to the exercise of the Over-allotment Option
"Onshore Holdcos"	Dongyang Huaxia and Nanjing Lanchou

"Over-allotment Option"	the option expected to be granted by our Company to the International Underwriters, exercisable by the Joint Global Coordinators on behalf of the International Underwriters for up to 30 days from the day following the last day for the lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to 60,000,000 additional Shares (representing in aggregate 15% of the initial Offer Shares) to cover over-allocations in the International Offering, if any, as described in the section headed "Structure of the Global Offering – Over-allotment Option"
"Post-IPO Share Award Scheme"	the post-IPO share award scheme conditionally approved and adopted by our Company on June 22, 2020, the principal terms of which are set out in the section headed "Statutory and general information – Share schemes" in Appendix V
"Post-IPO Share Option Scheme"	the post-IPO share option scheme conditionally approved and adopted by our Company on June 22, 2020, the principal terms of which are set out in the section headed "Statutory and general information – Share schemes" in Appendix V
"PRC Legal Adviser"	Commerce & Finance Law Offices
"Price Determination Agreement"	the agreement to be entered into between our Company and the Joint Global Coordinators, acting on behalf of the Underwriters, on the Price Determination Date to record and fix the Offer Price
"Price Determination Date"	the date, expected to be Wednesday, July 8, 2020 and in any event no later than 6:00 p.m. on Monday, July 13, 2020, on which the Offer Price is fixed for the purposes of the Global Offering
"QIB"	a qualified institutional buyer within the meaning of Rule 144A
"Registered Shareholders"	the registered shareholders of the Onshore Holdcos, namely Mr. Pu and Mr. Liu Chang (劉暢)
"Regulation S"	Regulation S under the U.S. Securities Act
"Reorganization"	the corporate restructuring of the Group in preparation for the Listing, as described in the section headed "History, reorganization and corporate structure – The Reorganization"

"RMB" or "Renminbi"	Renminbi yuan, the lawful currency of China
"Rule 144A"	Rule 144A under the U.S. Securities Act
"SAFE"	the State Administration for Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SAIC"	the State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局), which has now been merged into the State Administration for Market Regulation of the PRC (中華人民共和國國家市場監督管理總局)
"SARFT"	the State Administration of Press, Publication, Radio, Film and Television (國家新聞出版廣電總局), formerly known as the State Administration of Radio, Film, and Television (國家廣播電影電視總局) and the predecessor of the NRTA
"SAT"	the State Administration of Taxation (國家稅務總局)
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO" or "Securities and Futures Ordinance"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) in the share capital of our Company with a par value of US$0.00001 each
"Shareholder(s)"	holder(s) of the Share(s)
"Stabilization Manager"	Macquarie Capital Limited
"Stock Borrowing Agreement"	the stock borrowing agreement expected to be entered into between Cathay Media Holding Inc. and the Stabilization Manager on or around the Price Determination Date
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary" or "subsidiaries"	has the meaning ascribed thereto in section 15 of the Companies Ordinance
"substantial shareholder(s)"	has the meaning ascribed thereto in the Listing Rules
"Track Record Period"	the years ended December 31, 2017, 2018 and 2019

"Underwriters"	the Hong Kong Underwriters and the International Underwriters
"Underwriting Agreements"	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
"United States" or "U.S."	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"U.S. dollars" or "US$"	United States dollars, the lawful currency of the United States
"U.S. SEC"	the U.S. Securities and Exchange Commission
"U.S. Securities Act"	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
"WFOE-Education"	Bicheng Art Consulting (Nanjing) Co., Ltd (碧城藝術諮詢(南京)有限公司), a company established in the PRC on July 29, 2019 and a wholly-owned subsidiary of our Company
"WFOE-Production"	Dongyang Huaxia Audio-Visual Culture Consulting Co., Ltd. (東陽華夏視聽文化諮詢有限公司), a company established in the PRC on August 15, 2019 and a wholly-owned subsidiary of our Company
"WFOEs"	WFOE-Education and WFOE-Production collectively
"**WHITE** Application Form(s)"	the application form(s) for use by the public who require(s) such Hong Kong Public Offer Shares to be issued in the applicants' own names
"**YELLOW** Application Form(s)"	the form of application for the Hong Kong Public Offer Shares for use by the public who require such Hong Kong Public Offer Shares to be deposited directly into CCASS
"%"	per cent

This glossary contains definitions of certain technical terms used in this document in connection with our Company and our business. These terms and their definitions may not correspond to any industry standard definitions, and may not be directly comparable to similarly titled terms adopted by other companies operating in the same industries as our Company.

"art entrance exam"	test of art skills for students who intend to major in certain media and arts subjects in Chinese universities, in addition to the National Higher Education Entrance Exam of China. It is referred to as "yikao (藝考)" in Chinese.
"first-round broadcasting"	a TV series is allowed to be initially aired on no more than two satellite TV channels pursuant to the One TV Series Two Channels ("一劇兩星") rule required by the SARFT, and the initial airing by the first one or two channels is generally referred to as "first-round broadcasting" in China. After the exclusivity period of the first-round broadcasting right expires, which is generally one month, TV series can be further licensed to be broadcasted on additional TV channels.
"higher education"	a sub-sector of formal education that is also known as post-secondary education. It refers to an optional final stage of formal learning that occurs after completion of secondary education and is often delivered at universities, academies, colleges, or similar level educational institutes.
"initial employment rate"	the total number of university graduates obtaining employment in business entities and government institutions, pursuing their studies or becoming self-employed, divided by the total number of university graduates as of August 31 during the year in which they graduated.
"licensing fee"	the fee that TV program production firms charge TV stations and online video platforms for the right to broadcast TV series and variety shows on TV channels, websites and mobile apps.
"media and arts education"	education on the majors of aesthetics, music and dance, drama and film, visual arts and design, according to the Major List of Undergraduate Education at Regular Higher Educational Institutions (2012 revision) announced by the MOE.

"media and arts universities"	higher educational institutions with a focus on media and arts education, often identified as media and communication university (傳媒大學) or arts college (藝術學院) in school names.
"Media IP"	the right to adapt literature works to TV series and films, and develop merchandise based on the story or characters in literature works.
"TV series"	a popular TV content type in China which is characterized by a single storyline developed over certain number of episodes. TV series episodes are typically broadcast on consecutive days until completion of the series.
"TV program"	includes TV series and variety TV shows.
"TV Series Production Permit"	a permit granted by SARFT or its provincial branch and required to produce any TV series.
"school year"	despite the fact that our financial year ends on December 31, the school year for our University starts in September, and ends in late June of the next year. For consistency purposes, we use information as of October 31 or at the end of school years to present business operating data for school years in this document.
"viewer rating" or "viewership measurement"	a measure of audience size of a given TV program and is expressed as a percentage of the potential TV audience viewing at any given time. Unless otherwise specified in this document, viewer ratings or viewership of any TV program broadcast via cable networks in China are based on data reported by CVSC Sofres Media Co Ltd. (央視-索福瑞媒介研究有限公司) and viewer ratings or viewership of any TV program in Hong Kong and Taiwan are based on data reported by ACNielsen. For TV series broadcast only via internet, viewership measurement is expressed as view counts of respective online platforms.

Certain statements in this document are forward-looking statements that are, by their nature, subject to significant risks and uncertainties. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions, future events, or performance (often, but not always, through the use of words or phrases such as 'will', 'expect', 'anticipate', 'estimate', 'believe', 'going forward', 'ought to', 'may', 'seek', 'should', 'intend', 'plan', 'projection', 'could', 'vision', 'goals', 'aim', 'aspire', 'objective', 'target', 'schedules', and 'outlook') are not historical facts, are forward-looking and may involve estimates and assumptions and are subject to risks (including but not limited to the risk factors detailed in this document), uncertainties and other factors some of which are beyond our Company's control and which are difficult to predict. Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

Our forward-looking statements have been based on assumptions and factors concerning future events that may prove to be inaccurate. Those assumptions and factors are based on information currently available to us about the businesses that we operate. The risks, uncertainties and other factors, many of which are beyond our control, that could influence actual results include, but are not limited to:

- our operations and business prospects;
- our business and operating strategies and our ability to implement such strategies;
- our ability to develop and manage our operations and business;
- competition for, among other things, capital, technology and skilled personnel;
- our ability to control costs;
- our dividend policy;
- changes to regulatory and operating conditions in the industries and markets we operate in; and
- all other risks and uncertainties described in the section headed "Risk factors".

Since actual results or outcomes could differ materially from those expressed in any forward-looking statements, we strongly caution investors against placing undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by the Listing Rules, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. Statements of, or references to, our intentions or those of any of our Directors are made as of the date of this document. Any such intentions may change in light of future developments.

All forward-looking statements in this document are expressly qualified by reference to this cautionary statement.

An investment in our Shares involves significant risks. You should carefully consider all of the information in this document, including the risk and uncertainties described below, before making any investment decision in relation to the Offer Shares. The following is a description of what we consider our material risks. Our business, financial condition or results of operations could be materially and adversely affected by any of these risks. The market price of the Offer Shares could fall significantly due to any of these risks, and you may lose all or part of your investment. These factors are contingencies that may or may not occur, and we are not in a position to express a view on the likelihood of any such contingency occurring. Unless otherwise stated, the information given is as of the Latest Practicable Date, will not be updated after the date hereof, and is subject to the contrary statements in the section headed "Forward-looking statements".

We believe that there are certain risks involved in our operations, many of which are beyond our control. We have categorized these risks and uncertainties into: (i) risks relating to our business and industries; (ii) risks relating to our Contractual Arrangements; (iii) risks relating to doing business in China; and (iv) risks relating to the Global Offering. Additional risks and uncertainties that are presently not known to us or not expressed or implied below or that we currently deem immaterial could also harm our business, financial condition and operating results. You should consider our business and prospects in light of the challenges we face, including the ones discussed in this section.

RISKS RELATING TO OUR BUSINESS AND INDUSTRIES

Our TV/film production business is primarily dependent upon, among other factors, audience acceptance, which is extremely difficult to predict and therefore inherently risky.

The success of our TV series, films and variety TV shows primarily depends on our ability to capture viewer preferences, which may vary in different regions and could change rapidly. In general, the popularity of our TV programs and films among viewers is mainly determined by our ability to originate and source engaging content, create high-quality scripts and characters that appeal to a broad range of viewers and cast popular talents and directors. In addition to audience acceptance, the availability of alternative forms of entertainment and leisure activities, macro-economic conditions and other factors affect viewer ratings and the success of content produced by us.

If we are unable to properly predict viewers' reaction to our TV series, films and variety TV shows, the success and popularity of our products will be at risk. If our TV series and variety TV shows fail to perform as expected, our cooperative relationships with TV stations and online video platforms may deteriorate and our business prospects and reputation could be materially and adversely affected. It could also result in costs not being recouped or anticipated profits not being realized.

The TV/film industry is regulated extensively in China.

The production and distribution of TV programs and films are extensively regulated in China. Regulations extend to almost every aspect of the whole process, from selection of actors, content censorship to release or distribution, and many of them are promulgated without advance public consultation. All these aspects are subject to governmental approval. For example, each TV series has to obtain a TV Series Distribution Permit (電視劇發行許可證)

before its release. Given that the production of a TV series or film is normally a lengthy process, in the event that any production is deemed improper for distribution under unexpected new regulations or industry polices, we may have to incur additional cost to further edit or even remake part of our programs or films. Historically, we have been required by regulators to remove contents involving certain actors or directors, and our production process was therefore delayed. In addition, the release of our production may also be delayed if our customers are asked by government authorities to promote a different genre of content. For example, in 2019, the broadcasting of our TV series *The Gods (封神)* was suspended because Hunan TV adjusted its programming pursuant to the national publicity needs.

We are subject to significant uncertainties brought by recent regulation in the private higher education industry.

The private education industry has experienced significant changes in the regulatory landscape, since the announcement of the Decision of the Standing Committee of the National People's Congress on Amending the Law for Promoting Private Education of the PRC (全國人民代表大會常務委員會關於修改《中華人民共和國民辦教育促進法》的決定) (the "**Amendment**") in November 2016. Subsequently, the Implementing Measures on Classification Registration of Private Schools (民辦學校分類登記實施細則) was jointly promulgated by five PRC government authorities, including the MOE, in December 2016. The Draft Revision of the Regulations on the Implementation of the Law for Promoting Private Education of the PRC (中華人民共和國民辦教育促進法實施條例 (修訂草案) (徵求意見稿)) (the "**MOE Draft for Comments**") was announced by the MOE to seek public comments in April 2018, and the Draft Revision of the Regulations on the Implementation of the Law for Promoting Private Education of the PRC (中華人民共和國民辦教育促進法實施條例 (修訂草案) (送審稿)) (the "**MOJ Draft for Comments**") was announced by the MOJ to seek public comments in August 2018.

On a local legislation level, in February 2018, the government of Jiangsu Province promulgated the Implementation Opinion on Encouraging Social Groups to Engage in Education and Promoting the Healthy Development of Private Education (江蘇省政府關於鼓勵社會力量興辦教育促進民辦教育健康發展的實施意見) (the "**Jiangsu Opinion**"), and in May 2018, five local government authorities, including the Education Department of Jiangsu Province, promulgated the Implementation Rules for Classification and Registration of Private Schools in Jiangsu Province (江蘇省民辦學校分類登記實施細則) (the "**Jiangsu Implementation Rules**"). See "Regulations – Regulations on private education in the PRC" for details of these recent regulations.

Under the existing regulatory environment and based on the interpretation of the Amendment and the existing ownership structure of our University, it is our intention to register our University as a for-profit private school. We may lose the preferential tax treatment of income tax exemption after we become a for-profit private school. In addition to the potential change on taxation, significant uncertainties may remain as to the registration procedure and impact on our operation under the new regulation scheme.

The Jiangsu Implementation Rules allow private schools established before November 7, 2016 like our University to choose and complete the registration as for-profit or non-profit schools by 2020, which may possibly be extended until 2022. However, both the Jiangsu Opinion and the Jiangsu Implementation Rules set out no detailed procedures for the election and the registration. We are therefore not able to predict or estimate the potential costs and expenses to adjust our structure according to the Amendment, the Jiangsu Opinion and the Jiangsu Implementation Rules. In addition, when more detailed policies and rules on election to register our University as a non-profit or for-profit private school become available, our financial condition and results of operations can be materially and adversely affected should registration of our University as a for-profit school incur significant administration and financial costs.

In addition, to elect registering our University as a for-profit school, we will be required to (i) undertake financial liquidation; (ii) clarify ownership of the University's land, buildings and accumulations with the consent of the relevant departments of the relevant governmental authorities; (iii) pay relevant taxes and fees; and (iv) re-register with the relevant authorities to continue the school operations. In the absence of any detailed implementation rules or further guidelines, we are not be able to predict or estimate the potential costs and expenses involved, which may materially and adversely affect our business, financial condition and results of operations.

The MOJ Draft for Comments may also have an impact on our University's operation if passed in the current form: (i) we will have to increase the registered capital of our University to not less than RMB200 million (as of the Latest Practicable Date, our University had a registered capital of RMB150 million, we plan to fulfill the shortfall through bank borrowings or sponsor capital injections); and (ii) if our school management model is considered as a centralized school management model or if our Contractual Arrangements are considered as "contractual arrangements" under Clause 12 of the MOJ Draft for Comments, we may need to register our University as a for-profit private school. Such stipulation may also have a negative impact on our expansion strategy, as we may no longer be able to acquire non-profit private schools or control them through ways such as franchising or "contractual arrangements", our acquisition scope may also be limited. Further, our Contractual Arrangements may be regarded as connected transactions of our private school. We may incur substantial compliance costs for establishing disclosure mechanisms and undergoing review and audit by the relevant government authorities. Such processes may not be in our control and may be highly complicated and burdensome. Government authorities may, during their review and audit process, compel us to make modifications to our Contractual Arrangements, which may in turn adversely affect the operation of our Contractual Arrangements. The government authorities may also find that one or more agreements underlying our Contractual Arrangements do not comply with applicable PRC laws and regulations and may subject us to administrative penalties, resulting in a material adverse impact on our operations and financial condition.

In addition, there is uncertainty as to whether the MOJ Draft for Comments will be adopted in the current form and how it will be interpreted and implemented. We are unable to predict with certainty the impact, if any, that future legislation or regulations relating to the implementation of the laws promoting private education in the PRC will have on our business, financial condition and results of operations. If our Group's existing corporate structure or the Contractual Arrangements are deemed to violate any Laws, we may be required to terminate or amend the Contractual Arrangements, our license to operate private schools may be revoked, canceled or not renewed and we may be exposed to other penalties. We may also be restricted from further expanding our University. If such situations occur, our business, financial condition and results of operations would be materially and adversely affected.

Our TV/film production business depends on the success of a limited number of releases each year. The commercial failure or delay in production of any one of them could have a material adverse effect on us and this pattern subjects our revenues from TV/film production business to significant fluctuation.

We expect to release a limited number of TV series/films per year for the foreseeable future. The commercial failure or delay in production of just one of these can have a significant adverse impact on our results of operations in both the year of release and in the future.

For example, during the Track Record Period, 98.9% of the total revenue of our TV/film production business was derived from four TV series, namely *The Return of the Condor Heroes (神鵰俠侶)*, *The Gods (封神)*, *Untouchable Lovers (鳳囚凰)*, and *The Heaven Sword and Dragon Saber (倚天屠龍記)*. We started production of *The Gods (封神)* in 2016, while the production was prolonged into 2018 due to the ban of a certain leading actor and the resulting removal of relevant content.

We operate our TV/film production business in a highly competitive industry.

The TV/film production industry is fragmented and highly competitive. We face fierce competition from other TV/film producers. Due to the large production volume of TV/film in China and the limited available broadcasting channels and screens, we compete with other TV/film production companies for the broadcasting of our TV series and screening of films. In particular, if the release schedules of our TV series or films overlap with the release of similar TV series or films by our competitors, the release of our TV series or films may be delayed as it generally takes more time to negotiate with and convince our customers to broadcast our TV series or films instead of the one from our competitors. If the TV stations and online video platforms we are trying to sell our TV series and films to in the end choose to purchase TV series or films released by our competitors, our sales volume may be adversely affected. Moreover, the TV/film production industry itself is evolving fast. Increasingly more TV stations and online video platforms have started self-producing TV series and films to ensure their exclusive broadcasting rights, and some web series are produced exclusively for online broadcasting. These new changes in the rapidly changing TV series and film production industry intensify the already fierce competition. Therefore, we cannot assure you that we will be able to maintain or increase our market share in the future.

We also face competition from imported TV series and films. If the current restrictions limiting the number and broadcasting period of foreign TV series and films are eased or eliminated, the competition may become more intense.

The competition does not stop with the fight for audience preference. It starts as early as when TV/film production firms develop story ideas. Historically, a large portion of our TV series were adapted from popular novels, including *The Legend of the Condor Heroes (射雕英雄傳)*, *The Return of the Condor Heroes (神鵰俠侶)* and *Four Generations Under One Roof (四世同堂)*, and we still consider it an important supply of our story ideas and script library. However, adaptation of novels or plays with broad reader base is being increasingly recognized by other TV/film producers as an efficient manner to develop successful TV series or films. Since the price of adaptation rights of popular novels and plays has been soaring in recent years, there is no assurance that we will be able to secure adaptation rights of high quality stories at a reasonable price as we used to.

We are exposed to the risk of a high concentration of service providers in our TV/film production business.

We had only produced a limited number of TV series/films in each year during the Track Record Period, and our engagement of leading actors, directors and chief producers normally take up the vast majority of our production cost for each TV series, which we understand is industry standard for the production of quality contents. As a result, the purchase amount from our five largest service providers in our TV/film production business amounted to RMB230.9 million, RMB196.0 million, and RMB35.1 million for the years ended December 31, 2017, 2018 and 2019, respectively, representing 91.3%, 89.8% and 70.5% of our total purchases in our TV/film production business for the same years.

We only tend to engage scriptwriters, chief producers, directors and actors of the highest quality in the industry. We cannot therefore assure you that these talents can always be available or at a price considered reasonable to us. If we fail to secure desirable scriptwriters, chief producers, directors or actors for our productions, the quality of our production might be adversely impacted which will impact our customers' willingness to cooperate with us in the future or rejection to take delivery of our production in the worst scenario, which would materially and adversely affect our business, results of operations and financial condition.

We face uncertainties during the TV/film production process.

The TV/film production process is subject to many uncertainties, some of which are beyond our control. For example, at the pre-production stage, with uncertainties of market appetite change and changes in applicable regulations, we might not be able to successfully develop and monetize our acquired IPs before the end of the contract period, which might result in the write-off of intangible assets. At the principal filming stage, we might not always be able to finish the production as scheduled and within budget, as a consequence of insufficient cash flow, actors' unsatisfactory performance or changes of site situation. Particularly, if actors are unable to adhere to the planned production schedules and promotion plans, our production cost may increase and production schedules may be delayed which will adversely affect our results of operations. In addition, we might co-invest with other companies on film production, where we might lack control over the quality of production and may not achieve the expected return. There is no assurance that the production process will be as smooth as we expected, and any uncertainties could bring about an adverse effect on our business and results of operations.

Our customers' payment schedule of licensing fee links to the broadcasting schedule of our TV series, which subjects our collection of licensing fee to uncertainties beyond our control.

Customers in our TV series production business purchase TV series from us for broadcasting on their channels, and we will only receive part of the total licensing fee after our TV series are actually broadcast. Given that the release schedule is determined by our customers, our collection of licensing fee is subject to associated uncertainties, and our results of operations will be adversely affected if our customers determine to delay the release of our TV series.

We are subject to the credit risks of our customers, and may not receive full and/or timely repayment of our receivables.

The cash flow and profitability of our TV/film production business are subject to the timely settlement of payments of the licensing fee by our customers. In line with the industry practice, it generally takes approximately 12 months to collect licensing fee from TV stations and online video platforms after, and our business is subject to risks that our customers may default on their payment obligations. As of December 31, 2017, 2018 and 2019, our trade receivables in respect of our TV/film production business amounted to RMB152.4 million, RMB81.5 million and RMB68.7 million, respectively. In particular, as of December 31, 2019, we had uncollected trade receivable related to *The Gods (封神)* of RMB64.0 million. See "Financial information – Discussion of certain key balance sheet items – Trade receivables" for details.

We cannot assure you that we will be able to collect all of our trade receivables on time, after reaching the agreed program milestone(s). If our customers delay or default on their payments, we may have to make additional provision for impairment or write off the relevant receivables, which in turn may adversely affect our financial condition, results of operations and growth prospects.

The increasing prevalence of short-form videos and the potential changes in consumer preferences may materially affect our business operations and prospects.

The online video market has developed considerably in recent years where short-form videos have enjoyed a boom in popularity. The evolution of video technology has seen an increase in users' ability to create and share short-form videos with online video and social media platforms. Designed to be viewed with mobile phones, short-form videos are usually minutes or seconds requiring less time commitment in creating and viewing, making them easily shared between users. They also require lower bandwidth and data usage than TV series and other online video formats. As a result, short-form videos have rapidly accumulated large communities of active and engaged users, which may affect the consumer appeal of long form video content. A shift in consumer preferences toward short-form videos may lead to a decline in viewership of TV series and films.

Therefore, there is no assurance that our long-form video content, including TV series and films, will remain attractive for viewers. If our TV series and films licensed to TV stations or online video platforms do not achieve satisfying viewership ratings, our business prospects and financial performance may be materially and adversely affected.

The performance of the advertising market will affect the ability of our customers to pay for our TV series and films.

A significant portion of revenue of our customers, which are mainly TV stations and online video platforms, is generated from advertisements. Accordingly, the financial condition of our customers is largely affected by the performance of the advertising market, which will ultimately affect their ability to make timely payments to us for our TV series and films.

In addition, the development of short-form videos has created fundamental changes to the advertising market as short-form videos give creators and advertisers the ability to quickly reach viewers, especially younger audiences. The market share of TV stations and online platforms for long-form videos may be therefore affected, which may lead to a decrease in their advertising income and adversely affect their ability to pay for the TV series and films they licensed from us, and our financial condition and business operations may be materially and adversely affected.

The private higher education business is relatively new and may not gain wide acceptance in China.

Our future success is highly dependent on the acceptance, development and expansion of the market for private education services in China. The development of the private education industry has been accompanied by significant press coverage and public debate concerning the management and operations of private schools and institutions. We believe there exists considerable uncertainty as to the acceptance of private higher education in the PRC.

At the school operation level, we need to compete for quality students and teachers with government-operated education institutions. These institutions in general have traditionally enjoyed better acceptance and preferential government policies than private education institutions in China. Recent education reforms have enabled private education institutions to compete on a more leveled playing field with government-operated institutions. For further details, see "Regulations – Regulations on private education in the PRC". We cannot assure you that further policy reforms will continue to be conducive to the development of private education in the PRC. If the private education business model fails to gain attraction or wide acceptance among the general public in China, especially among students and their parents, or if the regulatory environment otherwise becomes less favorable in the future, we may be unable to grow our business.

Our University recently terminated the cooperation agreement with CUC and renamed itself as 南京傳媒學院 (Pinyin: Nanjing Chuanmei Xueyuan). We will face significant uncertainties on student enrollment and employment in connection with the termination of the cooperation with CUC.

CUC provided various support and services in operating our University since its inception. Many of the teachers from CUC worked as adjunct professors in our University in the early years of its development. Some employers also associate our University with CUC based on the cooperation, and our graduates may have benefited from such association when applying for jobs in the media industry.

Although the cooperation will phase out gradually under the termination agreement with CUC signed on July 1, 2019, we may have to face significant uncertainties in student enrollment and employment after the cooperation terminates completely. The new school name 南京傳媒學院 might not receive the same recognition as CUCN used to enjoy. College applicants may form a different or even inferior perception of the education quality at our University after the name change and the termination of our cooperation with CUC, which might directly influence our tuition fee income and adversely affect our results of operations.

See "History, reorganization and corporate structure – Corporate development of our Group – Prior cooperation with CUC" for further details.

We might need to incur extra expenses operating our University without cooperation with CUC. For example, we might have to incur additional marketing expenses to promote the new school name, or might have to pay higher salaries to attract qualified teachers, which will all negatively affect our operating profits.

Our higher education business depends on the level of tuition fees and boarding fees we are able to charge and size of student body we are allowed to enroll.

The tuition fees and boarding fees we are able to charge at our school is one of the most significant factors affecting our higher education business. According to the Notice of Price Bureau of Jiangsu Province, Department of Education of Jiangsu Province, Department of Finance of Jiangsu Province on Relevant Issues on Charging Standards for Private Higher Schools (江蘇省物價局、江蘇省教育廳、江蘇省財政廳關於民辦高等學校收費 標準等有關問題的通知) issued in April 2013, private higher schools in Jiangsu Province may determine their tuition fees within the prescribed scope according to the conditions for running the schools, the cultivation cost and the student sources, and then make a filing with the Provincial Price Bureau, Provincial Department of Education, and the Provincial Finance Department for record. According to the Guiding Opinions of Price Bureau of Jiangsu Province, Department of Education of Jiangsu Province, Department of Human Resources and Social Security of Jiangsu Province on Promoting the Fee Collection Reform of Private Schools (江蘇省物價局、江蘇省教育廳、江蘇省人力資源和社會保障廳關於推進民辦教育收費改革的指導意見) issued on May 18, 2018, for-profit private schools in Jiangsu Province are entitled to determine tuition and fees collection standard at their own discretion while the tuition and fees collection standard of non-profit private higher schools shall be made by competent pricing authority at provincial level. A private school established with approval prior to September 1, 2017 is regarded as a non-profit private school before it completes the classification registration in terms of the fee collection supervision. We did not raise tuition fees or boarding fees during the Track Record Period, and there can be no assurance that we will be able to maintain or raise the tuition fee or boarding fee levels we charge at our University in the future due to various reasons, including the failure to obtain necessary approvals or other factors beyond our control. Additionally, if we were able to maintain or raise tuition fees or boarding fees, we cannot predict how it will impact student applications and enrollment at our University.

Furthermore, some of the students who have enrolled at our University may experience financial difficulties in paying full tuition fees and boarding fees when they become due. While we have provided scholarships and grants to certain qualified students in the past, we cannot guarantee we will be able to fully cover their tuition fees and boarding fees in the future. Consequently, in the event such students are unable to make full payment in a timely manner, we may be forced to recognize impairment losses on trade receivables, which could have a material and adverse impact on our results of operations and financial condition.

The employment rate and the average starting salaries of the graduates of our University may decrease and satisfaction with our University may decline.

Our University is positioned as a private higher education institution that equips graduates with the skills desired by employers, which enhances the competitive advantages of students in the job market as they are able to smoothly settle into the working environment and embark on new tasks after graduation. This practical education philosophy has so far been proved effective, and our graduates have achieved relatively high employment rates and average starting salaries, which in turn, attracts an increasing number of student applications for our University.

However, we cannot guarantee that our University will continue to be able to design or modify its curriculum to meet the expectations of the students enrolled, prospective employers or trends in the job market. We might not be able to devote the same amount of resources in training our students, enhancing their skills and helping them secure jobs as we did during the Track Record Period, or our efforts may not be as effective as they used to be. Graduates of our University therefore may not be able to obtain satisfactory jobs and the employment rates and average starting salaries of our graduates may decrease. The initial employment rate of our graduates was 92.7% for those graduating in the school year 2016/2017, compared to 78.4% in all higher education institutes in China, according to Frost & Sullivan. We may not be able to increase or maintain such employment rate. Any decrease of employment rate or average starting salaries may result in the unwillingness to apply for admission to our University, and therefore, could have a material and adverse impact on our financial condition.

We face intense competition in the PRC education industry, which could lead to adverse pricing pressure, reduced operating margins, loss of market share, departures of qualified employees and increased capital expenditures.

The education sector in China is rapidly evolving, highly fragmented and competitive, and we expect competition in this sector to persist and intensify. We compete with public schools and other private schools that offer similar programs of their own or in partnership with other curriculum providers. We compete with those schools in a range of aspects, including the quality of program and curriculum offerings, tuition fee levels, employment and career prospects, school location and premises, qualified teachers and other key personnel. Our competitors may adopt similar or superior curriculums, school support and marketing approaches, with different pricing and service packages that may have greater appeal than our offerings. In addition, some of our competitors may have more resources than we do and may be able to devote greater resources than we can to the development and promotion of their schools and respond more quickly than we can to the changes in student demand, testing materials, admissions standards, market needs or new technologies. As such, we may be required to reduce tuition fees or increase capital expenditure in response to competition in order to retain or attract students or pursue new market opportunities. If we are unable to successfully compete for new students, maintain or increase our tuition level, attract and retain competent teachers or other key personnel, enhance the quality of our educational services or control operating costs, our business and results of operations may be materially and adversely affected.

Our higher education business is heavily dependent on the market recognition of the brand CUCN and any damage to the reputation of our University would materially and adversely affect our business.

Higher education is a market where buyers (students) are normally not equipped with repeated purchasing experience, and the reputation of a seller (school) plays an extremely important role in buyers' decision making. We believe our past success in higher education is largely attributable to the market recognition of the CUCN brand, and our future prospects rely immensely on our ability to maintain our reputation, which in turn depends on a number of factors, some of which are beyond our control. As we continue to grow in size and expand our program and curriculum offerings, it may become difficult to maintain the quality and consistency of the services we offer, which may lead to diminishing confidence in our brand name.

Numerous factors can potentially impact our reputation, including, but not limited to, levels of student and parent satisfaction with our curriculums, teachers and teaching quality, the number of our graduates being able to secure satisfactory employment, accidents on campus, teacher or student scandals, negative press, disruptions to our educational services, failure to pass an inspection by a government education authority and loss of certifications and approvals that enable us to award diplomas in our University and if our reputation is damaged, students' and parents' interest in our University may decrease and our business could be materially and adversely affected.

We have experienced negative publicity on media channels including social media platforms about the employment rate of the graduates of our University and the association of our senior management to political figures in the past. We may be subject to additional negative publicity in the future, which, even if untrue, may damage our brand image and reputation, deter prospective students and teachers and take up excessive time of our management and other resources. As a result, our business, financial condition and results of operations may be materially and adversely affected.

We have established and developed our student base primarily through a variety of brand building methods. However, we cannot assure you that these marketing efforts will be successful or sufficient in further promoting our brand or in helping us to maintain our competitiveness. If we are unable to further enhance our reputation and increase market awareness of the programs and services offered by our University, or if we are required to incur excessive marketing and promotional expenses in order to remain competitive, our business, financial condition and results of operations may be materially and adversely affected.

We may not be able to successfully execute our growth strategies or effectively manage our growth, which may hinder our ability to capitalize on new business opportunities.

We plan to further increase the production volume of our TV series, increase our production of films, grow the size of the student body and the campus of our University, establish universities overseas, and expand to new businesses such as arts training. Our business plans and strategies have been formulated based on a number of assumptions and ongoing successful cooperation with our business partners. There is, however, no assurance that these business plans and strategies will be successfully implemented in the future.

Our expansion strategies have also placed, and will continue to place, substantial demands on our managerial, operational, financial and other resources. The following factors are critical to our success:

- our ability to continuously source and create viewer-engaging content;
- our ability to develop and maintain relationships with TV stations and online platforms;
- our ability to retain and attract well-known and experienced scriptwriters, producers, directors and actors/actresses;
- our ability to develop and implement curriculum that appeals to prospective students and parents;
- our ability to prepare our students for the fast evolving demands of the job market;
- our ability to identify and ramp up new business in a timely manner;
- our ability to create synergies among all our businesses;
- our ability to obtain relevant governmental permits and approvals;
- our ability to develop and improve our existing administrative and operational systems;
- stringent cost controls and working capital management; and
- effective recruiting, training and retention of our management personnel.

The execution of our growth strategies will incur substantial costs and require substantial resources. We may not be able to manage our current or future operations effectively and efficiently to compete successfully in our existing markets or the new markets that we enter. We may also need to adjust our business plans and growth strategies from time to time, which could involve uncertainties. If our business plans and growth strategies fail to perform as expected, our business, financial condition and results of operations could be materially and adversely affected.

We engage in both the higher education business and the TV series and film production business because we believe the successful operation of both businesses can bring us synergy. In addition, we are also expanding into a few new businesses. We only started acting as a minority investor in films in 2012, and may consider leading the production of feature films on our own in the future. We have also recently expanded into the production of web series/films, which may not be successful, considering the increasingly intense competition, our limited experience and uncertainties of the market appetite. There is no assurance that we can excel in these new fields.

Additionally, we are planning to further expand our media and arts training programs. This, however, is an area that is substantially different from our existing businesses in many ways, such as student and teacher recruitment. Based on our limited experience in the media and arts training business and unpredictable policy changes towards such training schools, there is no assurance that we will be successful in launching, marketing and operating our new media and arts training programs.

If we fail to renew or obtain the required permits, our business could be materially and adversely affected.

Both our TV/film production and higher education businesses are subject to extensive regulations, and numerous permits and filings are required for our operations.

All TV series production firms in China must obtain a Permit for Production and Operation of Radio and TV Programs (廣播電視節目製作經營許可證) as well as a TV series Production Permit (電視劇製作許可證) to produce any TV series. In addition to the Permit for Production and Operation of Radio and TV Programs, TV series production companies must obtain either a Type A TV series Production Permit or a Type B TV series Production Permit for photographing and producing a TV series. See “Business – Licenses and permits” for the permits we hold, and “Regulations” for details on the regulations in the businesses we operate. If we fail to renew our required permits upon their expiration, we may lose our qualification to produce TV series and our business may be materially and adversely affected.

In addition, each TV series needs to obtain a TV Series Distribution Permit (電視劇發行許可證) before its release. If we fail to obtain such permit for any of our TV series on time, our planned broadcast schedule and the market value of our TV series may be adversely affected. If we fail to obtain such permit for our TV series, our TV series cannot be broadcast and we will not be able to recover any of our production costs.

Furthermore, even for TV series that have been granted TV Series Distribution Permits (電視劇發行許可證), the NRTA has the discretion to further influence the broadcast and distribution of a TV series, based on public interest and policy reasons. It may require additional editing, terminating broadcast, suspending or prohibiting distribution, or disqualifying a TV series from competing for awards. In such case, we may incur additional production costs for the additional editing, our TV series may be completely forbidden from broadcast, or our reputation may be adversely affected.

In respect of our higher education business, we are also required to obtain and maintain various permits and fulfill filing requirements. For instance, to establish and operate a school, we are required to obtain, among others, a private school operation permit from the local education bureau and to register with the local civil affairs bureau to obtain a certificate of registration for a privately-run non-enterprise unit, or legal entity. In addition, we need to pass annual inspections conducted by the local civil affairs bureau and local education bureau. We also need to obtain approval from the local education authorities as to the scale and scope of our student admission activities.

While we intend to maintain all requisite permits and complete the necessary filings, renewals and registrations on a timely basis for our operations, there is no assurance that we will be able to obtain all required permits given the significant amount of discretion local PRC authorities may have in interpreting, implementing and enforcing relevant rules and regulations, as well as other factors beyond our control and anticipation. If we fail to receive the required permits in a timely manner or obtain or renew any permits and certificates, we may be subject to fines, confiscation of any gains derived from our non-compliant operations, or the suspension of our non-compliant operations, which may materially and adversely affect our business and results of operations. For further details regarding the maintenance of our approvals, licenses and permits, see the section headed "Business – Licenses and permits".

We generate a substantial portion of our revenue from sales of our TV series to several TV stations and online video platforms. If our cooperative relationships with TV stations and online video platforms deteriorate, our business, financial condition and results of operations could be adversely affected.

A substantial portion of our revenue is generated from sales of our TV series to several TV stations and online video platforms. During the Track Record Period, revenue derived from the largest five TV stations customers and the largest three online video platform customers accounted for 96.5% of the revenue we generated in our TV/film production business. As a result, the operation of our TV series production business depends on us maintaining cooperative relationships with these TV stations and online video platforms. In addition, we interact with TV stations throughout the entire development and production process and TV stations may express their interests in our TV series in the form of non-legally-binding verbal confirmations during these interactions. If such verbal confirmations do not turn into legally-binding contracts, we would have incurred production costs in producing TV series but may not realize revenue at the originally anticipated level.

Although our cooperative relationships with TV stations and online video platforms remain stable, there is no assurance that we will be able to maintain such relationships and that these TV stations and online video platforms will continue to purchase TV series from us on the same level going forward. In addition, any deterioration in our cooperative relationship with any TV station or online video platform in the future may require us to build new relationships with other broadcasting channels, which is subject to uncertainties and could be time-consuming. As a result, our planned broadcasting schedules could be severely delayed. Under these circumstances, our business, financial condition and results of operations could be adversely affected.

Any disagreements or discontinuations of joint operations of TV/film production could disrupt our operations or put assets at risk.

We co-produce TV programs or films through joint operations with other production firms from time to time. This is an important part of how we do business, as we believe we can leverage our co-producers' industry expertise and financial resources to produce high quality content efficiently. While joint operations may provide various advantages, entering into joint operations sometimes requires us to surrender a measure of control over the assets and operations devoted to the joint production, and occasions may arise when we do not agree with the business goals and objectives of our co-producers, or other factors may arise that make the continuation of the relationship unwise or untenable. Any such disagreements or discontinuation of our relationship with the joint operation partners could disrupt our operations, or put assets dedicated to the joint operation at risk. If we are unable to resolve issues with co-producers, we may need to terminate the joint operation. The unwinding of an existing joint operation could prove to be difficult or time-consuming, and the loss of revenue related to the termination or unwinding of a joint operation could adversely affect our results of operations.

Higher labor costs would adversely affect our profitability in our TV/film production business.

The cost for crew members, especially actors, is one of the major components of our production cost. In recent years, the average costs for actors in China have increased significantly, which has in turn increased the production cost for TV/film. In addition, the average labor costs for other crew members have also increased due to higher living standards and the increasing minimum wage imposed by the PRC Government. If this trend continues, our labor costs would increase in the near future. A significant increase in labor costs in China could adversely affect our margins and profitability if we are not otherwise able to pass such costs to our customers. In such event, our financial condition and results of operations may be adversely affected.

Facilities of our University may have capacity constraints, which could affect our ability to grow student enrollment or cause us to lose students to our competitors.

The educational facilities of our University are limited in space and size. For the school years 2016/2017, 2017/2018, 2018/2019 and 2019/2020, the utilization rate of our University was 97.4%, 98.4%, 95.1% and 96.3%, respectively. We may not be able to admit all qualified students who would like to enroll in our University due to the capacity constraints of our current school facilities. Furthermore, without additional building facilities such as classrooms and dormitories, we may not be able to expand our capacity at our current campuses to increase our student enrollment unless we relocate to other facilities in the local area with more space. If we fail to expand our capacity as quickly as the demand for our services grows, we could lose potential students to our competitors, and our results of operations and business prospects could be materially and adversely affected.

The number of students our University is allowed to admit for enrollment in our undergraduate programs each school year is set and approved by the relevant PRC education authorities. We cannot assure you that we will be able to increase the student enrollment quota of our University. Any failure to increase the enrollment quota of our University may adversely affect our business prospects and results of operations.

We are subject to extensive governmental approvals and compliance requirements for expanding the campus of our University.

We may, from time to time, renovate existing premises or construct new buildings to ensure that our teaching facilities are equipped with the latest technologies and to improve convenience and comfort for our students, teachers and staff. We may also develop new campuses and school premises as we grow in size and expand our business. Accordingly, we must obtain various permits, certificates and other approvals from the relevant administrative authorities at various stages of property development for campuses and school premises constructed and developed for our University, including, among others, planning permits, construction permits, land use rights certificates, certificates for passing environmental assessments, certificates for passing fire control assessments and certificates for passing construction completion inspections. We may encounter problems in the future in fulfilling the conditions precedent to the receipt of those permits, certificates and approvals, and we may not always be able to obtain them in a timely manner, or at all. See "Business – Lands and properties" for further details.

In addition, if we fail to obtain requisite permits, certificates or approvals for campuses and school premises we will develop and construct in the future, we may become subject to administrative fines and other penalties or may be ordered to relocate our University which could disrupt our business and cause us to incur additional expenses and hence may have a material adverse effect on our business, prospects, financial condition and results of operations.

The land and buildings with defective titles may subject us to administrative fines and other penalties.

As of the Latest Practicable Date, certain buildings we occupied involved defective titles, primarily due to lack of construction planning permits (建設工程規劃許可證) and construction commencement permits (施工許可證), or having not passed acceptance checks on completion of construction (竣工驗收) and fire control assessment (消防驗收) as required by PRC Laws. See "Business – Land and properties – Buildings and buildings under construction" for details of our buildings with defective titles.

According to our PRC Legal Adviser, for construction work carried out without construction planning permits, the relevant government authority may order the cessation of construction. If the impact on planning caused by such construction can be eradicated, the relevant government authority may order the construction entity to rectify such impact and an additional fine of not less than 5% but not more than 10% of the construction cost may be imposed. If such impact cannot be eliminated, the relevant government authority may (i) order the construction entity to demolish the construction; (ii) confiscate the buildings or structures or any income illegally earned from such properties; and/or (iii) impose a fine of not more than 10% of the construction cost. With respect to the failure to obtain construction commencement permits, we are subject to the risk of being required to adopt remedial measures within a certain time limit and being fined 1% to 2% of the contract price of the construction project. As for construction projects that are delivered for use without passing the relevant completion inspections, the construction entity may be ordered to rectify and may be obliged to pay compensation where any damage has been caused, and a fine of not less than 2% but not more than 4% of the contract price of the construction may also be imposed. With respect to the failure to pass fire control assessment, we are subject to the risk of being prohibited from using these buildings and being fined between RMB30,000 and RMB300,000 for each building.

We have implemented extensive and comprehensive measures to rectify the above defects, including applying to the relevant government authorities for the relevant outstanding certificates and permits and closely following up with the government authorities with respect to our applications. However, we cannot assure you that we will be able to obtain all outstanding certificates and permits for all of our buildings and the land we occupied in a timely manner; any of the above-mentioned administrative fines and penalties imposed on us will have an adverse effect on our business, financial condition and results of operations.

We currently outsource certain meal catering services at our University to independent third parties and, as a result, we cannot guarantee the quality and price of the food it serves to our students.

During the Track Record Period, we outsourced the meal catering services in our University to Independent Third Parties, which provided such services to our students and faculty for a fee. There is no assurance that we will be able to ensure the quality of food and to monitor the meal preparation process to ensure its quality or require the Independent Third Party service provider(s) to adhere to our food quality standards. In the event poor food quality results in any serious health violations or medical emergencies involving our students and faculty staff, such as mass food poisoning, our business and reputation could be harmed.

Accidents or injuries suffered by our students, our employees or other personnel at the premises of our University or conflicts among our students may adversely affect our reputation and subject us to liabilities.

We could be held liable for the accidents or injuries or other harm to students or other people at our University, including those caused by or otherwise arising in connection with our facilities or employees. We could also face claims alleging that we were negligent, in providing inadequate maintenance to our school facilities or supervision of our employees and therefore may be held liable for accidents or injuries suffered by our students or other people at our University. In addition, if any of our students or teachers commits acts of violence, we could face allegations that we failed to provide adequate security or were otherwise responsible for his or her actions. Our University may be perceived to be unsafe, which may discourage prospective students from applying to or attending our University. A liability claim against us or any of our employees could adversely affect our reputation and student enrollment and retention. Even if unsuccessful, such a claim could create unfavorable publicity, cause us to incur substantial expenses and divert the time and attention of our management, all of which may have a material adverse effect on our business, prospects, financial condition and results of operations.

We maintain limited insurance coverage.

We maintain various insurance policies, such as accident insurance for members of the production teams for our TV/film production. However, our insurance coverage is still limited in terms of amount, scope and benefit. Consequently, we are exposed to various risks associated with our business and operations. We are exposed to risks including, but not limited to, accidents or injuries in our University or in the course of our TV series or film production that are beyond the scope of our insurance coverage, fires, explosions or other accidents for which we do not currently maintain insurance, loss of key management and personnel, business interruption, natural disasters, terrorist attacks and social instability or any other events beyond our control. The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited business-related insurance products. We do not have any business disruption insurance, product liability insurance or key-man life insurance. Any business disruption, litigation or legal proceedings or natural disaster, such as epidemics, pandemics or earthquakes, or other events beyond our control could result in substantial costs and the diversion of our resources. Our business, financial condition and results of operations may be materially and adversely affected as a result.

The production and marketing of TV series and films are capital intensive and our capacity to generate cash from our TV series and films may be insufficient to meet our anticipated cash requirements.

The costs to develop, produce and market a TV series or a film are substantial and some of our competitors have more capital and greater resources than we have. Although we retain the right to exploit each of the TV series and films that we have previously released, the size of our collection is insubstantial compared to the TV series and films libraries of the major TV series producers or movie studios, which typically have the ability to exploit hundreds of library titles. Library titles can provide a stable source of earnings and cash flows that offset fluctuations in the financial performance of newly released TV series or films. Many of the major studios use these cash flows to finance the production and marketing of new TV series or films. We will not be able to rely on such cash flows. If our TV series and films fail to perform, we may be forced to seek substantial sources of outside financing. Such financing may not be available in sufficient amounts for us to continue to make substantial investments in the production of new TV series and films or may be available only on terms that are disadvantageous to us, either of which could have a material adverse effect on our growth or our business.

Impairment of intangible assets, especially TV series rights and film rights may adversely affect our financial condition and results of operations.

Our intangible assets are primarily comprised of TV series rights and film rights. We incur various costs to produce a TV series or film, including the purchase of original story ideas, engagement of scriptwriters, actors and chief producers as well as all kinds of costs incurred on the production site. We capitalize these costs as TV and film rights till completion. As of December 31, 2019, our TV series and film rights amounted to RMB71.6 million, consisting of RMB48.7 million for completed productions, RMB18.0 million from adaptation rights and scripts, and RMB4.9 million for TV series or films under production.

The TV and film rights on our balance sheet represent the assets of which we can license the broadcasting right to customers. If market conditions deteriorate or customer preferences change, we may not be able to successfully license our TV series and films and recover the costs, in which case we will have to impair the corresponding intangible assets. Such impairment of intangible assets would result in substantial losses, and adversely affect our financial condition and results of operations.

We may have difficulty in obtaining financing, particularly securing bank loans, to fund our operations.

During the Track Record Period, we funded our operations through a combination of (i) cash generated from our operations and (ii) bank loans. We expect to continue to rely on these sources, as appropriate, to fund our operations in the future. If we fail to generatesufficientcash flows in a timely manner, we may be forced to seek external financing, including obtaining additional bank loans, and may not be able to secure a sufficient amount of financing for us to continue our productions, particularly with the potential credit tightening under the prevailing market environment. If we choose to obtain additional bank loans, we may be subject to the fluctuation of interest rates and increasing interest expenses. In addition, if we fail to secure sufficient bank loans in a timely manner or on favorable terms, our business, financial condition and results of operations could be materially and adversely affected.

We are exposed to fair value changes for financial assets at fair value through profit or loss and valuation uncertainty due to the use of unobservable inputs. Losses in our investments in financial assets at fair value through profit or loss may have a significant impact on our results of operations and are not predictable.

We manage part of our cash surplus generated from operations through investments in wealth management products purchased from banks and to a much less extent public equities. As of December 31, 2019, such financial assets at fair value through profit or loss was RMB799.5 million, representing 45.2% of our total assets. For financial reporting purposes, fair value measurements are categorized into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, and the fair value of certain of our financial assets at fair value through profit or loss were categorized as level 3 of fair value measurement during the Track Record Period, which are subject to uncertainties due to the use of unobservable inputs.

The valuation of wealth management products was determined using the discounted cash flows method using expected rate of return estimated by management based on market information for similar types of products. Changes in the expected rate of return will affect the estimated fair value of our level 3 financial assets at fair value through profit or loss at the end of each of the financial reporting year. Factors beyond our control can significantly influence and cause adverse changes to the estimates we use and thereby affect the fair value, and these assets will face uncertainties in accounting estimation. For details of fair value measurement and the significant unobservable inputs, please see Note 5.3 to the Accountant's Report in Appendix I.

Therefore, the fair value of our investments in financial assets may decline significantly and may fluctuate over short periods of time. Realized and unrealized gains and losses originating from these investments have had and may continue to have a significant impact on our results of operations. Although we have adopted an internal policy to manage these investments, they may not prevent certain more abrupt oscillations in the movements of the financial market, and any losses resulted from these abrupt changes may significantly and adversely impact our results of operations.

The assets held by our University may not be pledged as collateral in connection with securing our borrowings, which reduces our ability to obtain financing to fund the higher education business.

According to the PRC Security Law and the PRC Real Right Law, mortgages, pledges or other encumbrances should not be created on properties which are used for public welfare facilities. The buildings that our University own and occupy may be considered "public welfare facilities" according to the Law for Promoting Private Education (民辦教育促進法), which provides that private education is considered in the nature of "public welfare" in China. Accordingly, these properties may not be pledged as collateral when our University seek loans from lenders. In such case, our University's ability to obtain financing may be limited. Even if collateral is meant to be created based on such properties under any loan agreement to be entered into between our University and the potential lender, such pledge may not be valid or enforceable under the laws and regulations of the PRC, and we cannot preclude the possibility that a government authority, including PRC court or administrative authority, may consider the pledge created on such facilities to be in violation of PRC laws if we and the lenders have any dispute with regards to the relevant loans under applicable loan agreements or if the validity of the pledges are otherwise challenged. In such case it is likely that such pledges would not be enforceable and we may be requested by our lenders to provide other forms of guarantees or repay the outstanding balance of the loans immediately, which may cause the business operations of our University and our financial condition to be materially and adversely affected. On May 28, 2020, the National People's Congress of the PRC enacted the Civil Code of the PRC (中華人民共和國民法典) (the "**Civil Code**"), which will become effective from January 1, 2021 and will replace the PRC Real Right Law simultaneously. The Civil Code provides that non-profit legal persons established for public welfare such as schools, kindergartens and medical institutions shall not mortgage their educational facilities, health care facilities and other public welfare facilities, which may be interpreted that the Civil Code limits the prohibition on property mortgage only to non-profit private schools.

The discontinuation of any preferential tax treatments currently available to us, in particular the tax exempt status of our University, could materially and adversely affect our results of operations.

According to the Implementation Rules for the Law for Promoting Private Education (民辦教育促進法實施條例), private schools whether the school sponsors require reasonable returns or not, may enjoy preferential tax treatment. According to Notice of the Ministry of Finance and the State Administration of Taxation on Full Launch of the Pilot Program of Replacing Business Tax with Value-added Tax (財政部、國家稅務總局關於全面推開營業稅改徵增值稅試點的通知), formal educational services provided by education are exempted from value-added tax. Our University enjoyed income tax and value-added tax exemption treatment during the Track Record Period. For the years ended December 31, 2017, 2018 and 2019, the amounts of preferential income tax treatment were RMB28.1 million, RMB33.3 million and RMB14.0 million, respectively. In accordance with the historical tax returns filed to relevant tax authorities and an interview with the local tax bureau in the area where we operate our University, which confirmed, among other things, that our University was exempt from PRC enterprise income tax and value-added tax during the Track Record Period. However, there is a possibility that the PRC government may promulgate relevant tax regulations that will eliminate such preferential tax treatment, or the local tax bureaus may change their policy, in each such case, we may be subject to PRC enterprise income tax and/or value-added tax going forward. The discontinuation of any preferential tax treatment currently available to us or the determination of any of the relevant tax authorities that any of the preferential tax treatment we have enjoyed or currently enjoy is not in compliance with the PRC laws would cause our effective tax rate to increase, which would increase our tax expenses and reduce our net profit.

Our University was not required to pay PRC enterprise income tax in respect of its income during the Track Record Period. Following the execution of the Contractual Arrangements, our WFOE-Education is currently subject to a PRC enterprise income tax rate of 25% and a value-added tax of 3% in respect of the service fees it receives from our Consolidated Affiliated Entities. Such tax rates are subject to change and may have a significant impact on our profitability.

Any discontinuation or reduction of governmental grants and subsidies, or donations could adversely affect our business, financial condition and results of operations.

We enjoy certain favorable regulatory treatments, particularly governmental grants and subsidies. For our TV/film production business, the governmental grants and subsidies are mostly related to the tax refund by the local government, and the amount each year is proportionate to various taxes we historically paid. For our higher education business, the governmental grants and subsidies are offered primarily to promote the development of private higher education institutions. For the years ended December 31, 2017, 2018 and 2019, we recorded governmental grants and subsidies of RMB1.3 million, RMB2.6 million and RMB6.3 million, respectively.

Our University has also been receiving donations from third parties to support our media and arts higher education. For the years ended December 31, 2017, 2018 and 2019, we recorded donation income of RMB9.6 million, RMB6.4 million and RMB9.2 million, respectively.

However, it is in the relevant government authorities' sole and absolute discretion, subject to the relevant PRC Laws, to determine whether and when to provide governmental grants and subsidies to us, if at all. Furthermore, any unexpected changes in the PRC Laws may result in uncertainties in the availability of governmental grants and subsidies or any other favorable treatment to us. Similarly, it's in the donator's own sole and absolute discretion to determine the time and amount to donate to us. We cannot assure you that we will continue receiving such governmental grants and subsidies or donations in the future. Any significant decrease in the amount of such grants, subsidies, grants and donations may have a material and adverse impact on our results of operations and financial condition.

If we fail to protect our intellectual property rights, our business and results of operations could be adversely impacted.

We believe that our brand, trademarks, copyrights and other intellectual property rights are critical to our success. Among all, the most serious threat to our TV/film series production business is the piracy of TV series and films, which may decrease revenues received from the exploitation of our TV series and films. TV series and film piracy is extensive in many parts of the world and is made easier by technological advances and the conversion of motion pictures into digital formats, which facilitates the creation, transmission and sharing of high quality unauthorized copies of TV series and films on videotapes and DVDs, from pay-per-view through set top boxes and other devices and through unlicensed broadcasts on free TV and the internet. The proliferation of unauthorized copies and piracy of these products has an adverse effect on our business because these products reduce the revenue we receive from our legitimate products.

Monitoring and preventing the unauthorized use of our intellectual property rights is difficult, costly and time-consuming. The measures we take to protect our brand, trademarks, copyrights and other intellectual property rights may not be adequate to prevent their unauthorized use by third parties. In addition, the application of laws governing intellectual property rights in China and abroad is uncertain and evolving. If we are unable to adequately protect our brand, trademarks, copyrights and other intellectual property rights, these rights may be infringed and our business may suffer materially. Furthermore, any unauthorized use of our brand and trademarks could cause brand confusion among our customers and harm our reputation and, as a result, our business, financial condition, results of operations and prospects could be materially and adversely affected. For more information on the intellectual properties we owned, please refer to the section titled "Business – Intellectual property".

Our business could be materially and adversely affected by claims from others for possible infringement of their intellectual property rights.

We may receive in the future, claims of infringement of other parties' proprietary rights with respect to our TV series or films, alleging, for example, the use of certain Media IP rights for TV series or films by us may infringe other parties intellectual property rights; or our products infringes their technology and software, previously developed TV series and films, stories, characters, or other intellectual property. We may also receive claims related to the materials and other educational contents we used in our higher education business. There is no guarantee in the future that third parties will not claim that we have infringed on their proprietary rights.

Although we plan to defend ourselves vigorously in any such litigation or legal proceedings, there is no assurance that we will prevail in these matters. The practice of intellectual property rights enforcement action by Chinese regulatory authorities is in its early stage of development and is subject to significant uncertainty. Participation in such litigation and legal proceedings may also cause us to incur substantial expenses and divert the time and attention of our management. We may be required to pay damages or incur settlement expenses. In addition, in case we are required to pay any royalties or enter into any licensing agreements with the owners of intellectual property rights, we may find that the terms are not commercially acceptable to us and we may finally lose the ability to use the related content or materials, which in turn could materially and adversely affect our educational programs and our operations. Any similar claim against us, even without any merit, could also hurt our reputation and brand image. Any such event could have a material and adverse effect on our business, financial condition and results of operations.

We may be unable to detect, deter and prevent all instances of embezzlement, misappropriation of funds or other misconduct committed by our employees, management or other third parties.

In August 2007, we experienced an instance of misappropriation of cash by one of our employees in CUCN, amounting to approximately RMB800,000. We cannot assure you that there will not be any such instances in the future. We may be unable to prevent, detect or deter all instances of misconduct. Any misconduct committed against our interests, which may include past acts that have gone undetected or future acts, could subject us to financial losses, harm our reputation and may have a material adverse effect on our business and results of operations.

Non-registration of some of our lease agreements may subject us to administrative fines.

As of the Latest Practicable Date, five lease agreements of nine leased properties in the PRC had not been registered with the relevant PRC government authorities by the lessors. As advised by our PRC Legal Adviser, under PRC laws, an executed lease agreement should be registered with the relevant land and real estate administration bureau. Although the failure to register an executed lease agreement will not invalidate the agreement, we, as the lessee, may be subject to a fine of no less than RMB1,000 and not exceeding RMB10,000 for the non-registration of each lease agreement if the lessors and we cannot rectify such non-compliance within a certain period of time. Although we proactively requested the lessors of such leased properties to complete the filing and registration procedures in a timely manner, we are unable to control whether and when they do so.

As for eight of the leased properties, the lessors failed to provide consent of the owner who is an interested party for changing the use of such properties from residential into commercial. In addition, one of the leased properties was mortgaged as security to a bank by its owner prior to the conclusion of the lease agreements. As advised by our PRC Legal Adviser, if the interested owner does not give consent to the use of the above-mentioned properties for business use, we may not be able to continue to use such leased properties for business use; in case the bank realizes its mortgage and sells the above-mentioned property, the lease agreements may not be legally binding on the assignee of the such property; therefore, after the mortgage is realized, there is uncertainty that whether we can continue to use such leased property.

We depend substantially on the continuing efforts of our senior executives and key personnel such as producers, highly qualified teachers, and our business and prospects may be severely disrupted if we lose their services.

Our current and future success depends on the continued services of the key members of our management team. The loss of any of our senior management or if any of our executive officers joins a competitor or forms a competing business, our business could be adversely affected. We have entered into non-competition agreements with our executive officers, however, we cannot assure you that they will not breach such agreements.

For our TV/film production business, our production and sales team is a key factor for the success of our business. Loss of producers or other members of our production or sales team could adversely affect our production volume and quality and, as a result, our business could be materially and adversely affected. Our business may also be severely disrupted if our senior executives have to divert their attention to recruiting replacements for key personnel. In addition, our ability to attract and retain other key personnel is critical to our competitiveness. We face competition for personnel from other TV/film production companies and other organizations. Competition for these individuals could require us to offer higher compensation and other benefits in order to attract and retain them, which would increase our operating expenses and, in turn, could materially and adversely affect our financial condition and results of operations.

For our higher education business, the smooth operation of our University and the execution of our business plans largely rely on our senior management and school administrators. Therefore, the continuing services of our senior management team and school administrators are crucial to the successful operation of our University. Highly qualified teachers are also of great importance and have direct impact on the quality of our programs and services and in upholding our brand and reputation. It is therefore crucial for us to attract qualified teachers who have a strong command of their respective subject areas and have sufficient industry experience in the relevant areas. We believe there are a limited number of qualified teachers with the relevant experience and subject matter expertize to teach our courses. It is also difficult to ascertain the criteria, such as commitment and dedication, during the recruitment process, particularly as we continue to recruit more teachers quickly in order to meet rising student enrollment. Therefore, we may not be able to hire and retain a sufficient number of qualified teachers to keep pace with our anticipated growth while maintaining consistent teaching quality and the overall quality of our education programs. If we are unable to recruit and retain an appropriate number of qualified teachers and qualified school personnel, the quality of our services or overall education programs may deteriorate or be perceived to deteriorate, which may have a material and adverse effect on our reputation, business, financial condition and results of operations.

Our historical results may not be indicative of our future performance.

Our financial condition and results of operations may fluctuate due to a number of other factors, many of which are beyond our control, including but not limited to:

- general economic and social conditions and government regulations or actions pertaining to the industries where we operate;
- increased competition and changing market demands;
- expansion and related costs in a given period; and
- our ability to control our cost of sales and other operating costs, and to enhance our operational efficiency.

In addition, we may not sustain our past growth rates in future periods, and we may not sustain profitability in the future. Our historical results, growth rates and profitability may not be indicative of our future performance. Our Shares could be subject to significant price volatility should our earnings fail to meet the expectations of the investment community. Any of these events could cause the price of our Shares to materially decrease.

Our potential strategic investments or acquisitions in the future may not be successful.

Our growth strategy involves, in part, the investment or acquisition of new operations and the integration of those operations with our own. Our strategy may not be successful if we cannot identify suitable acquisition targets or complete the acquisitions at appropriate prices. Also, synergies from acquisitions may prove less than we originally expected. Further, acquisition candidates may have liabilities or adverse operating issues that we fail to discover prior to the acquisition. In addition, we cannot give you any assurance that we will be able to implement our strategy on a timely basis, if at all, or that our assumptions will be accurate.

RISKS RELATING TO OUR CONTRACTUAL ARRANGEMENTS

The PRC government may find that the agreements that establish the structure for operating our business in China do not comply with applicable PRC laws and regulations, which may subject us to severe penalties and our business may be materially and adversely affected.

Foreign investors are prohibited from holding any equity interest in TV series or film production companies in the PRC. In addition, foreign investors are only allowed to invest in higher education business in cooperative ways and the domestic party shall play a dominant role in the cooperation. Furthermore, under the Implementation Opinions of the MOE on Encouraging and Guiding the Entry of Private Capital in the Fields of Education and Promoting the Healthy Development of Private Education (關於鼓勵和引導民間資金進入教育領域,促進民辦教育健康發展的實施意見), which was issued by the MOE on June 18, 2012, the foreign portion of the total investment in a Sino-Foreign cooperative education institution such as universities, should be below 50%. According to relevant regulations, the foreign investors invested in higher education must be foreign education institutions, with relevant qualification and experience. For further information on PRC laws, rules and regulations on the industries we operate in, see the section headed "Regulations".

As a result of the foregoing, our TV/film production business and higher education business in China are operated by our Consolidated Affiliated Entities. We receive substantially all the economic benefits enjoyed by the Registered Shareholders and bear substantially all risks of our Consolidated Affiliated Entities. See "Contractual Arrangements" for details. If we, any of the Consolidated Affiliated Entities or any of their current or future subsidiaries are found to be in violation of any existing or future PRC laws or regulations or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion in dealing with such violations, including:

- revoking the business and operating licenses of the WFOEs and our Consolidated Affiliated Entities;
- restricting or prohibiting related party transactions between the WFOEs and our Consolidated Affiliated Entities;
- imposing fines or other requirements with which we, the WFOEs and our Consolidated Affiliated Entities may find it difficult or impossible to comply;
- requiring us, the WFOEs and our Consolidated Affiliated Entities to restructure the relevant ownership structure or operations; and
- restricting or prohibiting the use of any proceeds from the Global Offering to finance our business and operations in the PRC.

The imposition of any of these penalties could materially and adversely affect our business, financial condition and results of operations.

Substantial uncertainties exist with the PRC foreign investment legal regime and may have a significant impact on our corporate structure and business operations.

On March 15, 2019, the National People's Congress adopted the Foreign Investment Law (外商投資法), which came into effect on January 1, 2020. The Foreign Investment Law replaced the Sino-Foreign Equity Joint Venture Enterprise Law (中外合資經營企業法), the Sino-Foreign Cooperative Joint Venture Enterprise Law (中外合作經營企業法) and the Wholly Foreign-Invested Enterprise Law (外資企業法) to become the legal foundation for foreign investment in the PRC. On December 26, 2019, the State Council promulgated the Implementation Regulations on the Foreign Investment Law (外商投資法實施條例), which came into effect on January 1, 2020.

To obtain and maintain necessary licenses and permits in industries that are currently subject to foreign investment restrictions or prohibitions in China, many PRC-based companies including us have adopted the approach of conducting operations through contractual arrangements. The Foreign Investment Law currently does not explicitly categorize contractual arrangements as a form of foreign investment. However, the Foreign Investment Law also provides that foreign investment includes "foreign investors invest in China through any other methods under laws, administrative regulations, or provisions prescribed by the State Council" without elaboration on the meaning of "other methods". The Implementation Regulations on the Foreign Investment Law are also silent on whether foreign investment includes contractual arrangements. There is no assurance that future laws, administrative regulations or provisions of the State Council would not count contractual arrangements as a form of foreign investment. Therefore, it is currently uncertain how our Contractual Arrangements will be identified as and whether it will meet the requirements of foreign investment access.

In the worst-case scenario, we may be required to unwind the Contractual Arrangements and/or dispose of our Consolidated Affiliated Entities, which could have a material and adverse effect on our business operations. In the event that our Company no longer has a sustainable business after the aforementioned unwinding of the Contractual Arrangements or disposal, the Stock Exchange may take enforcement actions against us which may have a material adverse effect on the trading of our Shares or even result in delisting of our Company.

The Contractual Arrangements may not be as effective in providing control over our Consolidated Affiliated Entities as direct ownership.

We have relied and expect to continue to rely on the Contractual Arrangements to operate our TV/film business and education business in China. See "Contractual Arrangements" for a description of these Contractual Arrangements. These Contractual Arrangements may not be as effective in providing us with control over our Consolidated Affiliated Entities as equity ownership. If we had equity ownership of our Consolidated Affiliated Entities, we would be able to exercise our rights as a direct or indirect shareholder of our Consolidated Affiliated Entities to effect changes in the board of directors of our Consolidated Affiliated Entities, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level. However, as these Contractual Arrangements stand now, if our Consolidated Affiliated Entities or their shareholders fail to perform their respective obligations under these Contractual Arrangements, we cannot exercise shareholder's rights to direct such corporate action as the direct ownership would otherwise entail. If the parties under such Contractual Arrangements refuse to carry out our directions in relation to day-to-day business operations, we will be unable to maintain effective control over the operations of our Consolidated Affiliated Entities. Our University officially converted from an independent college to a private higher education institution under the new school name 南京傳媒學院 and obtained an updated Private School Operating License in May 2020, and is still in the process of securing all other necessary registrations with the relevant authorities, upon completion of which we aim to renew and reproduce the Contractual Arrangements in light of the conversion. If we were to lose effective control over our Consolidated Affiliated Entities, certain negative consequences would result, including our being unable to consolidate the financial results of our Consolidated Affiliated Entities with our financial results. Given that the revenue from our Consolidated Affiliated Entities accounted for substantially all of the total revenue in our Accountant's Report for the Track Record Period, our financial position would be materially and adversely impacted if we were to lose effective control over our Consolidated Affiliated Entities. In addition, losing effective control over our Consolidated Affiliated Entities may negatively impact our operational efficiency and brand image. Further, losing effective control over our Consolidated Affiliated Entities may impair our access to their cash flow from operations, which may reduce our liquidity.

The beneficial owners of our Consolidated Affiliated Entities may have conflicts of interest with us, which may materially and adversely affect our business and financial condition.

The Registered Shareholders are the beneficial owner of our Consolidated Affiliated Entities. Therefore, the interests of the Registered Shareholders as the beneficial owner of our Consolidated Affiliated Entities may differ from the interests of our Company as a whole. We cannot assure you that when conflicts of interest arise, they will act in the best interests of our Company or that such conflicts will be resolved in our favor. In the event of any such conflicts of interest, may potentially breach, or cause our Consolidated Affiliated Entities to breach, or refuse to renew, the existing Contractual Arrangements we have with them. If we cannot resolve any conflict of interest or dispute between us and the Registered Shareholders, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings. These uncertainties may impede our ability to enforce the Contractual Arrangements. If we are unable to resolve any such conflicts, or if we experience significant delays or other obstacles as a result of such conflicts, our business and operations could be severely disrupted, which could materially and adversely affect our results of operations and damage our reputation.

In addition, although the equity pledge agreements we entered into by and among the WFOEs, the Onshore Holdcos, Huaxia Audio-Visual, Nanjing Meiya, the Registered Shareholders and CUCN provide that the pledged equity interest shall constitute continuing security for any and all of the indebtedness, obligations and liabilities under all of the principal service agreements, it is possible that a PRC court could take the position that the amounts listed on the equity pledge registration forms or estimated in the equity pledge agreements represent the full amounts of the collateral that have been registered and perfected. If this were to happen, the obligations that are supposed to be secured in the equity pledge agreements in excess of the amounts listed on the equity pledge registration forms or estimated in the equity pledge agreements could be deemed unsecured debts by the PRC court, which take the last priority among creditors.

The Contractual Arrangements may subject us to scrutiny by the PRC tax authorities and may result in a finding that we owe additional taxes or are ineligible for tax exemptions, or both, which could substantially increase our taxes owed and thereby reduce our profit attributable to equity shareholders of the Company.

Under PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face material and adverse tax consequences if the PRC tax authorities determine that the exclusive technical services and management consultancy agreements we have with our Consolidated Affiliated Entities do not represent an arm's-length price and adjust any of those entities' income in the form of a transfer pricing adjustment. A transfer pricing adjustment could increase our tax liabilities. In addition, PRC tax authorities may form the view that our subsidiaries or Consolidated Affiliated Entities have improperly minimized their tax obligations, and we may not be able to rectify any such incident within the limited timeline required by PRC tax authorities. As a result, the PRC tax authorities may impose late payment fees and other penalties on us for underpaid taxes, which could materially and adversely affect our business, financial condition and results of operations.

Our exercise of the option to acquire the equity interest held by the Registered Shareholders of our Consolidated Affiliated Entities may be subject to certain limitations and we may incur substantial costs.

Pursuant to the Special Administrative Measures for the Access of Foreign Investment (Negative List) (2019 version) (外商投資准入特別管理措施(負面清單)(2019年版)), the Regulations on Operating Sino-foreign Schools (中外合作辦學條例) and its implementing rules, and Implementation Opinions of the MOE on Encouraging and Guiding the Entry of Private Capital in the Fields of Education and Promoting the Healthy Development of Private

Education (關於鼓勵和引導民間資金進入教育領域促進民辦教育健康發展的實施意見), only foreign education institutions with relevant qualifications and experience (the "**Qualification Requirement**") may invest in Sino-Foreign joint venture universities and may only hold an interest of less than 50% (the "**Foreign Ownership Restriction**") with the domestic party playing a dominant role (the "**Foreign Control Restriction**"). If the Foreign Ownership Restriction and Foreign Control Restriction are lifted, we may be unable to unwind the Contractual Arrangements before we are in a position to comply with the Qualification Requirement, or if we attempt to unwind the Contractual Arrangements before we are able to comply with the Qualification Requirement we may be ineligible to operate our University and may be forced to suspend its operations, which could materially and adversely affect our business, financial condition and results of operations.

Furthermore, we may incur substantial cost in the exercise of the option to acquire the equity interest of our Consolidated Affiliated Entities held by the Registered Shareholders. Pursuant to the Contractual Arrangements, WFOEs have the exclusive right to require the Registered Shareholders of our Consolidated Affiliated Entities to transfer any and all their equity in our Consolidated Affiliated Entities to WFOEs and/or a third party designated by it, in whole or in part at any time and from time to time, at the lowest price allowable under PRC laws and regulations at the time of transfer. If the relevant PRC authorities determine that the purchase price for acquiring our Consolidated Affiliated Entities is below the market value, they may require WFOEs to pay enterprise income tax for ownership transfer income with reference to the market value. The amount of the tax may be substantial, which could materially and adversely affect our business, financial condition and results of operations.

Any failure by our Consolidated Affiliated Entities or their respective shareholders to perform their obligations under our Contractual Arrangements would potentially lead to the incurrence of additional costs and the expending of substantial resources on our part to enforce such arrangements, temporary or permanent loss of control over our primary operations or loss of access to our primary sources of revenue.

Under the current Contractual Arrangements, if any of our Consolidated Affiliated Entities or their respective shareholders fail to perform its or his/her respective obligations under these Contractual Arrangements, we may incur substantial costs and resources to enforce such arrangements and rely on legal remedies under PRC laws, including seeking specific performance or injunctive relief and claiming damages.

The Contractual Arrangements are governed by PRC laws and provide for the resolution of disputes through arbitration in China. Accordingly, these contracts will be interpreted in accordance with PRC laws and any disputes will be resolved in accordance with PRC legal procedures. Under PRC laws, rulings by arbitrators are final and the parties to a dispute cannot appeal the arbitration results in any court based on the substance of the case. The prevailing party may enforce the arbitration award by instituting arbitration award recognition proceedings with a competent PRC court. The legal environment in the PRC is not as developed as in other jurisdictions, such as Hong Kong and the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these Contractual Arrangements. In the event that we are unable to enforce these Contractual Arrangements, we may not be able to exert effective control over our Consolidated Affiliated Entities for an extended period of time or we may be permanently unable to exert control over our Consolidated Affiliated Entities. If this were to occur, we would be unable to consolidate the financial results of our Consolidated Affiliated Entities with our financial results, which may materially and adversely affect our business, financial condition results of operations and may decrease the value of our Shareholders' shares in our Company.

In addition to the enforcement costs outlined above, during the course of disputes regarding such enforcement action, we may temporarily lose effective control over our operations, which may lead to loss of revenue or potentially lead to the incurrence of additional costs and the expending of substantial resources on our part to operate our business in the absence of effective enforcement of these Contractual Arrangements. If this were to occur, our business, financial condition and results of operations may be materially and adversely affected and the value of our Shareholders' shares in our Company may decrease.

Certain terms of the Contractual Arrangements may not be enforceable under PRC laws.

The Contractual Arrangements provide for dispute resolution by way of arbitration in accordance with the arbitration rules of the China International Economic and Trade Arbitration Commission in Beijing, PRC. The Contractual Arrangements contain provisions to the effect that the arbitral body may award remedies over the equity interests and/or assets of our Consolidated Affiliated Entities, injunctive relief and/or winding up of our Consolidated Affiliated Entities. In addition, the Contractual Arrangements contain provisions to the effect that courts in Hong Kong and the Cayman Islands are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal. However, we have been advised by our PRC Legal Adviser that the above-mentioned provisions contained in the Contractual Arrangements may not be enforceable. Under PRC laws, an arbitral body does not have the power to grant any injunctive relief or provisional or final winding-up order to preserve the assets of or any equity interest in our Consolidated Affiliated Entities in case of disputes. Therefore, such remedies may not be available to us, notwithstanding the relevant contractual provisions contained in the Contractual Arrangements.

PRC laws allow an arbitral body to award the transfer of assets of or equity interest in our Consolidated Affiliated Entities in favor of an aggrieved party. In the event of non-compliance with such award, enforcement measures may be sought from the court. However, the court may or may not support the award of an arbitral body when deciding whether to take enforcement measures. Under PRC laws, courts of judicial authorities in the PRC generally do not grant injunctive relief or the winding-up order against our Consolidated Affiliated Entities as interim remedies to preserve the assets or equity interests in favor of any aggrieved party. Our PRC Legal Adviser is also of the view that, even though the Contractual Arrangements provide that courts in Hong Kong and the Cayman Islands may grant and/or enforce interim remedies or in support of arbitration, such interim remedies (even if so granted by courts in Hong Kong or the Cayman Islands in favor of an aggrieved party) may not be recognized or enforced by PRC courts. As a result, in the event that any of our Consolidated Affiliated Entities or their shareholders breach any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over our Consolidated Affiliated Entities and conduct our education business could be materially and adversely affected. See "Contractual Arrangements – Contractual Arrangements – Other aspects of the Contractual Arrangements – Dispute resolution" for details regarding the enforceability of the dispute resolution provisions in the Contractual Arrangements as opined by our PRC Legal Adviser.

We rely on dividend and other payments from WFOEs to pay dividends and other cash distributions to our Shareholders and any limitation on the ability of WFOEs to pay dividends to us would materially and adversely limit our ability to pay dividends to our Shareholders.

Our Company is a holding company and our ability to pay dividends and other cash distributions to our Shareholders, service any debt we may incur and meet our other cash requirements depends significantly on our ability to receive dividends and other distributions from WFOEs. The amount of dividends paid to our Company by WFOEs depend solely on the service fees paid to WFOEs from our Consolidated Affiliated Entities. However, there are restrictions under PRC laws for the payment of dividends to us by WFOEs. For example, relevant PRC laws and regulations permit payments of dividends by WFOEs only out of its retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC laws and regulations, WFOEs are required to set aside at least 10% of its after-tax profits based on PRC accounting standards each year to fund a statutory reserve, until the accumulated amount of such reserve has exceeded 50% of its registered capital. Consequently, WFOEs are restricted in its ability to transfer a portion of its net assets to us or any of our other subsidiaries in the form of dividends, loans or advances. The foregoing restrictions on the ability of WFOEs to pay dividends to us and the limitations on the ability of Consolidated Affiliated Entities to pay service fees to WFOEs could materially and adversely limit our ability to borrow money outside of China or pay dividends to holders of our Shares.

If any of our Consolidated Affiliated Entities becomes subject to winding up or liquidation proceedings, we may lose the ability to enjoy certain important assets, which could negatively impact our business and materially and adversely affect our ability to generate revenue.

We currently conduct our operations in China through the Contractual Arrangements. As part of these arrangements, our Consolidated Affiliated Entities hold a majority of the assets that are important to the operation of our business, including operating permits and licenses, real estate leases, buildings, intellectual property and educational facilities. Under the Exclusive Business Cooperation Agreements, our Registered Shareholders may not unilaterally, without our consent, decide to voluntarily liquidate our Consolidated Affiliated Entities.

If any of these entities goes bankrupt and all or part of their assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, financial condition and results of operations. If any of our Consolidated Affiliated Entities undergoes a voluntary or involuntary liquidation proceeding, its shareholders or unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, our ability to generate revenue and the market price of our Shares.

RISKS RELATING TO DOING BUSINESS IN THE PRC

Adverse changes in the PRC economic, political and social conditions as well as laws and government policies, may materially and adversely affect our business, financial condition, results of operations and growth prospects.

The economic, political and social conditions in the PRC differ from those in more developed countries in many respects, including structure, government involvement, level of development, growth rate, control of foreign exchange, capital reinvestment, allocation of resources, rate of inflation and trade balance position. Before the adoption of its reform and opening up policies in 1978, the PRC was primarily a planned economy. In recent years, the PRC government has been reforming the PRC economic system and government structure. For example, the PRC government has implemented economic reform and measures emphasizing the utilization of market forces in the development of the PRC economy in the past four decades. These reforms have resulted in significant economic growth and social prospects. Economic reform measures, however, may be adjusted, modified or applied inconsistently from industry to industry or across different regions of the country.

We cannot predict whether the resulting changes will have any adverse effect on our current or future business, financial condition or results of operations. Despite these economic reforms and measures, the PRC government continues to play a significant role in regulating industrial development, allocation of natural and other resources, production, pricing and management of currency, and there can be no assurance that the PRC government will continue to pursue a policy of economic reform or that the direction of reform will continue to be market friendly.

Our ability to successfully expand our business operations in the PRC depends on a number of factors, including macro-economic and other market conditions, and credit availability from lending institutions. Stricter credit or lending policies in the PRC may affect our customers' consumer credit or consumer banking business, and may also affect our ability to obtain external financing, which may reduce our ability to implement our expansion strategies. We cannot assure you that the PRC government will not implement any additional measures to tighten credit or lending standards, or that, if any such measure is implemented, it will not adversely affect our future results of operations or profitability.

Demand for our services and our business, financial condition and results of operations may be materially and adversely affected by the following factors:

- political instability or changes in social conditions of the PRC;
- changes in laws, regulations, and administrative directives or the interpretation thereof;
- measures which may be introduced to control inflation or deflation; and
- changes in the rate or method of taxation.

These factors are affected by a number of variables which are beyond our control.

We face risks related to natural disasters, health epidemics and social unrest, which could significantly disrupt our operations.

Our business is subject to general economic and social conditions in China. Natural disasters, health epidemics, other acts of God, and social unrest all of which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in China. Our business could also be under the threat of flood, earthquake, sandstorm, snowstorm, fire, drought, acts of war, threats or actual terrorist activity, social unrest or epidemics such as the Severe Acute Respiratory Syndrome, the Middle East Respiratory Syndrome, the H5N1 avian flu, the Ebola virus, the human swine flu, also known as Influenza A (H1N1), or, most recently, the novel coronavirus named COVID-19 by the World Health Organization.

Any such event may also result in material disruption of our business operations, which in turn may adversely affect our financial condition and results of operations, since it could require our University to be temporarily closed, our employees to be quarantined, and/or our offices to be disinfected, it could result in the reduced demands for our services and possibly a delay in the production and broadcasting of our pipeline programs, and it could harm the quality of education we are able to deliver. In addition, past occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies and reduction in economic activity, economic growth and business sentiments in China. Any health epidemics in China may also affect our students, service providers, customers, suppliers and the industries we operate in, which in turn could have an adverse effect on our business, financial condition and results of operations.

The World Health Organization declared the COVID-19 coronavirus a Public Health Emergency of International Concern on January 30, 2020, and a global pandemic on March 11, 2020. The impacts of the current COVID-19 coronavirus outbreak on our results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions to contain the coronavirus or treat its impact (such as travel restrictions, quarantines and other limitations affecting access to and demand for educational and entertainment facilities), among others. We are uncertain as to when the outbreak will be contained, and we also cannot predict if the impact will be short-lived or long-lasting. If the outbreak persists for a longer period of time, it may have a material adverse impact on our financial performance.

The PRC legal system is evolving and has inherent uncertainties that could limit the legal protection available to you.

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which prior court decisions have limited value as precedents. Since 1979, the PRC Government has promulgated laws and regulations governing economic matters in general, such as foreign investment, corporate organization and governance, commerce, taxation and trade. Due to the limited volume of published cases and their non-binding nature, interpretation and enforcement of these laws and regulations involve greater uncertainties than those in other jurisdictions. We cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws, or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws.

Our business and operations in the PRC are governed by the PRC legal system that is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, the PRC government has promulgated laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, as these laws and regulations are relatively new and continue to evolve, interpretation and enforcement of these laws and regulations involve significant uncertainties and different degrees of inconsistency. Some of the laws and regulations are still in the developmental stage and are therefore subject to policy changes. Many laws, regulations, policies and legal requirements have only been recently adopted by PRC central or local government agencies, and their implementation, interpretation and enforcement may involve uncertainty due to the lack of established practice available for reference. We cannot predict the effect of future legal developments in the PRC, including the promulgation of new laws, changes in existing laws or their interpretation or enforcement, or the pre-emption of local regulations by national laws. As a result, there is substantial uncertainty as to the legal protection available to us and our Shareholders. Furthermore, due to the limited volume of published cases and the non-binding nature of prior court decisions, the outcome of dispute resolution may not be as consistent or predictable as in other more developed jurisdictions, which may limit the legal protection available to us. In addition, any litigation in the PRC may be protracted and result in substantial costs and the diversion of resources and management attention.

As our Shareholder, you hold an indirect interest in our operations in China, which are subject to PRC regulations governing PRC companies. These regulations contain provisions that are required to be included in the articles of association of PRC companies and are intended to regulate the internal affairs of these companies. PRC company law and regulations, in general, and the provisions for the protection of shareholders' rights and access to information, in particular, may be considered less developed than those applicable to companies incorporated in Hong Kong, the United States and other countries or regions. In addition, PRC laws, rules and regulations applicable to companies listed overseas do not distinguish between minority and controlling shareholders in terms of their rights and protections. As such, our minority Shareholders may not have the same protections afforded to them by companies incorporated under the laws of the United States and certain other jurisdictions.

PRC regulations of loans to, and direct investment in, PRC entities by offshore holding companies and governmental control of currency conversion may restrict or prevent us from using the proceeds from the Global Offering to make loans to our PRC subsidiaries and our Consolidated Affiliated Entities or to make additional capital contributions to our PRC subsidiaries, which may materially adversely affect our liquidity and our ability to fund and expand our business.

In utilizing the proceeds we receive from the Global Offering in the manner described in "Future plans and use of proceeds", as an offshore holding company with PRC subsidiaries, we may (i) make additional capital contributions to our PRC subsidiaries, (ii) establish new PRC subsidiaries and make capital contributions to these new PRC subsidiaries, (iii) make loans to our PRC subsidiaries or PRC operating entities, or (iv) acquire offshore entities with business operations in China in offshore transactions. However, most of these uses are subject to PRC regulations and approvals. For example: capital contributions to our PRC subsidiaries, whether existing or newly-established ones, are subject to the requirement of necessary filings in the Enterprise Registration System and the National Enterprise Credit Information Publicity System operated by the State Administration for Market Regulation and registration with other governmental authorities in China; loans by us to our PRC subsidiaries, which are foreign-invested enterprises, to finance their activities cannot exceed statutory limits and must be registered with the SAFE, or its local branches; and loans by us to our PRC operating entities, which are domestic PRC entities, must be approved by the NDRC and must also be registered with SAFE or its local branches.

On March 30, 2015, SAFE promulgated the Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-Invested Enterprises (國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知) (the "**SAFE Circular 19**"). SAFE Circular 19 reforms the administration of the settlement of the foreign exchange capital of foreign-invested enterprises by allowing foreign-invested enterprises to settle their foreign exchange capital at their discretion, but it continues to prohibit foreign-invested enterprises from using RMB funds converted from their foreign exchange capital for expenditures beyond their business scope. On June 9, 2016, SAFE promulgated the Circular on Reforming and Standardizing the Administrative Provisions over Capital Account Foreign Exchange (國家外匯管理局關於改革和規範資本項目結匯管理政策的通知) (the "**SAFE Circular 16**"). SAFE Circular 16 continues to prohibit foreign-invested enterprises from using the RMB funds converted from its foreign exchange capital for expenditures beyond their business scope, investment and financing (except for securities investment or non-guaranteed bank products), providing loans to non-affiliated enterprises or constructing or purchasing real estate other than for self-use. On October 23, 2019, SAFE issued the Notice of SAFE on Further Facilitating Cross-border Trade and Investment (國家外匯管理局關於進一步促進跨境貿易投資便利化的通知), which, among other things, expanded the use of foreign exchange capital to domestic equity investment area. Non-investment foreign-funded enterprises are allowed to lawfully make domestic equity investments by using their capital on the premise of no violation of prevailing special administrative measures for access of foreign investments (negative list) and the authenticity and compliance with the regulations of domestic investment projects. SAFE Circular 19 and SAFE Circular 16 and other relevant foreign exchange rules may significantly limit our ability to transfer and use in China the net proceeds from this offering, which may adversely affect our business, financial conditions and results of operations.

We expect that PRC laws and regulations may continue to limit our use of proceeds or from other financing sources. We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to our entities in China. If we fail to receive such registrations or approvals, our ability to use the proceeds and to capitalize our PRC operations may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

The PRC Government's control over currency conversion and changes in the exchange rate between Renminbi and other currencies could negatively affect our financial condition, results of operations and our ability to pay dividends.

Substantially all of our revenue is denominated and settled in Renminbi. The PRC Government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval by SAFE provided that we satisfy certain requirements. However, approval from SAFE or its local counterpart is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC Government may also at its discretion restrict access in the future to foreign currencies for current account transactions.

Since a significant amount of our future cash flows from operations will be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to purchase goods and services outside of China or otherwise fund our business activities that are conducted in foreign currencies. This could affect our ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from us.

Failure to comply with PRC regulations regarding the registration requirements for employee share ownership plans or share option plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

In February 2012, the SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly-Listed Companies (境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知) (the "**Stock Option Rules**"). Under the Stock Option Rules and other relevant rules and regulations, PRC residents who participate in stock incentive plan in an overseas publicly-listed company are required to register with the SAFE or its local branches and complete certain other procedures. Participants of a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly-listed company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants. The participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes. We and our PRC employees who have been granted share options will be subject to these regulations upon the completion of the Global Offering. Failure of our PRC share option holders to complete their SAFE registrations may subject these PRC residents and us to fines and legal sanctions or otherwise materially and adversely affect our business, financial condition and results of operations.

It may be difficult to effect service of process upon our Directors or executive officers who live in the PRC or to enforce in the PRC any judgments obtained from non-PRC courts.

Substantially all of our operations are conducted in the PRC. As of the Latest Practicable Date, the majority of our executive Directors and senior management personnel resided within the PRC, and all of our assets and of such persons were located in the PRC. Therefore, it may not be possible for investors to effect service of process upon such persons in the PRC or to enforce against us or such persons in the PRC any judgments obtained from non-PRC courts. The PRC does not have treaties or arrangements providing for the recognition and enforcement of civil judgments of the courts of the United Kingdom, the United States or other western countries. Therefore, recognition and enforcement in the PRC of judgments obtained in such jurisdictions may be difficult. On July 14, 2006, the PRC and Hong Kong signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matter by the Courts of the Mainland and of the Hong Kong Special Administrative Region pursuant to Choice of Court Agreements Between Parties Concerned (關於內地與香港特別行政區法院互相認可和執行當事人協議管轄的民商事案件判決的安排) (the "**2006 Arrangement**"). The enforceable final judgments in favor of monetary requirements granted by Hong Kong courts are recognized by PRC courts pursuant to such arrangement.

On January 18, 2019, the PRC and Hong Kong signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region (關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排) (the "**2019 Arrangement**"). The 2019 Arrangement stipulates the scope and particulars of judgments, the procedures and ways of the application for recognition or enforcement, the review of the jurisdiction of the court that issued the original judgment, the circumstances where the recognition and enforcement of a judgment shall be refused, and the approaches towards remedies, among others. The 2019 Arrangement shall apply to any judgment made on or after its effective date by the courts of both sides. The 2006 Arrangement shall be terminated on the same day when the 2019 Arrangement comes into effect. If a "written choice of court agreement" has been signed by parties according to the 2006 Arrangement prior to the effective date of the 2019 Arrangement, the 2006 Arrangement shall still apply. Although the 2019 Arrangement has been signed, its effective date has yet to be announced. Therefore, there are still uncertainties about the outcomes and effectiveness of enforcement or recognition of judgments under the 2019 Arrangement.

Dividends payable by us to our foreign investors and gain on the sale of our Shares may become subject to taxes under PRC tax laws.

Under the Enterprise Income Tax Law issued by the Standing Committee of the National People's Congress and its implementation rules issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends payable to investors that are deemed "non-resident enterprises"; in other words, those who do not have an establishment or place of business in China, or who have such an establishment or place of business but whose relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are sourced from within China. Similarly, any gain realized on the transfer of Shares by such investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within China. If we are considered a PRC "resident enterprise", it is unclear whether dividends we pay with respect to our Shares, or the gain our Shareholders may realize from the transfer of our Shares, will be treated as income derived from sources within China and be subject to PRC tax. If we are required under the Enterprise Income Tax Law to withhold PRC income tax on dividends payable to our non-PRC investors that are "non-resident enterprises", or if our Shareholders are required to pay PRC income tax on the transfer of our Shares, the value of our Shareholders' investment in our Shares may be materially adversely affected.

If we are classified as a PRC "resident enterprise", we would be subject to PRC income tax at the rate of 25% on our worldwide income and holders of our Shares may be subject to a PRC withholding tax upon the dividends payable by us and upon gain from the sale of our Shares.

Under the EIT Law and its implementation rules, if an enterprise incorporated outside the PRC has its "de facto management bodies" located within the PRC, such enterprise may be recognized as a PRC tax resident enterprise and be subject to the unified enterprise income tax rate of 25% on its worldwide income. Under the implementation rules for the EIT Law, "de facto management bodies" is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. Since all of our management is currently located in the PRC, we may be recognized as a PRC tax resident enterprise for the purpose of the EIT Law and therefore we would be subject to PRC income tax at the rate of 25% on our worldwide income. In such event, our income tax expenses may increase significantly and our net profit and profit margin could be materially and adversely affected.

In addition, pursuant to the EIT Law and its implementation rules, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from January 1, 2008 and applies to earnings after December 31, 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For our Group, the applicable withholding tax rate is 10%. Therefore, if we are recognized as a PRC tax resident enterprise, foreign investors may be subject to a PRC withholding tax upon dividends distributed by us or upon gains from the sale of our Shares.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident Shareholders to personal liability and limit our ability to inject capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to distribute profits to us, or otherwise adversely affect our financial position.

SAFE has promulgated the Circular of the SAFE on Foreign Exchange Administration of Overseas Investment and Financing and Round-Trip Investments by Domestic Residents via Special Purpose Vehicles (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (the "**SAFE Circular 37**"), effective on July 4, 2014, that require PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a "special purpose vehicle". The term "control" under SAFE Circular 37 is broadly defined as the operation rights, beneficiary rights or decision-making rights acquired by the PRC residents in the offshore special purpose vehicles by such means as acquisition, trust, proxy, voting rights, repurchase, convertible bonds or other arrangements. SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event.

We may not be informed of the identities of all the PRC residents holding direct or indirect interest in our Company, and we cannot provide any assurances that these PRC residents will comply with our request to make or obtain any applicable registrations or comply with other requirements required by SAFE Circular 37 or other related rules. The failure or inability of our PRC resident Shareholders to make any required registrations or comply with other requirements under SAFE Circular 37 and other related rules may subject such PRC residents or our PRC subsidiaries to fines and legal sanctions and may also limit our ability to contribute additional capital into or provide loans to (including using the proceeds from the Global Offering) our PRC subsidiaries, limit our PRC subsidiaries' ability to pay dividends or otherwise distribute profits to us, or otherwise adversely affect our financial position.

We face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.

In October 2017, the State Administration of Taxation (the "**SAT**") issued the Bulletin on Issues Concerning the Withholding of Non-PRC Resident Enterprise Income Tax at Source (國家稅務總局關於非居民企業所得稅源泉扣繳有關問題的公告) (the "**Bulletin 37**"), amended on June 15, 2018, which replaced the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises (國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知) issued by the SAT on December 10, 2009 and partially replaced and supplemented rules under the Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises (國家稅務總局關於非居民企業間接轉讓財產企業所得稅若干問題的公告) (the "**Bulletin 7**").

Pursuant to Bulletin 7, an "indirect transfer" of PRC assets, including a transfer of equity interests in an unlisted non-PRC holding company controlling a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of the underlying PRC assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. According to Bulletin 7, "PRC taxable assets", which include assets attributed to an establishment in China, immovable properties located in China, equity investments in PRC resident enterprises and any gains from the transfer of such assets by a direct holder who is a non-PRC resident enterprise, would be subject to PRC enterprise income taxes.

When determining whether there is a "reasonable commercial purpose" in a transaction arrangement, features to be taken into consideration include: (i) whether the main value of the equity interest of the relevant offshore enterprise derives from PRC taxable assets; (ii) whether the assets of the relevant offshore enterprise mainly consist of direct or indirect investments in China or if its income mainly derives from China; (iii) whether the offshore enterprise and its subsidiaries directly or indirectly holding PRC taxable assets have a commercial nature evidencing by their actual function and risk exposure; (iv) the duration of shareholders, existence of the business model and organizational structure; (v) the information about the payment of income tax due outside the PRC on the indirect transfer of PRC taxable property; (vi) the substitutability of the transaction by direct transfer of PRC taxable assets; and (vii) the tax situation of such indirect transfer and applicable tax treaties or similar arrangements.

In the case of an indirect offshore transfer of assets of a PRC establishment, the resulting gain is to be included with the enterprise income tax filing of the PRC establishment or place of business being transferred, and may consequently be subject to PRC enterprise income tax at a rate of 25%. Where the underlying transfer relates to immovable properties located in China or to equity investments in a PRC resident enterprise, which is not related to a PRC establishment or place of business of a non-resident enterprise, a PRC enterprise income tax of 10% would apply, and the party who is obligated to make the transfer payments has the withholding obligation.

Pursuant to Bulletin 37, the withholding agent must declare and pay the withheld tax to the competent tax authority in the place where such withholding agent is located within seven days from the date of occurrence of the withholding obligation, while in the event that the withholding agent fails to withhold the tax due or withhold the tax due in full, the transferor is required to declare and pay such tax to the competent tax authority within the statutory time limit according to Bulletin 7. Late payment of applicable tax will subject the transferor to default interest. Both Bulletin 37 and Bulletin 7 do not apply to transactions involving the sale of shares by investors through a public stock exchange where such shares were acquired from a transaction through a public stock exchange.

There is uncertainty as to the application of Bulletin 37 or previous rules under Bulletin 7. We face uncertainties as to the reporting and other implications of certain past and future transactions where PRC taxable assets are involved, such as offshore restructuring, or the sale of the shares in our offshore subsidiaries or investments. Our Company may be subject to filing obligations or taxes if our Company is the transferor in such transactions, and may be subject to withholding obligations if our Company is the transferee in such transactions, under Bulletin 37 and Bulletin 7. For transfers of shares in our Company by investors that are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist with the filing under Bulletin 37 and Bulletin 7. As a result, we may be required to expend valuable resources to comply with Bulletin 37 and Bulletin 7 or to request the relevant transferors from whom we purchase taxable assets to comply with these Bulletins, or to establish that our Company should not be taxed under these Bulletins, which may have a material adverse effect on our financial condition and results of operations.

As a foreign company, our acquisitions of Chinese domestic companies may take a longer time and be subject to higher levels of scrutiny by the PRC Government. In addition, the approval of CSRC may be required in connection with the Global Offering. Any requirement to obtain prior CSRC approval could delay, or create uncertainties regarding, the Global Offering, and our failure to obtain this approval, if required, could have a material adverse effect on our business, operating results, reputation and trading price of our Shares.

On August 8, 2006, the MOFCOM, the SAIC, SAT, the SAFE, the State-owned Assets Supervision and Administration Commission of the State Council and the China Securities Regulatory Commission (the "**CSRC**") jointly promulgated the Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors (關於外國投資者併購境內企業的規定) (the "**M&A Rules**") which govern the approval process by which a PRC domestic entity's assets or equity interests may be required. These rules became effective on September 8, 2006 and were revised and reissued by MOFCOM in June 2009. The M&A Rules established additional procedures and requirements including, but not limited to, the requirement that foreign investors must obtain relevant approvals when they acquire equity or assets of a Chinese domestic enterprise through a cross-border share swap. It is generally expected that compliance with the regulations will be more time-consuming and costly than in the past and will result in a more extensive evaluation by the PRC Government and increased control over the terms of the transaction. Therefore, acquisitions in China by non-Chinese entities may face difficulties in completion because the terms of the transaction may not satisfy terms required by regulatory authorities in the approval process. Should we decide to acquire a Chinese company, the execution of our acquisition plans may become more time-consuming, complex and uncertain, and as a result, our growth prospects would be adversely affected.

In addition, the M&A Rules purport, among other things, to require that offshore SPVs that are controlled by PRC companies or individuals and that have been formed for overseas listing purposes through acquisitions of PRC domestic interest held by such PRC companies or individuals to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange. On September 2006, the CSRC published a notice on its official website specifying documents and materials required to be submitted to it by offshore SPVs seeking CSRC approval of their overseas listings. While the application of the M&A Rules remains unclear, our PRC Legal Adviser has advised us that based on their understanding of the current PRC laws, rules and regulations and the M&A Rules, prior approval from the CSRC is not required under the M&A Rules for the listing and trading of our Shares on the Stock Exchange given that (i) we established our PRC subsidiaries by means of direct investment other than by merger or acquisition of any equity interest or assets of a PRC domestic company owned by PRC companies or individuals as defined under the M&A Rules that are our beneficial owners after the effective date of the M&A Rules; and (ii) no Regulated Activities were involved in our Reorganization under the M&A Rules.

However, our PRC Legal Adviser has further advised us uncertainties still exist as to how the M&A Rules will be interpreted and implemented and their opinions summarized above are subject to any new laws, rules and regulations or detailed implementations and interpretations in any form relating to the M&A Rules. If the CSRC or another PRC regulatory agency subsequently determines that prior CSRC approval was required, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory agencies. These regulatory agencies may impose fines and penalties on our operations, limit our operating privileges, delay or restrict the repatriation of the proceeds from the Global Offering into the PRC or payment or distribution of dividends by our PRC subsidiaries, or take other actions that could materially adversely affect our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our Shares. The CSRC or other PRC regulatory agencies also may take actions requiring us, or making it advisable for us, to halt the Global Offering before settlement and delivery of our Shares offered hereby. Consequently, if you engage in market trading or other activities in anticipation of and prior to settlement and delivery of our Shares, you do so at the risk that settlement and delivery may not occur. In addition, if the CSRC later requires that we obtain its approval for the Global Offering, we may be unable to obtain a waiver of CSRC approval requirements, if and when procedures are established to obtain such a waiver. Any uncertainties or negative publicity regarding CSRC approval requirements could have a material adverse effect on the trading price of our Shares.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our Shares, therefore, their market price may be volatile and an active trading market in our Shares may not develop.

Prior to completion of the Global Offering, there has been no public market for our Shares. There can be no guarantee that an active trading market for our Shares will develop or be sustained after completion of the Global Offering. The Offer Price is the result of negotiations between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), which may not be indicative of the price at which our Shares will be traded following completion of the Global Offering. The market price of our Shares may drop below the Offer Price at any time after completion of the Global Offering.

The trading price of our Shares may be volatile, which could result in substantial losses to you.

The trading price of our Shares may be volatile and could fluctuate widely in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, China, the United States and elsewhere in the world. In particular, the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in Hong Kong may affect the volatility in the price of and trading volumes for our Shares. A number of PRC-based companies have listed their securities, and some are in the process of preparing for listing their securities in Hong Kong. Some of these companies have experienced significant volatility, including significant price declines after their initial public offerings. The trading performances of the securities of these companies at the time of or after their offerings may affect the overall investor sentiment towards PRC based companies listed in Hong Kong and consequently may impact the trading performance of our Shares. These broad market and industry factors may significantly affect the market price and volatility of our Shares, regardless of our actual operating performance.

The actual or perceived sale of availability for sale of substantial amounts of our Shares, especially by our Directors and Controlling Shareholders, could adversely affect the market price of our Shares.

Future sales of a substantial number of our Shares, especially by our Directors, executive officers and Controlling Shareholders, or the perception or anticipation of such sales, could negatively impact the market price of our Shares in Hong Kong and our ability to raise equity capital in the future at a time and price that we deem appropriate.

The Shares held by our Controlling Shareholders are subject to certain lock-up periods beginning on the date on which trading in our Shares commences on the Stock Exchange. While we currently are not aware of any intention of such persons to dispose of significant amounts of their Shares after the expiry of the lock-up periods, we cannot assure you that they will not dispose of any Shares they may own now or in the future.

Our Controlling Shareholders may exert substantial influence over us and may not act in the best interests of our minority Shareholders.

Immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised, no Shares are awarded under the Post-IPO Share Award Scheme and no options are granted under the Post-IPO Share Option Scheme), our Controlling Shareholders will beneficially own approximately 72.19% of our issued Shares. Our Controlling Shareholders will be in a position to exert significant influence over the affairs of our Company and will be able to influence the outcome of any shareholders' ordinary resolutions, irrespective of how other shareholders vote. The interests of our Controlling Shareholders may not necessarily be aligned with the interests of our Shareholders as a whole, and this concentration of ownership may also have the effect of delaying, deferring or preventing a change in control of our Company.

You will incur immediate and substantial dilution and may experience further dilution in the future.

As the Offer Price of our Shares is higher than the net tangible book value per Share of our Shares immediately prior to the Global Offering, purchasers of our Shares in the Global Offering will experience an immediate dilution. If we issue additional Shares in the future, purchasers of our Shares in the Global Offering may experience further dilution in their shareholding percentage.

There can be no assurance of the accuracy or completeness of certain facts, forecasts and other statistics obtained from various government publications, market data providers and other independent third-party sources, including the industry experts reports, contained in this document.

This document, particularly the section headed "Industry overview", contains information and statistics relating to the TV/film, education and other related industries. Such information and statistics have been derived from third-party reports commissioned by us, various government publications and other publicly available sources. We believe that the sources of the information are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. However, we cannot guarantee the quality or reliability of such source materials. The information has not been independently verified by us, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any other party involved in the Global Offering, and no representation is given as to its accuracy. Collection methods of such information may be flawed or ineffective, or there may be discrepancies between published information and market practice, which may result in the statistics included in this document being inaccurate or not comparable to statistics produced for other economies. You should therefore not place undue reliance on such information. In addition, we cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In any event, you should consider carefully the importance placed on such information or statistics.

Waivers have been granted from compliance with certain requirements of the Listing Rules by the Stock Exchange. Shareholders will not have the benefit of the Listing Rules that are so waived. These waivers could be revoked, exposing us and our Shareholders to additional legal and compliance obligations.

We have applied for, and the Stock Exchange has granted to us, a number of waivers from strict compliance with the Listing Rules. See "Waivers from strict compliance with the Listing Rules" for further details. There is no assurance that the Stock Exchange will not revoke any of these waivers granted or impose certain conditions on any of these waivers. If any of these waivers were to be revoked or to be subject to certain conditions, we may be subject to additional compliance obligations, incur additional compliance costs and face uncertainties arising from issues of multi-jurisdictional compliance, all of which could adversely affect us and our Shareholders.

You may face difficulties in protecting your interests under Cayman Islands law.

Our corporate affairs are governed by, among other things, our Memorandum and Articles and the Cayman Companies Law and common law of the Cayman Islands. The rights of Shareholders to take action against our Directors, actions by minority Shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as that from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in other jurisdictions.

This document contains forward-looking statements relating to our plans, objectives, expectations and intentions, which may not represent our overall performance for periods of time to which such statements relate.

This document contains certain statements and information that are forward-looking and uses forward-looking terminology such as "anticipate", "believe", "could", "going forward", "intend", "plan", "project", "seek", "expect", "may", "ought to", "should", "would" or "will" and similar expressions. You are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. In light of these and other risks and uncertainties, the inclusion of forward-looking statements in this document should not be regarded as representations or warranties by us that our plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section.

Subject to the requirements of the Listing Rules, we do not intend to publicly update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this document are qualified by reference to this cautionary statement.

You should read the entire document carefully, and we strongly caution you not to place any reliance on any information contained in press articles or other media regarding us or the Global Offering.

We strongly caution you not to rely on any information contained in press articles or other media regarding us and the Global Offering. Prior to the publication of this document, there has been press and media coverage regarding us and the Global Offering. Such press and media coverage may include references to certain information that does not appear in this document, including certain operating and financial information and projections, valuations and other information. We have not authorized the disclosure of any such information in the press or media and do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information or publication. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this document, we disclaim responsibility for it and you should not rely on such information.

In preparation for the Listing, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

WAIVER IN RESPECT OF MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have a sufficient management presence in Hong Kong. This will normally mean that at least two of its executive directors must be ordinarily resident in Hong Kong. We do not have sufficient management presence in Hong Kong for the purposes of Rule 8.12 of the Listing Rules.

The Group's management headquarters, senior management, business operations and assets are primarily based outside Hong Kong, in China. The Directors consider that the appointment of executive Directors who will be ordinarily resident in Hong Kong would not be beneficial to, or appropriate for, the Group and therefore would not be in the best interests of the Company or the Shareholders as a whole.

Accordingly, we have applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 8.12 of the Listing Rules on the basis that we will have proper arrangements to maintain regular communication with the Stock Exchange. We will ensure that there is an effective channel of communication between us and the Stock Exchange by way of the following arrangements:

(a) pursuant to Rule 3.05 of the Listing Rules, we have appointed and will continue to maintain two authorized representatives who shall act at all times as the principal channel of communication with the Stock Exchange. Each of our authorized representatives will be readily contactable by the Stock Exchange by telephone, facsimile and/or e-mail to deal promptly with enquiries from the Stock Exchange. Both of our authorized representatives are authorized to communicate on our behalf with the Stock Exchange. At present, our two authorized representatives are Mr. Pu and Mr. Sun Haitao ("**Mr. Sun**");

(b) pursuant to Rule 3.20 of the Listing Rules, each Director will provide their contact information to the Stock Exchange and to the authorized representatives. This will ensure that the Stock Exchange and the authorized representatives have means for contacting all Directors promptly at all times as and when required;

(c) we will ensure that each Director who is not ordinarily resident in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and can meet with the Stock Exchange within a reasonable period; and

(d) pursuant to Rule 3A.19 of the Listing Rules, we have retained the services of SPDB International Capital Limited as compliance adviser (the "**Compliance Adviser**"), who will act as an additional channel of communication with the Stock Exchange. The Compliance Adviser will provide our Company with professional advice on ongoing compliance with the Listing Rules. We will ensure that the Compliance Adviser has prompt access to our Company's authorized representatives and Directors. In turn, they will provide the Compliance Adviser with such information and assistance as the Compliance Adviser may need or may reasonably request in connection with the performance of the Compliance Adviser's duties. The Compliance Adviser will also provide advice to our Company when consulted by our Company in compliance with Rule 3A.23 of the Listing Rules.

WAIVER IN RESPECT OF JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, the company secretary must be an individual who, by virtue of their academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary.

Pursuant to Note 1 to Rule 3.28 of the Listing Rules, the Stock Exchange considers the following academic or professional qualifications to be acceptable:

(i) a member of The Hong Kong Institute of Chartered Secretaries;

(ii) a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); and

(iii) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong).

Pursuant to Note 2 to Rule 3.28 of the Listing Rules, in assessing "relevant experience", the Stock Exchange will consider the individual's:

(i) length of employment with the issuer and other issuers and the roles they played;

(ii) familiarity with the Listing Rules and other relevant law and regulations including the Securities and Futures Ordinance, Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code;

(iii) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and

(iv) professional qualifications in other jurisdictions.

Our Company appointed Mr. Sun and Ms. Chow Yuk Yin Ivy ("**Ms. Chow**"), of Tricor Services Limited, as joint company secretaries. See "Directors and senior management – Joint company secretaries" for their biographies.

Ms. Chow is a member and fellow of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom, and therefore meets the qualification requirements under Rule 3.28 Note 1 of the Listing Rules and is in compliance with Rule 8.17 of the Listing Rules.

While Mr. Sun does not possess the formal qualifications required of a company secretary, we have applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rules 3.28 and 8.17 of the Listing Rules for a three year period from the Listing Date subject to the condition that Ms. Chow is appointed as a joint company secretary to assist Mr. Sun in discharging his functions as a company secretary and in gaining the relevant experience as required under Rule 3.28 of the Listing Rules. The waiver will be revoked immediately if Ms. Chow, during the three year period, ceases to provide assistance to Mr. Sun. We will also adopt the following arrangements:

(a) Ms. Chow will work closely with and provide assistance to Mr. Sun in the discharge of his duties as a company secretary, so as to enable Mr. Sun to acquire the "relevant experience" as is required under Rule 3.28 of the Listing Rules;

(b) Mr. Sun will comply with the requirement under Rule 3.29 of the Listing Rules to attend relevant professional training, so as to gain familiarity with the Listing Rules and other relevant Hong Kong laws and regulations;

(c) the Company will ensure that Mr. Sun and Ms. Chow have access to relevant training, support and advice from our compliance adviser (appointed pursuant to Rule 3A.19 of the Listing Rules) and our Company's legal and professional advisers, who can provide professional guidance to us and our joint company secretaries as to compliance with the Listing Rules and all other applicable laws and regulations; and

(d) prior to the end of the initial three year period, the qualifications and experience of Mr. Sun will be re-evaluated to determine whether, having benefited from the assistance of Ms. Chow, Mr. Sun has acquired the "relevant experience" within the meaning of Rule 3.28 of the Listing Rules so that a further waiver will not be necessary.

WAIVER IN RESPECT OF CONTINUING CONNECTED TRANSACTIONS

We have entered into, and expect to continue, certain transactions that will constitute partially-exempt and non-exempt continuing connected transactions of our Company under the Listing Rules upon Listing. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, waivers from strict compliance with Chapter 14A of the Listing Rules. See "Connected transactions" for more details.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS DOCUMENT

This document, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to us. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and that there are no other matters the omission of which would make any statement herein or this document misleading.

INFORMATION ON THE GLOBAL OFFERING

You should rely only on the information contained in this document and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this document. Any information or representation not made in this document must not be relied on by you as having been authorized by us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of our or their respective directors, officers, employees, agents, advisers or representatives or any other parties involved in the Global Offering. Neither the delivery of this document nor any offering, sale or delivery made in connection with the Offer Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this document or imply that the information contained in this document is correct as of any date subsequent to the date of this document.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering", and the procedures for applying for the Hong Kong Public Offer Shares are set out in the section headed "How to apply for Hong Kong Public Offer Shares" and in the relevant Application Forms.

UNDERWRITING

For applicants under the Hong Kong Public Offering, this document and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

This document is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. The Global Offering comprises the Hong Kong Public Offering of initially 40,000,000 Shares and the International Offering of initially 360,000,000 Shares (subject, in each case, to reallocation on the basis referred to under the section headed "Structure of the Global Offering", and without taking into account the Over-allotment Options, the Shares to be issued pursuant to awards under the Post-IPO Share Award Scheme and the Shares to be issued pursuant to the exercise of options under the Post-IPO Share Option Scheme).

The listing of, and permission to deal in, the Shares on the Stock Exchange is sponsored by the Joint Sponsors. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. The International Offering is expected to be fully underwritten by the International Underwriters under the terms of the International Underwriting Agreement. The Global Offering is managed by the Joint Global Coordinators.

The Offer Price is expected to be fixed by agreement among the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around Wednesday, July 8, 2020 and, in any event, not later than 6:00 p.m. on Monday, July 13, 2020. If, for any reason, the Offer Price is not agreed among us and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), the Global Offering will not proceed. For further details about the Underwriters and the underwriting arrangements, please refer to the section headed "Underwriting" in this document.

RESTRICTIONS ON OFFERS AND SALES OF SHARES

We offer the Hong Kong Public Offer Shares solely on the basis of the information contained and representations made in this document and the Application Forms and on the terms and subject to the conditions contained in this document and the Application Forms.

Each person acquiring the Hong Kong Public Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this document and the relevant Application Forms.

No action has been taken to permit a public offering of the Offer Shares or the general distribution of this document and/or the Application Forms in any jurisdiction other than in Hong Kong. Accordingly, without limitation to the following, this document may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this document and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions and pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Hong Kong Public Offer Shares have not been publicly offered or sold, directly or indirectly, in the PRC or the United States.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

The Listing is sponsored by the Joint Sponsors. We have applied to the Listing Committee for the granting of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option), the Shares to be issued pursuant to awards under the Post-IPO Share Award Scheme and the Shares to be issued pursuant to the exercise of options granted under the Post-IPO Share Option Scheme.

Save as disclosed in this document, no part of our share capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought on the Stock Exchange or any other stock exchange as of the date of this document. All the Offer Shares will be registered on our register of members to be maintained by the Hong Kong Share Registrar of our Company in order to enable them to be traded on the Stock Exchange.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, our Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by or on behalf of the Stock Exchange.

COMMENCEMENT OF DEALINGS IN THE SHARES

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, July 15, 2020, it is expected that dealings in our Shares on the Stock Exchange will commence at 9:00 a.m. on Wednesday, July 15, 2020. The Shares will be traded in board lots of 1,000 Shares each, the stock code of the Shares will be 1981.

PROFESSIONAL TAX ADVICE RECOMMENDED

You should consult your professional advisers if you are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, or dealing in, the Shares or exercising any rights attaching to the them under the laws of Hong Kong and place of your operations, domicile, residence, citizenship or incorporation. We emphasize that none of our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers, employees, agents, advisers or representatives or any other parties involved in the Global Offering accepts responsibility for any tax effects or liabilities resulting from your subscription for, purchasing, holding or disposing of, or dealing in, the Shares or your exercise of any rights attaching to the Shares.

HONG KONG BRANCH REGISTER AND STAMP DUTY

Our register of members holding Shares will be maintained by our principal share registrar, Walkers Corporate Limited, in the Cayman Islands, and our register of members holding listed Shares issued by us pursuant to applications made in the Hong Kong Public Offering will be registered on our register of members to be maintained by the Hong Kong Share Registrar, Tricor Investor Services Limited.

No stamp duty is payable by applicants in the Global Offering. Dealings in the Shares registered in our Company's register of members maintained in Hong Kong will be subject to Hong Kong stamp duty in Hong Kong. The current ad valorem rate of Hong Kong stamp duty is 0.1% on the higher of the consideration for or the market value of the Shares and it is charged on the purchaser on every purchase and on the vendor on every sale of the Shares. In other words, a total stamp duty of 0.2% is currently payable on a typical sale and purchase transaction involving the Shares. Only Shares registered on our Hong Kong register of members may be traded on the Stock Exchange.

STABILIZATION AND OVER-ALLOTMENT OPTION

Details of the arrangements relating to the Over-allotment Option and stabilization are set out in the section headed "Structure of the Global Offering" in this document.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares on the Stock Exchange and our compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangements as such arrangements may affect their rights and interests. All necessary arrangements have been made for the Shares to be admitted into CCASS.

LANGUAGE

If there is any inconsistency between this document and the Chinese translation of this document, this document shall prevail. Names of any laws and regulations, governmental authorities, institutions, natural persons or other entities (including certain of our subsidiaries) which have been translated into English and included in this document and for which no official English translation exists are unofficial translations for your reference only.

EXCHANGE RATE

Unless otherwise specified, amounts denominated in RMB and US$ have been translated, for the purpose of illustration only, into HK dollars or US$ in this document at the following exchange rates: HK$1.00: RMB0.9150, US$1.00: HK$7.7500, and US$1.00: RMB7.0707. No representation is made that any amounts in RMB or US$ were or could have been or could be converted into HK dollars or US$ at such rates or any other exchange rates on such date or any other date.

ROUNDING

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

OTHER

Unless otherwise specified, all references to any shareholdings in our Company following the completion of the Global Offering assume that the Over-allotment Option is not exercised, and do not take into account the Shares to be issued pursuant to awards under the Post-IPO Share Award Scheme and the Shares to be issued pursuant to the exercise of options granted under the Post-IPO Share Option Scheme.

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. Pu Shulin (蒲樹林)	No. 3666, Hongjing Avenue Jiangning District, Nanjing Jiangsu, China	Chinese
Mr. Sun Haitao (孫海濤)	11H, Block 1 Illumination Terrace 5 Tai Hang Road, Hong Kong	Chinese
Mr. Wu Ye (吳曄)	Room 1103, Building 15 District 1, Wanfang Yuan Fengtai District, Beijing, China	Chinese
Mr. Yan Xiang (嚴翔)	No. 302, Unit 2, Block 6 No. 100 Jianhua South Avenue Yuhua District, Shijiazhuang Hebei, China	Chinese
Independent non-executive Directors		
Mr. Zhang Jizhong (張紀中)	No. 704, Unit 2 Building 1, No. 2 Jiangtai Road Second Chaoyang District Beijing, China	Chinese
Mr. Lee Cheuk Yin Dannis (李卓然)	Flat D, 8/F, Tower 1 Hillsborough Court No. 18 Old Peak Road Hong Kong	Chinese (Hong Kong)
Mr. Huang Yu (黃煜)	Flat G, 22/F, Tower 3 Sorrento 1 Austin Road West Tsim Sha Tsui, Hong Kong	Chinese (Hong Kong)

See “Directors and senior management” for further details.

PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Sponsors	**Macquarie Capital Limited** Level 18, One International Finance Centre 1 Harbour View Street Central, Hong Kong
	China Merchants Securities (HK) Co., Limited 48/F, One Exchange Square 8 Connaught Place Central, Hong Kong
Joint Global Coordinators	**Macquarie Capital Limited** Level 18, One International Finance Centre 1 Harbour View Street Central, Hong Kong
	China Merchants Securities (HK) Co., Limited 48/F, One Exchange Square 8 Connaught Place Central, Hong Kong
Joint Bookrunners	**Macquarie Capital Limited** Level 18, One International Finance Centre 1 Harbour View Street Central, Hong Kong
	China Merchants Securities (HK) Co., Limited 48/F, One Exchange Square 8 Connaught Place Central, Hong Kong
	China International Capital Corporation Hong Kong Securities Limited 29/F One International Finance Centre 1 Harbour View Street Central, Hong Kong
	CMB International Capital Limited 45/F, Champion Tower 3 Garden Road Central, Hong Kong
	ICBC International Capital Limited 37/F, ICBC Tower 3 Garden Road Hong Kong

Huatai Financial Holdings (Hong Kong) Limited
62/F The Center
99 Queen's Road Central
Hong Kong

Haitong International Securities Company Limited
22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Guotai Junan Securities (Hong Kong) Limited
27/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Joint Lead Managers	**Macquarie Capital Limited** Level 18, One International Finance Centre 1 Harbour View Street Central, Hong Kong
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Industry consultant	**Frost & Sullivan (Beijing) Inc.,** **Shanghai Branch Co.,** Room 1018, Tower B, No. 500 Yunjin Road, Xuhui District Shanghai, PRC
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Property valuer	**Cushman & Wakefield Limited** 16/F, Jardine House 1 Connaught Place Central Hong Kong

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*This section contains certain information, statistics and data which are derived from official government publications and industry sources as well as a commissioned report from Frost & Sullivan, an Independent Third Party (the "**Frost & Sullivan Report**"). The information from official government publications and the Frost & Sullivan Report may not be consistent with information available from other sources within or outside the PRC and Hong Kong.*

We believe that the sources of the information in this section are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any part has been omitted that would render such information false or misleading in any material respect. Our Directors confirm that after making reasonable enquiries, there is no adverse change in the market information that would qualify, contradict or have a material impact on such information since the date of the Frost & Sullivan Report. However, the information has not been independently verified by us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any other party involved in the Global Offering and no representation is given as to its accuracy.

SOURCES OF INFORMATION

We commissioned Frost & Sullivan, an independent market research consulting firm which is principally engaged in the provision of market research consultancy services, to conduct a detailed analysis of the media and arts education market and TV series production market in China (collectively, the "**Target Research Markets**").

During the preparation of the Frost & Sullivan Report, Frost & Sullivan performed both primary and secondary research, and obtained knowledge, statistics, information and industry insights on the industry trends of the Target Research Markets. Primary research involved discussing the status of the industry with leading industry participants and industry experts. Secondary research involved reviewing annual reports of companies, independent research reports and Frost & Sullivan's proprietary database.

The Frost & Sullivan Report was compiled based on the following assumptions: (i) China's economy is likely to maintain steady growth in the next decade; (ii) China's social, economic and political environment is likely to remain stable in the forecast period from 2019 to 2023; and (iii) market drivers, such as Chinese families' attention on education and spiritual life, the support from PRC central and local governments, improved investment in private education and TV/film industries in China, the increase of household income and wealth and per capita expenditure on culture, sports and entertainment are likely to drive the PRC TV/film production industry and PRC higher education market.

Frost & Sullivan is an independent global consulting firm that offers industry research and market strategies. We are contracted to pay a fee of RMB1.24 million to Frost & Sullivan in connection with the preparation of the Frost & Sullivan Report. We have extracted certain information from the Frost & Sullivan Report in this section, as well as in the sections headed "Summary", "Risk factors", "Business", "Financial information" and elsewhere in this document to provide our potential investors with a more comprehensive presentation of the industries in which we operate.

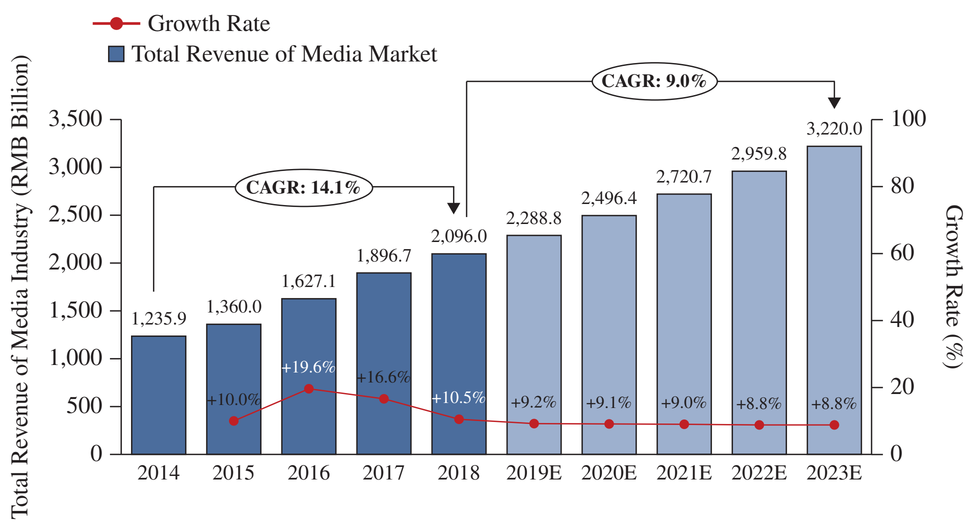
TV SERIES PRODUCTION IN CHINA

Overview of media industry in China

The media industry provides its viewing audience with a variety of content through channels like TV, radio, print and the internet. The media industry has grown rapidly in China, with total revenues increased from RMB1,235.9 billion in 2014 to RMB2,096.0 billion in 2018, representing a CAGR of 14.1%. It is expected to continue growing and to reach RMB3,220.0 billion in revenues in 2023, representing a CAGR of 9.0% from 2018. This growth is driven by many factors, including (i) consumption upgrades, (ii) innovation in media technology, and (iii) government support.

The media industry can be classified into several different sub-industries, including print media (newspapers, magazines and books), recordings (magnetic tapes, CDs and DVDs), visual media (TV series, web series, films, web films and variety shows), radio, internet and mobile internet. Each sub-industry has its own content types, creative artists, technicians and business models. The following chart presents the increase in total revenue of the media industry in China from 2014 to 2018 and the forecast for 2019 to 2023.

Total Revenue of Media Industry (China), 2014 – 2023E



Web films are defined as films distributed through the internet and only broadcast online. Different from traditional films, web films tend to have a wide variety of topics, more flexible production schedules, and usually lower production costs. The total number of new web films has witnessed significant growth in the past from 450 in 2014 to 1,523 in 2018, representing a CAGR of 35.6%. The number peaked at 2,463 in 2016, and then declined gradually as a result of online video platforms tending to focus more on quality rather than quantity so as to achieve higher income per web film. In addition, after February 15, 2019, new web films with a total investment of over RMB1 million are required to register with NRTA and only those who are granted a record-filing number could be broadcasted after completion. Such new rules have had an extensive influence on the number of new web films in 2019, resulting in a decrease in 2019.

TV series production in China

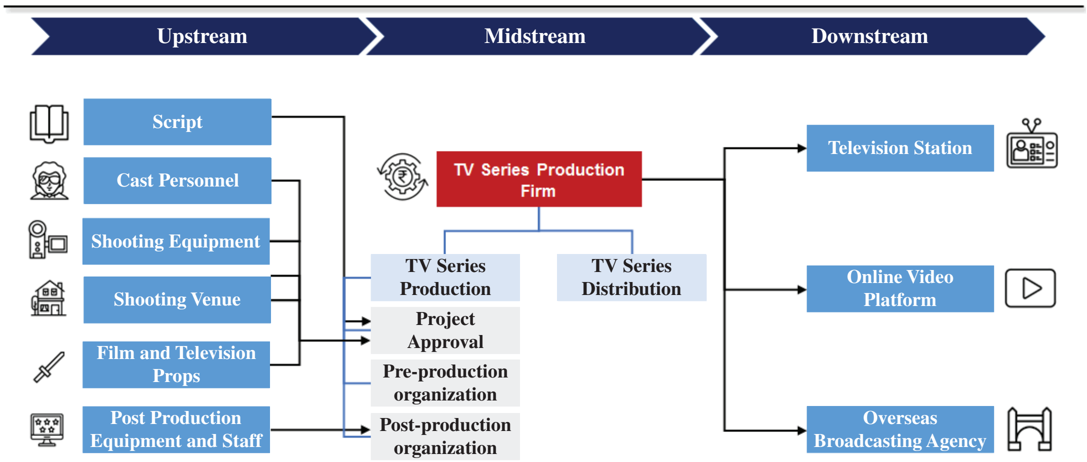
The total revenue of TV series refers to the revenue generated from licensing fees from TV stations and online video platforms. TV stations and online video platforms see TV series as an important method to attract viewers. TV stations broadcast popular TV series during prime time, while online video platforms put popular TV series at the most eye-catching locations on their websites or mobile applications.

Value chain

Many players participate in the production of a TV series. TV series production companies seek services of scriptwriters, directors, actors, suppliers of original copyrighted stories and photography equipment to produce a TV series. Many post-production firms also assist in fine-tuning final products that are then further distributed to TV stations and internet video platforms before finally reaching the viewing audience. It is notable that online video platforms have become a substantial distribution channel due to their rapidly growing audience base.

Set out below is a chart demonstrating the value chain of TV series market in China:

Value Chain of TV Series Market (China)



Market size

TV series refer to scripted episodes that obtain the License for Distribution of TV Series (電視劇發行許可證) including those released on TV stations and/or new media channels, while web series refers to scripted episodes released only over the internet. Having enjoyed more relaxed governmental approval policies than those of TV series, the total episodes of web series in China increased from 2,358 episodes in 2014 to 4,145 episodes in 2018, representing a CAGR of 15.1%. With the growing popularity of web series, the approval requirements of web series are expected to become stricter, and the total episodes of web series are expected to have a CAGR of 6.9% for 2018 to 2023. We had a total of 231 episodes broadcasted in 2019, representing approximately 1.0% of the total episodes broadcasted in China for the same year.

China's TV series market has been undergoing an evolution based on the Chinese government's imperative on improving the quality of domestic TV series. According to the NRTA, there were 18,728 TV series production firms as of the end of 2018. The market has stepped into a development phase where quality improvements outstrip the increase in quantity.

Total revenue from TV series increased largely from RMB15.6 billion in 2014 to RMB26.1 billion in 2018, representing a CAGR of 13.8% during the period. The increase in total revenue from the TV series market was mainly due to an increase in the average selling price ("**ASP**") per episode, which grew from RMB1.0 million per episode in 2014 to RMB1.9 million per episode in 2018, representing a CAGR of 18.2%.

Competition

Market participants diverge on their strategies of production. Some focus on volume, while others emphasize quality and make sure each release will be well received by customers and viewers. It is generally considered to be a bestselling TV series if (i) viewer ratings (收視率) are equal to or above 1.0%; or (ii) total view counts (播放量) equal to or above 5.0 billion across all online video platforms in a single year. In 2017, 2018, and the first half of 2019, 37, 22 and 16 TV series released met such standard and are taken as the bestselling series by the market. Among the total of 38 bestselling TV series released between January 1, 2018 and June 30, 2019, the top market leader produced 4 of them. The following chart illustrates the ranking of the top five market players in terms of the number and episodes of bestselling TV series produced in China between January 1, 2018 and June 30, 2019.

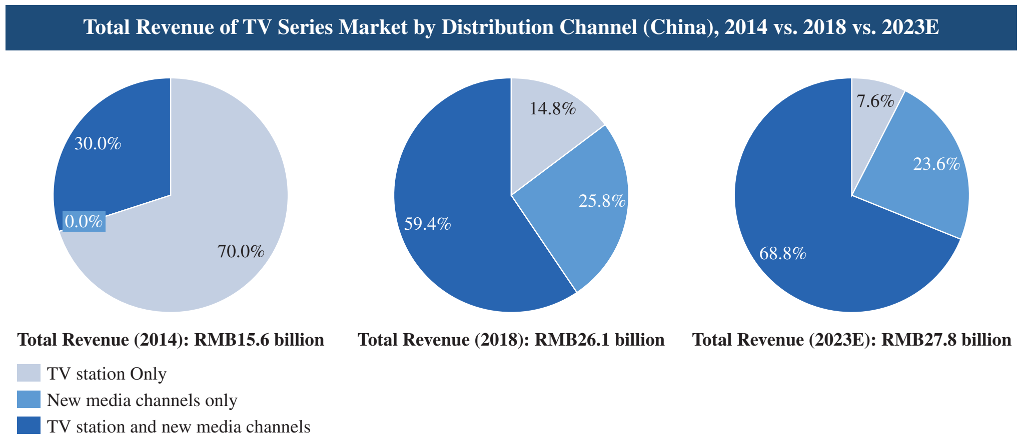
Top 5 Producers of Bestselling TV Series Market (China), 2018 – 2019 1H

Ranking	TV Series Group	Identity and Background	Number of Bestselling TV Series	Episode of Bestselling TV Series
1	Group A	A listed company focuses on TV series, web series, TV shows, films, web game, and artists agency.	4	241
2	Group B	A listed company focuses on TV series, web series, cartoons, films, web game, and books selling.	4	222
3	Group C	A private company focuses on TV series, web series, and films.	3	171
4	**Our Group**	**A comprehensive media group, building on the core business of TV/film production and media and arts higher education.**	**3**	**169**
5	Group D	A listed company focuses on TV series and web series, and films.	2	113
	Top 5		**16**	**916**
	Total		**38**	**1,979**

Market size by distribution channel

TV stations had enjoyed a dominant role as a traditional distribution channel of TV series, and accounted for 70.0% of the total revenue of TV series market in 2014. With the rising popularity of new media channels such as the internet and mobile internet, broadcasting via TV station together with internet and mobile internet (網台聯播) has become the main distribution channel of TV series in 2018, accounting for 59.4% of all distribution channels. Such trend is expected to remain in the forecast period.

For the forecast period, it is believed that broadcasting through both TV station and new media channels is expected to be the major distribution channel for TV series, representing a market share of 68.8% in 2023.



Source: NRTA, Frost & Sullivan

Market drivers

The development of TV series production in China is driven by the following factors:

- *Increasing demand for quality TV series*. TV series have been an important leisure-time activity for Chinese people for a long period of time. Both TV stations and online video platforms rely on quality TV series to attract viewers. As the advertising revenues for TV stations and online video platforms are growing, the demand for quality TV series is also increasing.

- *Enriched resources for creation*. The rapid development of the internet and new media has significantly encouraged the creation of intellectual properties ("**IP**"), which provides TV series producers with rich source materials. The enriched resources for creation have injected great impetus to the development of the TV series production industry.

- *Increasing penetration of new media channels*. Online video platforms, in the form of PC websites and mobile applications, have emerged as a new way for audiences to consume visual contents, including TV series. The increasing penetration of this new customer category has contributed to the recent revenue increase of the TV series production industry and is expected to drive further growth onwards.

- *Large capital investment*. The influx of significant capital is another market driver of the TV series production industry in China. Many internet companies such as Alibaba, Tencent and Baidu have established operation and distribution channels. In addition, financial investors including private equity funds and venture capital funds are also actively involved in this field.

Entry barriers

According to the Frost & Sullivan Report, the TV series production industry has fairly high entry barriers. Specific entry barriers include:

- *Capital requirements*. TV series production companies need to have a solid capital base. A large amount of capital is needed to cover various expenses such as purchasing copyrights and labor costs, which imposes an entry barrier for new entrants to the TV series production market.

- *Professionals*. The production process for a TV series involves numerous professionals with expertize in different sectors such as directors, actors, photographers, publication teams and other staff members. It takes years for a company and its employees to get familiarized with the production process, and industry professionals usually maintain long-term cooperation relationships with certain partners.

- *Brand attractions*. Leveraging on their strong financial strength and brand value, these market players are better positioned to attract high quality actors as well as production and publication teams.

- *Administrative regulations*. TV series production and publication is under strict supervision by relevant administrations. The Chinese government has formulated a series of detailed regulations, including the Provisions on Administrations of TV Series (《電視劇管理規定》), which have specific legal requirements on the content production and publications.

Future outlook

The future trend of the TV series market and web series/film market in China is set out below:

- *Increasingly strict regulations and policies*. The approval regime for TV series and web series/film is becoming increasingly strict. For example, the Notice about Upgrading the Information Record-Filing System of Internet Audio-visual Programs (關於網絡視聽節目信息備案系統升級的通知) promulgated by NRTA stipulates that after February 15, 2019, for web series whose investment amount exceeds RMB5 million and web films whose investment amount exceeds RMB1 million, production companies shall register the key information such as type and content with NRTA's record-filing system. Upon completion of production, the production companies shall submit the master tape to NRTA or its provincial counterparts. Record-filing numbers will be issued to approved web series and only those with the record-filing numbers are allowed to be broadcasted. Under such circumstances, the TV series and web series/film market will become more and more regulated in the future.

- *Distribution on both traditional channels and new media channels*. In light of the increasing popularity of the internet, more people have adopted the habit of using new media channels to access visual entertainment such as movies and TV series. To cater for the rising demand for high-quality content, the leading online video platforms have been devoted to providing various high-quality contents as to increase their own market competitiveness. As a result, an increasing number of TV series and films are expected to be distributed on new media channels to reach a wider range of audience while continuing to be distributed on traditional platforms such as TV stations and cinemas. Moreover, there is also a trend that an increasing number of web films is going to be screened in offline cinemas. This gives the audience the opportunity to more conveniently access such content, as they will no longer be restricted by the rigid broadcasting schedules usually found on TV stations and cinemas.

- *Increasing export of domestic TV series.* Along with the promotion of Chinese cultural influence around the world and improving production standards for TV series, the overseas distribution channels of China's TV series continue to expand in terms of the quantity of products and transaction value in recent years. On many overseas online video platforms, the impacts of Chinese TV series improved remarkably, leading to a profit generation through copyright sales and on-demand cuts. Considering the promotion of production technology and innovations on TV series export related to the establishment of overseas localized China TV channels, the export of domestic TV series will be accelerated.

MEDIA AND ARTS HIGHER EDUCATION IN CHINA

Overview of higher education in China

The education industry in China can be generally divided into a number of categories, including fundamental education (also known as K-12 education) and higher education. It can also be categorized into formal education, where students aim to earn official certificates from the Chinese government, and non-formal education, where students attend for various reasons, including as a supplement to formal education, school entrance exam preparation or to cultivate and improve skills.

Higher education in China can be further categorized into public higher education and private higher education. Public higher educational institutions are established and operated by national or local governments, while private higher educational institutions are established and operated by non-governmental institutions or private individuals. There are three types of private higher educational institutions in China, namely private universities, private junior colleges and independent colleges. Independent colleges are private higher educational institutions offering undergraduate courses that are run by non-governmental institutions or private individuals through cooperation with public universities.

Despite many common characteristics, it is important to stress that private and public higher educational institutions are quite different in many dimensions, such as flexibility of operation, diversity of their curricula offering and current development stage. Public higher educational institutions are under the direct administration of the MOE or other government departments, while private institutions usually enjoy more flexibility in areas such as administration, operation and direction of development; public higher educational institutions usually offer a routine-based curricula as they are strictly governed by the MOE, while private higher educational institutions offer more diverse curricular. Additionally, because tuition fee is the primary revenue source of private institutions, they are more competitive and lay more emphasis on branding and education quality than public higher educational institutions whose major source of funding comes from national or regional public expenditure on education. Besides, due to private institutions' growing teaching capability and students' increasing willingness to attend private institutions, the market of private higher education is forecast to develop at a pace higher than that of public higher education.

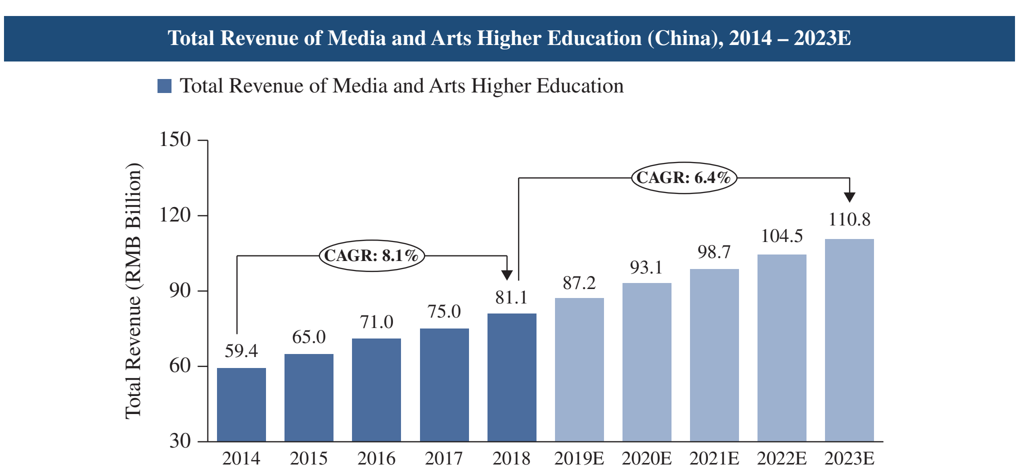
According to Frost & Sullivan, the total revenue of the private higher education industry in China has been increasing steadily from RMB82.9 billion in 2014 to RMB118.0 billion in 2018, representing a CAGR of 9.2%, and is expected to increase to RMB163.7 billion in 2023, representing a CAGR of 6.8%. In 2018, the total revenue of the private higher education industry in China accounted for 9.8% of that of the higher education industry in China.

Overview of media and arts higher education in China

Higher education can also be divided based on the subjects taught, for example liberal arts, professional schools (e.g., law schools and medical schools), foreign languages as well as media and arts. The media and arts higher education industry includes education on aesthetics, music and dance, drama and film, visual arts and design, according to the Major List of Undergraduate Education at Regular Higher Educational Institutions (2012 revision) announced by the MOE of China. Media and arts higher education are provided by media and arts higher educational institutions as well as other institutions such as comprehensive universities that offer a wide range of graduate and undergraduate programs.

Higher education for media and arts subjects is differentiated from other subject education in the following aspects (i) students in media and arts majors generally are required to take art entrance exams to test their professional skills in addition to standard academic university entrance exams, (ii) media and arts courses are usually taught in small classes, which requires a higher teacher-to-student ratio, and (iii) potential employers for graduates in media and arts majors are mainly those in media industries, such as TV stations, newspapers, TV and film production firms and talent agents.

The media and arts education industry has experienced rapid growth since the 2000s. According to the Frost and Sullivan Report, total revenues generated by the media and arts higher education industry in China were RMB81.1 billion in 2018, compared to RMB59.4 billion in 2014, representing a CAGR of approximately 8.1%; and are expected to increase further to RMB110.8 billion in 2023, representing a CAGR of approximately 6.4%. The chart below shows the growth of total revenue of media and arts higher education from 2014 to 2018 as well as the forecast for 2019 to 2023.



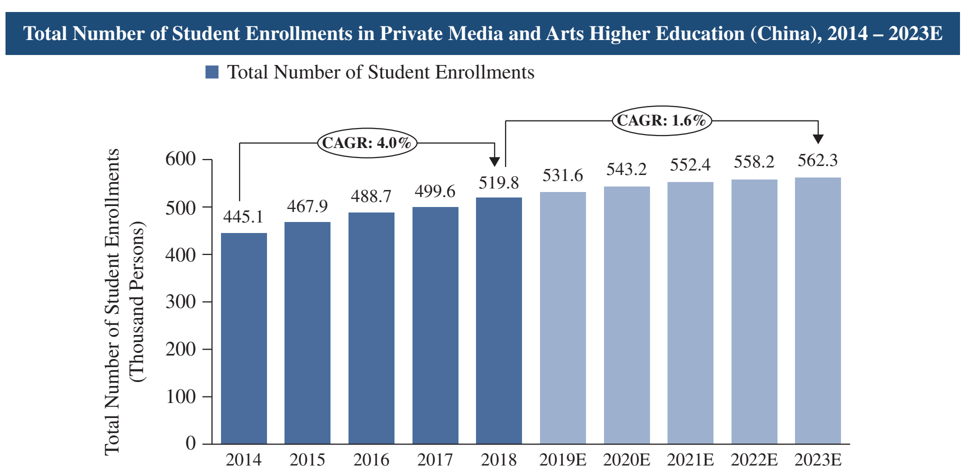
Source: MOE, Frost & Sullivan

Private media and arts higher education in China

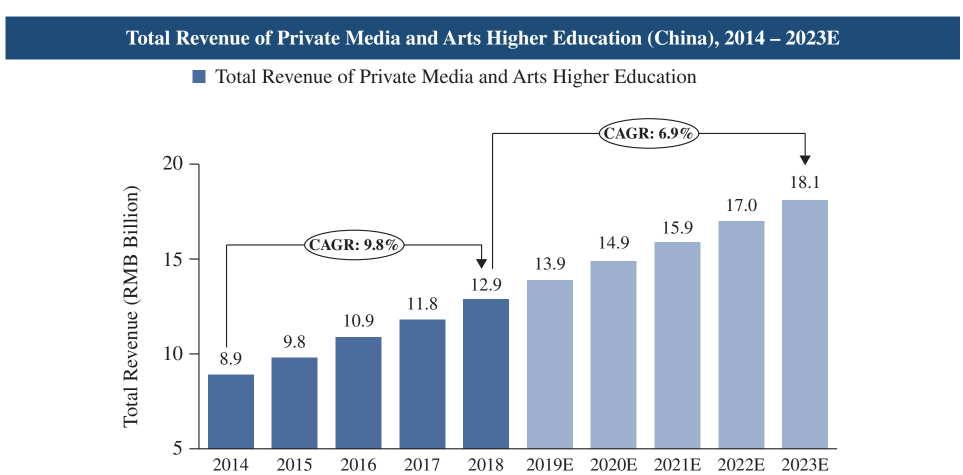
The Chinese government started to allow private higher education in the early 1980s. In response to rapid growth of demand for media and arts graduates and the shortfall in state funds in the late 1990s and early 2000s, private capital started to invest into private media and arts higher education in China in the early 2000s. Compared to public schools, private higher educational institutions specializing in media and arts education rely more heavily on tuition fees and boarding fees as their revenue sources rather than financial support from the government; they usually offer more diverse and more flexible curricula as well as more internship opportunities that cater to the rapidly evolving job markets and industry trends, and have more independence in terms of school management and development.

Market size

Private media and arts higher education has grown rapidly in recent years. According to the Frost & Sullivan Report, total students enrolled in private media and arts higher education grew from 445,100 to 519,800 from 2014 to 2018, and total revenues grew from RMB8.9 billion to RMB12.9 billion in the same periods, representing CAGRs of 4.0% and 9.8%, respectively. This growing trend is expected to continue. According to the Frost & Sullivan Report, total student enrollment and total revenue for private media and arts higher education are expected to reach 562,300 and RMB18.1 billion in 2023, respectively. The following charts illustrate the growing trend of private media and arts higher education from 2014 to 2018 as well as the forecast for 2019 to 2023 in terms of student enrollment and total revenue.



Source: MOE, Frost & Sullivan



Source: MOE, Frost & Sullivan

According to the Frost & Sullivan Report, the penetration rate of private media and arts higher education – which is calculated by dividing the students enrolled in private media and arts higher education by the students in media and arts majors enrolled in both public or private higher educational institutions – increased from 22.9% in 2014 to 23.2% in 2018, and is expected to reach 23.6% in 2023.

Private higher education in media and arts is the premium segment within the higher education industry in China in terms of comparably higher tuition fees. According to the Frost & Sullivan Report, for the school year 2018/2019, the average tuition and miscellaneous fees for students enrolled in private media and arts higher educational institutions in China was RMB19,029 per student, compared to RMB9,703 per student in public media and arts higher educational institutions and RMB13,530 per student for general private higher educational institutions in China.

Market drivers

The development of private media and arts higher education in China is primarily driven by the following forces:

- *Demand for talent and media and arts professionals*. China's mass media and entertainment industry has been rapidly growing, thanks to the increasing per capita expenditure on culture and leisure activities. This trend in turn creates an increasing demand for talent in the media and entertainment industry. Public education on media and arts, however, still maintains a stable and relatively limited supply of students catering to this demand. Private education of media and arts thus plays an important role in filling the gap of the increasing demand and conservative supply by public education.

- *Technological development and media evolution*. The media and entertainment industry in China is also evolving rapidly in terms of technology and trends. For example, it has witnessed a rapid transformation in viewing habits from live broadcasting on TV to broadcasting over the internet during the past few years. Public education, however, is generally slow to update its curriculum and education in the face of such changing industry landscape. Private higher education on media and arts is therefore expected to benefit by more quickly adapting to the evolving environment of technology and formats of media.

- *Change in social perception*. Traditionally, Chinese families place more emphasis on the study of liberal arts and sciences than in arts. As society changes, an increasing population is seeing education in arts as a way to build better selves as well as lead a prosperous career. As a result, more families are starting to have their kids study music, dance, performance or other categories of arts, and many of these children may grow to study media and arts majors in universities.

- *Increasing acceptance for private higher education.* Historically, public higher education in China has been regarded as a symbol of quality education and strong recognition in the job market. With favorable government policies and resource integration by private education groups, the quality of private higher education has continuously improved and its level of specialization has been steadily increasing. In particular, the leading private higher educational institutions have been developing rapidly and have built up their brand recognition, which signified the latest upgrade of China's private higher education market and raised the acceptance of private higher education. As a result, more students are attracted to consider private higher education which fuels the continued growth of the market.

Competitive landscape

According to the Frost & Sullivan Report, the private media and arts higher education in China is fragmented, with the top five players accounting for approximately 13.9% of total students enrollments. With a total number of 12,697 students enrolled in media and arts related majors in our University in school year 2018/2019, we were the second largest provider of private media and arts education in China, among all 749 private higher educational institutions. Even when putting into the larger pool to compare with all 2,663 public and private higher educational institutions in China, we still ranked the fourth. The following chart illustrates the market concentration and the ranking of the top five market players providing private media and arts higher education in China during the 2018/2019 school year:

Top five players in China's private media and arts higher education by student enrollments in the 2018/2019 school year

Rank	Players	Background	Students enrolled in media and arts (thousands)	Market share
1	School A	A private university headquartered in Chengdu, Sichuan mainly providing media and art education since 1997	24.2	4.7%
2	Our University	–	12.7	2.4%
3	School B	A private university headquartered in Shijiazhuang, Hebei mainly providing media and art education since 2000	11.9	2.3%
4	School C	A private university headquartered in Changchun, Jilin mainly providing media and art education since 2000	11.8	2.3%
5	School D	A private university headquartered in Mianyang, Sichuan mainly providing media and art education since 2001	11.4	2.2%
	Top 5 subtotal		**72.0**	**13.9%**
	Total		**519.8**	**100.0%**

When ranked by more comprehensive criteria, including hardware investment, facilities, teaching quality, faculty, academic competitiveness and reputation, our University was named the best private arts independent college in China from 2016 to 2020, according to China Universities Alumni Association.

Entry barriers

According to the Frost & Sullivan Report, the private media and arts higher education industry has fairly high entry barriers. Specific entry barriers include:

- *Governmental approvals*. Approvals from relevant governmental authorities are required to establish a private university in China, and applications are subject to various rigorous standards set out by local and central governments.

- *Brand awareness*. Students and their parents take the brand of a higher educational institution as a very important, if not the most important, factor when determining which university to apply to; and brand awareness is in turn dependent on many factors, including high graduate employment rates and excellent alumni; this all takes years to build.

- *Quality teachers and school management*. As media and arts higher education are considered practical fields, universities offering media and arts education intend to recruit teachers with a wealth of industry experience and connections this is difficult for new entrants to develop.

- *Land resource and facilities.* Higher educational institutions need to occupy vast pieces of land and numerous buildings to house their facilities; under the current high land price and tight supply, it is hard for new entrants to secure sufficient land and facility resources for launching a new university.

OVERVIEW

We are a media group, built on twin pillars of a leading TV/film production business and a higher education business focused on media and arts. Mr. Pu, our Chairman, executive Director and Controlling Shareholder, is the founder of our Group. He has 30 years of experience in the TV/film production industry in China. See "Directors and senior management" for details.

Our history can be traced back to 1998, with Mr. Pu's involvement in *Movie and TV Shows* (影視同期聲). This aired in 1999, featured reviews and exclusive coverage on film and TV series in the PRC, and was broadcasted nationwide on a daily basis in the PRC. Our Group's TV program production business formally commenced in 2001 when Mr. Pu established Huaxia Online, one of the first private TV program production companies in China, using his personal finances. On December 27, 2005, Huaxia Audio-Visual was established and became the major operating entity for our Group's TV/film production business. Our Group has since become one of the leading TV series producers in China. As of December 31, 2019, we had produced or co-produced 33 TV series comprising 1,279 episodes across various genres.

Leveraging on our experience in the media sector, we expanded into the media and arts higher education business on June 11, 2004 when we obtained approval from the MOE to establish CUCN, an independent college, under the then name Beijing Broadcasting Institute, Nanjing (北京廣播學院南廣學院). Our Group funded the establishment of CUCN through Nanjing Meiya with capital provided by Mr. Pu. Since CUCN's establishment, Nanjing Meiya has been a sponsor of CUCN and the sole investor of CUCN. Since CUCN commenced operations, it has grown into one of the largest universities in the PRC to focus on offering a range of media and arts degree courses, including broadcasting, radio and television journalism and art and design.

Key business milestones

The following is a summary of our Group's key business development milestones:

Year	Event
1999	Our first TV program, *Movies and TV Shows (影視同期聲)*, was aired in the PRC
2000, 2002 and 2003	*Movies and TV Shows (影視同期聲)* won the Star Award (星光獎) granted by SARFT three times
2003	*The Legend of the Condor Heroes (射雕英雄傳)*, our first TV series, was aired and won the Gold Prize for Sina's 2003 Most Popular TV Series
2004	Our University commenced operations
	Demi-Gods and Semi-Devils (天龍八部) was aired and won the Feature TV Series Excellence Award (長篇連續劇(優秀獎)) at the 22nd China TV Golden Eagle Awards (中國電視金鷹獎)
2005	Huaxia Audio-Visual was established in the PRC

Year	Event
2007	*Moment in Peking (京華煙雲)* was nominated for Outstanding TV series at the 26th Flying Apsaras Award in the PRC
2012	We entered the film production industry with our investment in the PRC film *One Night Surprise (一夜驚喜)*
2015	CUCN was awarded as the Top 10 National Independent College (全國獨立學院十強) in the PRC and ranked the first among national independent art colleges by the Chinese Universities Alumni Association
	In the Employment Competitiveness Index (就業競爭力指數), CUCN graduates ranked first among all independent colleges in Jiangsu Province, the PRC for the sixth consecutive year (namely from 2010 to 2015)
2017	We established an e-sports college within CUCN and began offering the first e-sports-related degrees in the PRC
	We jointly-established a Content Research and Innovation Center with iQiyi
2019	CUCN was recognized for First-class Undergraduate Education (一流本科專業) in Broadcasting and Hosting (播音與主持藝術) and TV Broadcasting Director (廣播電視編導) majors by the Jiangsu Education Department of the PRC
	We began our cooperation with the Emperor Entertainment Group (英皇娛樂集團) in the development of performing arts training, talent enrichment and management, and TV shows

CORPORATE DEVELOPMENT OF OUR GROUP

Major shareholding changes of our Company

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on January 4, 2017, and is the ultimate holding company of our Group. Upon its incorporation, the authorized share capital of our Company was US$50,000 divided into 50,000 ordinary shares with a par value of US$1.00 each. At the time of incorporation, our Company issued one ordinary share with a par value of US$1.00 to Offshore Incorporations (Cayman) Limited, an Independent Third Party, which was subsequently transferred to Cathay Media Holding Inc., an entity directly wholly-owned by Mr. Pu.

On September 5, 2019, each issued and authorized but unissued ordinary share of par value US$1.00 each was subdivided into 100,000 ordinary shares of par value US$0.00001 each. As a result, immediately following this share subdivision, our authorized share capital became US$50,000 divided into 5,000,000,000 shares of par value US$0.00001 each, of which 100,000 ordinary shares of par value US$0.00001 were issued to Cathay Media Holding Inc..

On the same day, to reflect Mr. Pu Yu's 10% ownership in Lanchou Investment Holding Limited ("**Lanchou Investment**"), our Company issued and allotted 45,000,000 ordinary shares of par value US$0.00001 each to Media Fortune Limited (wholly-owned by Mr. Pu Yu) and 1,154,900,000 ordinary shares of par value US$0.00001 each to Cathay Media Holding Inc. (wholly-owned by Mr. Pu). As a result, our Company was held as to 3.75% by Mr. Pu Yu and 96.25% by Mr. Pu. See "– The Reorganization – Restructuring of the shareholding of Nanjing Meiya" for more details.

Our major subsidiaries and operating entities

The principal business activities, date of incorporation and date of commencement of business of each member of our Group that made a material contribution to our track record results are shown below:

Company	Principal business activities	Date of incorporation and commencement of business
CUCN	Provision of media and arts higher education in China	January 31, 2005 and September 1, 2004(1)
Huaxia Audio-Visual	Production and publication of animation, films, and television series	December 27, 2005

Note:

(1) CUCN received the certificate of registration for a privately-run non-enterprise unit on January 31, 2005 and commenced its business (being the date on which classes in CUCN began) on September 1, 2004.

The directors of CUCN between its incorporation and May 2010 were Mr. Pu, Mr. Jiang Hao (江浩), Mr. Zhang Anqiang (章安強), Mr. Liu Jinan (劉繼南), Mr. Gao Fuan (高福安), Mr. Zhang Jingchun (張景春), Mr. Liu Yawen (劉亞文) (until November 2005), Mr. Ding Junjie (丁俊傑) (until April 2006), Mr. Xu Xuefeng (許學峰) (until April 2006), Mr. Zhang Zhuojun (張卓軍) (from November 2005 to November 2006), Mr. Feng Kezhuang (馮克莊) (from April 2006), Mr. Yuan Jun (袁軍) (from April 2006), and Mr. Chen Yinan (陳逸男) (from November 2006).

CUCN obtained a loan of RMB200 million in 2006 to support its establishment, which was guaranteed by Nanjing Jiangning Economic and Technological Development Corporation (南京江寧經濟技術開發總公司).

In February 2008, Mr. Pu was removed as chairman of CUCN, although at the time Nanjing Meiya was one of the two school sponsors of our University and he then indirectly held 51% equity interest in Nanjing Meiya, by an extraordinary board meeting of CUCN. Mr. Jiang Hao replaced Mr. Pu in the position of chairman of CUCN until Mr. Pu returned to the position of chairman of CUCN in February 2011.

CUCN

CUCN received the MOE's approval for establishment as an independent college on March 9, 2004. CUCN commenced its business, being the date on which classes in CUCN began, on September 1, 2004. CUCN began with a registered capital of RMB50 million contributed by Nanjing Meiya. The registered capital of CUCN was increased to RMB100 million on March 14, 2006 and again to RMB150 million on April 29, 2006, in each case as contributed by Nanjing Meiya, reflecting the corresponding increase of registered capital of Nanjing Meiya from RMB50 million to RMB150 million as described below.

Huaxia Audio-Visual

Huaxia Audio-Visual was established as a limited liability company in the PRC on December 27, 2005 with a registered capital of RMB5 million contributed as to 90% by Lanchou Investment and 10% by Ms. Shen Wei (沈薇). On July 31, 2006, the registered capital of Huaxia Audio-Visual was increased to RMB20 million, which was contributed as to 95% by Lanchou Investment (transferred to Mr. Pu in October 2011 and Ms. Liu Yawen (劉亞文) in March 2012) and 5% by Ms. Shen Wei. On July 3, 2012, the registered capital of Huaxia Audio-Visual was reduced to RMB5 million, contributed as to 80% by Ms. Liu Yawen and 20% by Ms. Shen Wei. On December 4, 2012, the equity interest of Huaxia Audio-Visual was transferred to Mr. Pu as to 96% and Mr. Pu Yu as to 4%. On November 15, 2013, Huaxia Audio-Visual was changed from a limited liability company to a joint stock company, held by Mr. Pu as to 96% and Mr. Pu Yu as to 4%. On November 21, 2014, Huaxia Audio-Visual issued additional shares to Ms. Li Huisu (李惠素) ("**Ms. Li**"), such that Huaxia Audio-Visual was held as to 87% by Mr. Pu, 4% by Mr. Pu Yu and 9% by Ms. Li. See "History, reorganization and corporate structure – The Reorganization – Restructuring of the shareholding of Huaxia Audio-Visual" for details of further changes to the share capital of Huaxia Audio-Visual occurring after November 2014.

Nanjing Meiya

Nanjing Meiya was at its establishment and remains a school sponsor of our University, and has solely contributed the registered capital of the University. Nanjing Meiya was established on January 30, 2003 with a registered capital of RMB50 million contributed in equal parts by Mr. Pu and Mr. Zhang Anqiang (章安強). Mr. Pu became acquainted with Mr. Zhang Anqiang in the early 2000s when both were part of the Chinese community in Los Angeles, the United States. In March 2006, the registered capital of Nanjing Meiya was increased to RMB150 million with contribution from Lanchou Investment as to 51%, Mr. Zhang Anqiang as to 10% and Nanjing Jiangyu Construction (Group) Co. Ltd. (南京江宇建設(集團)有限責任公司) ("**Nanjing Jiangyu**"), as to 39%. Mr. Pu was introduced to Nanjing Jiangyu by Mr. Zhang Anqiang. The financial investments of Mr. Zhang Anqiang and Nanjing Jiangyu were beneficial as they provided capital for the establishment and development of the University. Mr. Zhang Anqiang had business experience in Nanjing while Nanjing Jiangyu had experience in construction matters. The 39% interest held by Nanjing Jiangyu was transferred to Lanchou Investment in November 2009 for approximately RMB58.2 million based on investment costs, the 10% interest held by Mr. Zhang Anqiang was transferred to Mr. Wang Rui (holding on behalf of Mr. Pu) in May 2010 for RMB15 million based on investment costs, and a 9% interest held by Lanchou Investment was transferred to Mr. Li Wei (李偉) ("**Mr. Li**") in October 2014 for RMB13.5 million based on Nanjing Meiya's registered capital. As a result of such transfers of equity interests, immediately prior to the Reorganization, Nanjing Meiya was held by Lanchou Investment, Mr. Wang Rui and Mr. Li as to 81%, 10% and 9%, respectively.

Based on retrieved Administration of Industry and Commerce information, the shareholders of Nanjing Jiangyu during the period it was a shareholder of Nanjing Meiya were Jiang Hao (江浩), Zhang Chunhua (張春花), Liu Yong (劉勇), Ding Bosheng (丁伯生), Zhang Yubao (張玉寶), Xia Jing (夏菁), Xia Youbao (夏友保) and Zhang Daogui (張道貴) (together the "**Nanjing Jiangyu Shareholders**"). Based on publicly available information, Nanjing Jiangyu's business scope is industry investment, research and development of new building materials, consulting services, housing leasing and property management. Mr. Zhang Anqiang and Nanjing Jiangyu were direct shareholders of Nanjing Meiya, and accordingly could influence and had involvement in management and operation of Nanjing Meiya at the time. However, Nanjing Meiya was only one of the two school sponsors of our University. Therefore, notwithstanding titular roles, Mr. Zhang Anqiang and Nanjing Jiangyu had no involvement in the actual management and operation of CUCN at the time. Save for (i) their shareholding in Nanjing Meiya and any corresponding interests and involvement in the management and supervision of the business of Nanjing Meiya and its subsidiaries during this period, (ii) Mr. Zhang Anqiang's role as a director of CUCN that continued until February 2011, (iii) Mr. Jiang Hao's role as a director and chairman of CUCN that continued until February 2011, (iv) Mr. Jiang Hao's role as legal representative of CUCN that continued until March 2011, and (v) the shareholding of Mr. Pu, Nanjing Jiangyu and Mr. Zhang Anqiang in AIU Property Co., Ltd. (南京美亞置業有限公司) ("**Meiya Zhiye**") and any corresponding positions and titles in Meiya Zhiye – a company with no substantial operations since its establishment, to the best knowledge of our Directors, Nanjing Jiangyu, the Nanjing Jiangyu Shareholders and Mr. Zhang Anqiang have no past or present relationship (business, financial, employment or otherwise) with our Company, subsidiaries, Directors, Shareholders or senior management, or their respective associates.

Prior cooperation with CUC

Nanjing Meiya and CUC, as school sponsors, had cooperated in the establishment and operation of CUCN as an independent college in 2004 pursuant to a cooperation agreement entered into in 2003 for a contractual cooperation period of 50 years. CUC provided various support and services in operating our University, particularly at its inception and during its nascent stage of development. Many teachers from CUC worked as adjunct professors in our University in the early years of its development and CUC provided and recommended experienced personnel. In light of the continued growth of CUCN and the maturing of its operations and management, CUC, CUCN and Nanjing Meiya re-negotiated the annual fees payable to CUC and entered into further agreements in 2013. Pursuant to the 2003 and 2013 agreements, CUCN paid aggregate licensing fees of RMB40 million for the years 2004 to 2012 and agreed to pay annual licensing fees of RMB15 million and annual service fees of RMB5 million from 2012 to 2017 in return for education related services.

Since the beginning of our cooperation, we have used the 'Communication University of China/中國傳媒大學' brand in our operation of CUCN. The involvement of CUC in the operations and management of CUCN has decreased throughout the life of our University, reflecting the development of our University's own body of staff, teachers and educational resources and the reduced reliance by our University on the support of CUC. Under the 2013 agreements, CUC continued to provide supplemental assistance and support, such as providing teacher and student exchange opportunities and enabling CUCN's teachers and students to remotely access CUC's library and electronic repositories. As CUCN has access to sufficient alternative educational resources, the termination of such supplemental assistance and support is not currently expected to have a detrimental impact on the quality of our education program.

As the operations and management of our University had sufficiently matured and in light of industry policy to encourage independent colleges to convert to private higher education institutions, on July 1, 2019, CUC, CUCN and Nanjing Meiya entered into a termination agreement and agreed a one-off payment of RMB160 million by CUCN and Nanjing Meiya to CUC. The termination agreement was to, among others, end their cooperation and facilitate the change in registration of CUCN from an independent college to a private higher education institution.

Our University officially converted from an independent college to a private higher education institution under the new school name 南京傳媒學院 (Pinyin: Nanjing Chuanmei Xueyuan) in March 2020, and obtained the updated Private School Operating License in May 2020. In addition to industry policies encouraging independent colleges to convert to private higher education institutions, the extent of CUC's assistance and support has decreased throughout the life of our University and is not crucial to the operations of our University, and we have seen widespread acceptance and understanding of the rebranding associated with such conversions in media reports. We therefore do not expect the conversion to have any material negative effects on the attractiveness of our University to prospective students or the operations of our University. For any potential risks involved in CUCN's transition to become a private higher education institution however, see "Risk factors – Risks relating to our business and industries".

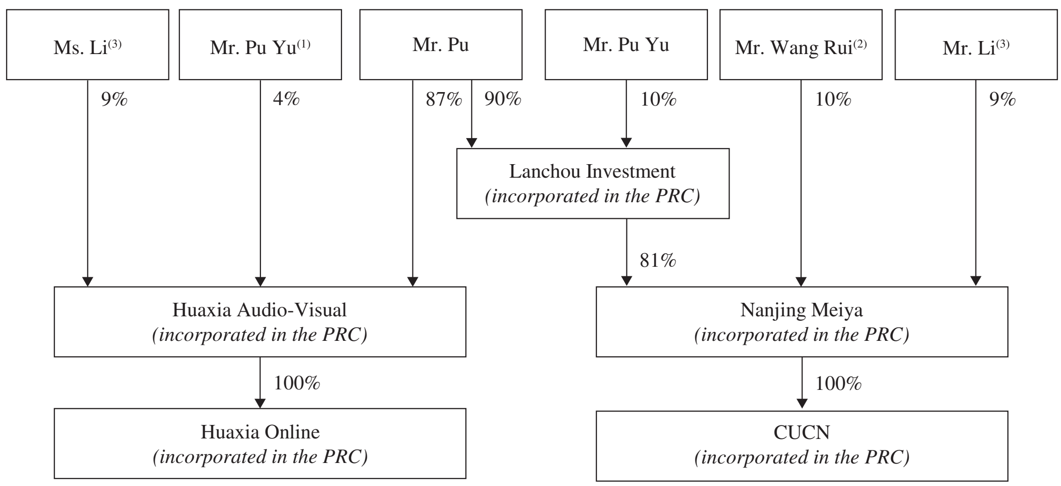
The termination payment was made in July 2019. It is recognized or is expected to be recognized in our financial statements for the respective financial years, as to RMB20 million annual licensing and service fee for 2017, RMB15 million annual licensing fee for each of 2018, 2019 and 2020, and RMB95 million termination fee for 2019. As the extent of CUC's assistance and support has decreased throughout the life of our University and is not crucial to the operations of our University, we do not expect the termination of cooperation to have any material negative effects on the operations of our University.

THE REORGANIZATION

Pre-Reorganization

The principal steps of the Reorganization, carried out in preparation for the Global Offering and in order to streamline our corporate structure, are set out below.

A simplified onshore corporate structure prior to the Reorganization is set out below:



Notes:

(1) Mr. Pu Yu (蒲毓), Mr. Pu's nephew, holds his interest in Huaxia Audio-Visual on behalf of Mr. Pu.
(2) Mr. Wang Rui (王睿) was a director of CUCN and held his interest in Nanjing Meiya on behalf of Mr. Pu.
(3) Mr. Li and Ms. Li are both Independent Third Parties.

Restructuring of the shareholding of Huaxia Audio-Visual

On March 20, 2018, the registered capital of Huaxia Audio-Visual was increased by RMB55,785,437, from RMB5,517,241 to RMB61,302,678. This additional capital was contributed by Khorgas Anjia Film Culture Media Co., Ltd. (霍爾果斯安佳影視文化傳媒有限公司) ("**Anjia Film**"), an investment-holding company owned by Mr. Pu as to 99% and by Mr. Liu Chang (劉暢) as to 1%. As a result of the capital injection, Huaxia Audio-Visual was held by Anjia Film, Mr. Pu, Mr. Pu Yu and Ms. Li as to 91%, 7.83%, 0.36% and 0.81%, respectively.

Prior to the Reorganization, Mr. Pu agreed that Ms. Li's effective interest in Huaxia Audio-Visual would not be diluted and no additional capital contribution from Ms. Li would be required. Therefore, Mr. Pu and Mr. Pu Yu executed irrevocable gift and undertakings in favor of Ms. Li and notified the same to the board of Huaxia Audio-Visual. Pursuant to the irrevocable undertakings, Mr. Pu and Mr. Pu Yu agreed to transfer their aggregate 8.19% directly held interest in Huaxia Audio-Visual to Ms. Li for nil consideration upon her acceptance of this gift. Until the time of such transfer, dividends and voting rights in respect of such interest are reserved for Ms. Li and will not be given to or exercised by Mr. Pu or Mr. Pu Yu. The irrevocable undertakings dated March 20, 2018 were executed to prevent dilution resulting from the same day increase of registered capital and ensure that, upon completion of the transfer, Ms. Li's equity interest in Huaxia Audio-Visual would remain at 9%.

On July 16, 2019, Anjia Film transferred its 91% equity interest in Huaxia Audio-Visual for nil consideration to Dongyang Huaxia, a company owned by Mr. Pu as to 99% and by Mr. Liu Chang as to 1%. The registration of the transfer was completed on July 24, 2019.

Restructuring of the shareholding of Nanjing Meiya

On January 13, 2017, Mr. Wang Rui (王睿), a nominee shareholder of Mr. Pu, withdrew his registered capital contribution in Nanjing Meiya, and subsequently on January 17, 2017, Lanchou Investment proportionally increased its registered capital contribution in Nanjing Meiya in order to unwind the trust arrangement. As a result, Nanjing Meiya was held by Lanchou Investment as to 91% and Mr. Li as to 9%.

On November 15, 2017, Nanjing Lanchou, an investment-holding company wholly-owned by Mr. Pu, made a RMB136.5 million contribution to the registered capital of Nanjing Meiya, and subsequently on February 1, 2018, Lanchou Investment withdrew its RMB136.5 million registered capital contribution in Nanjing Meiya in order to effectively transfer Mr. Pu's interest in Nanjing Meiya from Lanchou Investment to Nanjing Lanchou. As a result, Nanjing Meiya was held by Nanjing Lanchou as to 91% and Mr. Li as to 9%.

In order to reflect Mr. Pu Yu's 10% ownership in Lanchou Investment, our Company issued and allotted shares to Mr. Pu Yu's wholly-owned company in September 2019. See "– Corporate development of our Group – Major shareholding changes of our Company" for more details. Mr. Pu Yu has no intention to take any directorship and/or management role in our Group and continues to pursue other personal business interests.

Establishing WFOE-Production and WFOE-Education in the PRC

On August 15, 2019, Cathay Media HK established WFOE-Production, a company established in the PRC with limited liability, with a registered share capital of RMB10 million wholly-contributed by Cathay Media HK.

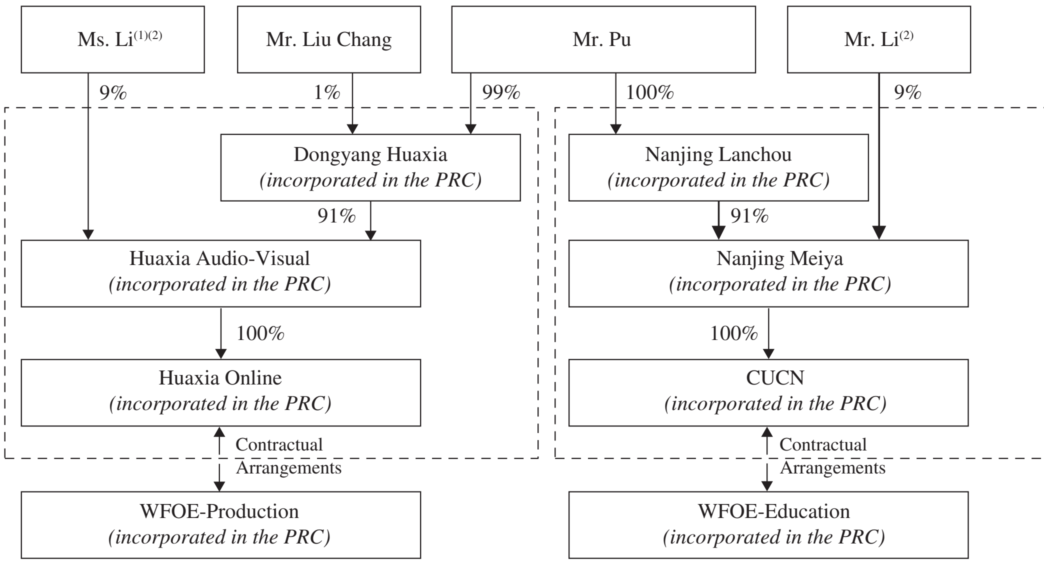
On July 29, 2019, Cathay Media HK established WFOE-Education, a company established in the PRC with limited liability, with a registered share capital of RMB10 million wholly-contributed by Cathay Media HK.

Entering into of the Contractual Arrangements

In order to capture 100% of the economic benefits of Dongyang Huaxia and Nanjing Lanchou and to capture 91% of the economic benefits of Huaxia Audio-Visual, Huaxia Online, Nanjing Meiya and CUCN, we entered into the Contractual Arrangements. See "Contractual Arrangements" for more details. Ms. Li and Mr. Li will continue to hold an effective 9% equity interest in Huaxia Audio-Visual and Nanjing Meiya, respectively.

Post-Reorganization

A simplified onshore corporate structure after the completion of the Reorganization is set out below:



Notes:

(1) Ms. Li directly holds 0.81% and is interested in a further 8.19% (currently in the name of Mr. Pu and Mr. Pu Yu) by virtue of the irrevocable gift and undertakings to transfer this interest to Ms. Li as described under "– The Reorganization – Restructuring the shareholding of Huaxia Audio-Visual".

(2) Mr. Li and Ms. Li are both Independent Third Parties. The minority shareholders of Huaxia Audio-Visual and Nanjing Meiya (i) do not pose a threat to the effectiveness or control of our Group on Huaxia Audio-Visual and Nanjing Meiya, (ii) do not have any special rights under the constitutional documents or shareholders agreement of Huaxia Audio-Visual and Nanjing Meiya that would enable them to veto the decisions of the controlling shareholders, and (iii) do not have any influence over the Controlling Shareholders.

COMPLIANCE WITH PRC LAWS

Reorganization

Our PRC Legal Adviser confirmed that: (i) all necessary regulatory approvals, permits and licenses required under PRC Laws in relation to the Reorganization have been obtained; and (ii) all share transfers and changes in registered capital as part of the Reorganization has complied with all applicable PRC Laws in all material respects.

CSRC approval

According to the Regulations on Merger with and Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (the "**M&A Rules**") jointly issued by the MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the SAT, the SAIC (currently known as the State Administration for Market Regulation), CSRC and SAFE on August 8, 2006, effective as of September 8, 2006 and amended on June 22, 2009 by MOFCOM, a foreign investor is required to obtain necessary approvals when it:

(i) acquires the equity of a domestic non-foreign invested enterprise so as to convert the domestic enterprise into a foreign-invested enterprise;

(ii) subscribes the increased capital of a domestic non-foreign invested enterprise so as to convert the domestic enterprise into a foreign-invested enterprise;

(iii) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets; or

(iv) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise (collectively, the "**Regulated Activities**").

Given that (i) the WFOEs were established as wholly foreign-owned enterprises by means of direct investment rather than by merger or acquisition by our Company under the M&A Rules, and (ii) no Regulated Activities were involved in the Reorganization under the M&A Rules, as advised by our PRC Legal Adviser, the establishment of the WFOEs and the Reorganization are not subject to the M&A Rules, and the Global Offering of our Company does not require approvals from the CSRC and MOFCOM under the M&A Rules.

SAFE registration in the PRC

Pursuant to the Circular of the SAFE on Foreign Exchange Administration of Overseas Investment and Financing and Round-Trip Investments by Domestic Residents via Special Purpose Vehicles (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (the "**SAFE Circular 37**"), promulgated by SAFE and which became effective on July 4, 2014:

(a) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (the "**Overseas SPV**") that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing; and

(b) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other changes, a change of the Overseas SPV's PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV's capital, share transfer or swap, and merger or division.

Pursuant to SAFE Circular 37, failure to comply with these registration procedures may result in penalties.

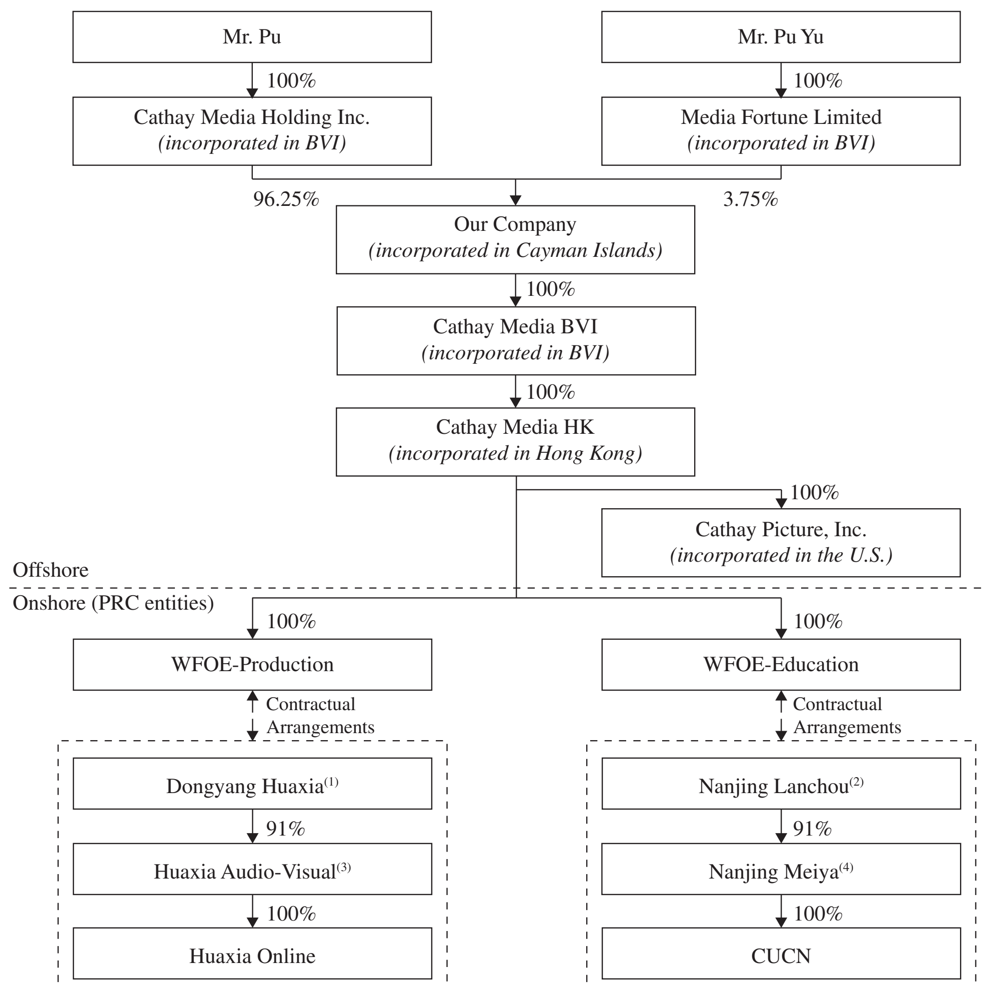
Pursuant to the Circular of the SAFE on Further Simplifying and Improving Policies for the Foreign Exchange Administration on Direct Investment (國家外匯管理局關於進壹步簡化和改進直接投資外匯管理政策的通知), promulgated by SAFE and which became effective on June 1, 2015, the power to accept SAFE registration was delegated from local SAFE to local banks where the assets or interests in the domestic entity was located.

Our PRC Legal Adviser has advised us that Mr. Pu and Mr. Pu Yu, both Chinese residents, have completed their foreign exchange registration of overseas investments as required under the SAFE Circular 37 on October 9, 2017.

CORPORATE STRUCTURE

Corporate structure before the Global Offering

The following diagram illustrates the corporate and shareholding structure of our Group upon completion of the Reorganization and immediately prior to the Global Offering (assuming the Over-allotment Option is not exercised, no Shares are awarded under the Post-IPO Share Award Scheme, and no options are granted under the Post-IPO Share Option Scheme):



Notes:

(1) Dongyang Huaxia is held by Mr. Pu as to 99% and Mr. Liu Chang as to 1%. Mr. Liu Chang is an Independent Third Party.

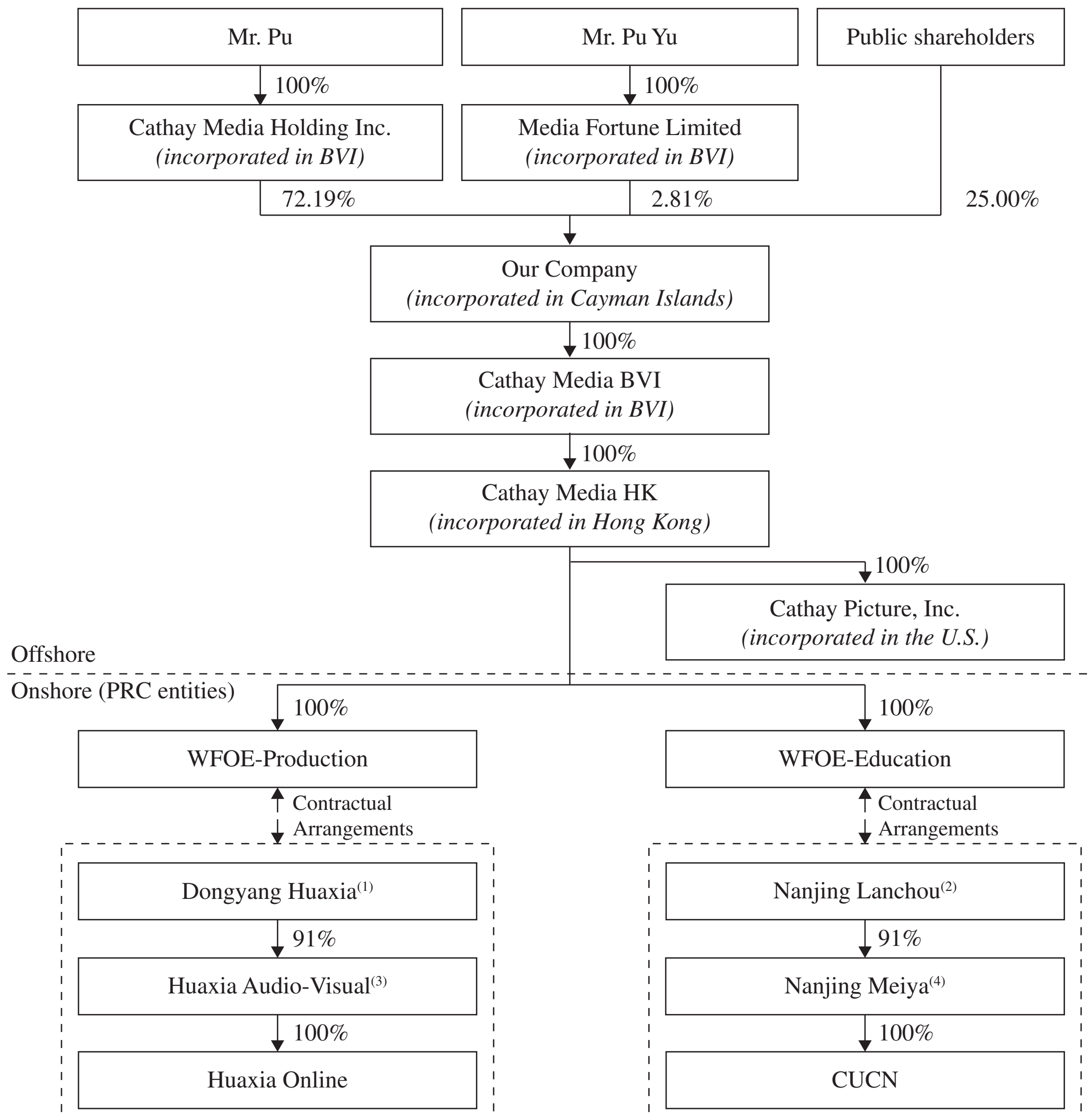
(2) Nanjing Lanchou is wholly-owned by Mr. Pu.

(3) Huaxia Audio-Visual is also held by Ms. Li as to 9%. Ms. Li directly holds 0.81% and is interested in a further 8.19% (currently in the name of Mr. Pu and Mr. Pu Yu) by virtue of the irrevocable gift and undertakings to transfer this interest to Ms. Li as described under "– The Reorganization – Restructuring the shareholding of Huaxia Audio-Visual". Ms. Li is an Independent Third Party.

(4) Nanjing Meiya is also held by Mr. Li as to 9%. Mr. Li is an Independent Third Party.

Corporate structure immediately following the Global Offering

The following diagram illustrates the corporate and shareholding structure of our Group immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised, no Shares are awarded under the Post-IPO Share Award Scheme, and no options are granted under the Post-IPO Share Option Scheme):



See the preceding page for notes (1) to (4).

OVERVIEW

We are a media group, built on twin pillars of a leading TV/film production business and a higher education business focused on media and arts.

We were one of the pioneers in the private TV program production industry in China. TV shows produced by us have enjoyed high popularity and viewership for more than two decades – all our productions during the Track Record Period were ranked no. 1 in viewer ratings in China when first aired. This popularity among viewers across China has translated into good reception of our productions by our customers, major TV stations and online video platforms – for the last ten TV series we produced, all of their initial broadcasting rights were purchased even before we completed the production. Within the Track Record Period, the gross margin for our TV/film production business was 47.2%, as compared to the industry average of 35.0%, according to Frost & Sullivan.

We also operate 南京傳媒學院 (Pinyin: Nanjing Chuanmei Xueyuan, formerly known as Communication University of China, Nanjing), which was ranked first in media and arts independent colleges in China in 2020, according to the Chinese Universities Alumni Association. With 12,697 students enrolled in majors related to media and arts in the school year 2018/2019, our University ranked second among all private higher educational institutions in terms of student enrollments in media and arts related majors in the school year 2018/2019 in China, according to Frost & Sullivan. For the school year 2019/2020, over 63,000 applicants competed for entrance to our University, with only 4.3% finally being admitted.

Our University was founded as a cooperation between Nanjing Meiya and CUC in 2004. In July 2019, Nanjing Meiya and CUCN entered into a termination agreement with CUC and made a one-off payment of RMB160 million to CUC. Our University officially converted from an independent college to a private higher education institution under the new school name 南京傳媒學院 (Pinyin: Nanjing Chuanmei Xueyuan) in March 2020, and obtained the updated Private School Operating License in May 2020. Student enrolment may be affected by the termination of the cooperation agreement with CUC and the resulting name change. See "Risk factors – Risks relating to our business and industries – Our University recently terminated the cooperation agreement with CUC and renamed itself as 南京傳媒學院 (Pinyin: Nanjing Chuanmei Xueyuan). We will face significant uncertainties on student enrollment and employment in connection with the termination of the cooperation with CUC" for details.

We seek to capitalize on our national reputation, deep insights into content creation and the entertainment industry, as well as rich resources in media and arts education to expand our business into new areas. For example, we see high demand for quality training for young talent in the entertainment industry and launched our first *Star Dream* training program in August 2019 to capitalize on this market opportunity. Famous and experienced instructors attached by their previous cooperation with us and our reputation in the entertainment business work side-by-side with experts at our University to deliver tailored training programs for talented performers dreaming of stardom. This 16-day pilot program proved to be exceptionally popular. Within one month about 610 young actors applied in spite of a high training fee of RMB20,800, of which only 30 were admitted.

Our total revenue was RMB556.9 million, RMB368.3 million and RMB747.2 million, and our profit was RMB180.6 million, RMB148.8 million and RMB194.5 million, for 2017, 2018 and 2019, respectively. Our higher education business experienced stable growth over the Track Record Period. The revenue derived from our higher education business increased from RMB256.3 million in 2017 to RMB276.9 million in 2018 and further to RMB311.7 million in 2019. Our TV/film production business, on the other hand, fluctuated during the Track Record Period due to our limited number of productions each year, and unexpected changes in industry policies that delayed our production and delivery. Our TV/film production business generated revenue of RMB300.6 million, RMB91.4 million and RMB435.5 million in 2017, 2018 and 2019, respectively.

INDUSTRY OPPORTUNITIES

The media business is among the fastest-growing industries in China. The total revenue of the media industry in China increased rapidly from RMB1,235.9 billion in 2014 to RMB2,096.0 billion in 2018, representing a CAGR of 14.1%, according to Frost & Sullivan. Within the overall media business, there is an increasingly strong demand for high quality content in China.

In the education sector, the private media and arts higher education industry has experienced rapid growth. In the school year 2018/2019, 1.0 million students competed for 0.6 million places in media and arts higher education in China. Driven by excessive demand for talents and media professionals, private media and arts higher education enjoys a premium tuition fee structure, managing to charge on average RMB19,029 per student in the school year 2018/2019, as compared to RMB13,530 per student for general private higher education in China. Compounded by the growing student body size, the total market size of private media and arts higher education has grown from RMB8.9 billion in 2014 to RMB12.9 billion in 2018, and is expected to grow further to RMB18.1 billion in 2023 according to Frost & Sullivan.

We believe that promising opportunities will continue into the near future, and we, as a media group with strong presence in both content creation and private education, are well positioned to harvest the growth potential.

OUR COMPETITIVE STRENGTHS

Leading TV/film production and media and arts education businesses

We were one of the pioneers in the private TV program production industry in China, having delivered high quality TV shows to audiences in China and abroad for over two decades. The programs produced under our brand Cathay Media (Hua Xia Shi Ting/華夏視聽) have a long-standing reputation for high quality and have consistently achieved high viewership – all our productions during the Track Record Period were ranked no. 1 in viewer ratings in China when they first aired. Our works have also received acclaim from television critics and won numerous accolades. For example, our *Movies and TV Shows (影視同期聲)* won one of the highest national awards, Star Award (星光獎), in 2000, 2002 and 2003, and the TV series *Demi-Gods and Semi-Devils (天龍八部)* won Best Ten TV Series, Best Cinematography, Audience Favorite Actor & Actress in China and TV Golden Eagle Awards (金鷹獎) in 2004, and the TV series *The Heaven Sword and Dragon Saber (倚天屠龍記)* won Outstanding Original Program in 2019. A total of 231 episodes produced by us were broadcasted in 2019, representing approximately 1.0% of the total episodes broadcasted in China for the same year.

Media and arts higher education is another driving force for our Group's continuing success. Established in 2004, our University has quickly grown into a reputable media and arts university, and we were ranked the first among all private media and arts independent college, as recognized by the Chinese Universities Alumni Association for five consecutive years from 2016 to 2020. In addition, our University is also the second largest private sector provider of media and arts higher education in China as measured by student enrollment in media and arts related majors in the school year 2018/2019, according to Frost & Sullivan.

These two cornerstone businesses cooperate with each other closely, and are showing strong synergies. We believe they will further fuel the development of our Group with a virtuous cycle. Our TV/film production business brings us reputation and recognition across the country and helps connect our University with the industry. By leveraging our resources in the TV/film production industry, we introduce industry leaders to join as our faculty and generate a large number of internship and employment opportunities for our students. Our University at the same time also serves as a source for the recruitment of talent and supply of creative content for our TV/film production business. For example, we have established a scriptwriting award in our University to encourage students to convert their innovative ideas into stories, and we benefit from this creative source of story ideas.

Deep trusted cooperation relationship with major online video platforms and TV stations

Delivering high-quality content to the satisfaction of our customers is our highest priority. To this end, we have established a comprehensive cooperation model for content creation. As soon as we develop an idea for a TV series, we start working closely with potential customers, and update them frequently on production progress. Our production team proactively responds to feedback from our customers, for example, in respect of storylines and choice of leading actors. These efforts ensure that our final products are well received by our customers. For the last ten TV series we produced, all of their initial broadcasting rights were purchased even before we completed the production.

Through consistently delivering high-quality content for over two decades, we have successfully built great trust with major TV stations and online broadcasting channels across China. This trust can be demonstrated by our customers' willingness to co-invest in our TV shows. For example, Mango TV invested 41% in *The Gods (封神)* which was aired in 2019 and Tencent invested 50% in *Don't Call Me Jiushen (别叫我酒神)* which has been broadcasted online since June 2020.

Ability and experience to deliver high quality content

We are home to an exceptionally experienced and dedicated internal creative team, led by Mr. Pu, our chairman and a team of seasoned TV producers. We have historically cooperated with top scriptwriters, producers, directors and actors in the industry, which include ZHANG Jizhong (張紀中), ZHAO Baogang (趙寶剛), JIANG Jiajun (蔣家駿), HU Jun (胡軍), HUANG Lei (黃磊), YU Zheng (于正), and Joe CHEN (陳喬恩).

In production, we carefully examine thousands of potential opportunities and make highly selective investments in high return projects amid the fast changing content creation industry. Adaptation from popular novels and plays has been one important successful strategy for us historically. To name a few, *Demi-Gods and Semi-Devils (天龍八部)* in 2003, *Untouchable Lovers (鳳囚凰)* in 2017, and *The Heaven Sword and Dragon Saber (倚天屠龍記)* in 2019 were all adapted from popular novels, all of which recorded top viewer ratings and generated substantial revenues for us. Our current inventory of adaptation rights includes the Emperors

Trilogy by Eryue He (二月河) – *Kangxi Emperor (康熙大帝), Yongzheng Emperor (雍正大帝)* and *Qianlong Emperor (乾隆大帝)*, several popular novels by JIN Yong and the film adaptation rights for all the works of LIANG Xiaosheng (梁曉聲).

While the industry has been enthusiastically rushing to purchase adaptation rights of popular literature, we excel as our visionary content creation team has managed to identify novels before they become national bestsellers, which ultimately lowers our production costs significantly. For instance, we contracted with JIN Yong as early as 2005 to obtain the adaptation right for two of his popular novels, *The Heaven Sword and Dragon Saber (倚天屠龍記)* and *The Legend of the Condor Heroes (射雕英雄傳).*

High quality media and arts curriculum that prepares our students to stand out in the job market

The curriculum of our University is designed to cater to the needs of the evolving media and arts industry. For instance, we established a major in animation in 2004 and another one in game commentating in 2016, which was one of the earliest in the industry and we founded the research center for internet broadcasting in 2016 in cooperation with iQiyi. These market-oriented courses, combined with numerous internship opportunities in collaboration with industry-leaders, equip our students with the ability to excel even when they are still on campus. During the Track Record Period, on average 2,300 students each school year were offered internship opportunities through our internship network.

As a result of our market-oriented curriculum and internship networks that prepare our students to excel professionally, the initial employment rate of our graduates was 92.7% for those graduating in the school year 2016/2017, compared to 78.4% in all higher education institutes in China, according to Frost & Sullivan. For the subsequent school years 2017/2018 and 2018/2019 for which comparable national data is not available, we continued to record initial employment rates as high as 93.0% and 86.2%, respectively. In addition, according to a survey by the College Admissions and Career Guidance Service Center of Jiangsu Province, our University ranked first in employment competitiveness from 2012 to 2015 and first in average starting salary of graduates in 2015, among all private universities in Jiangsu Province.

Experienced University faculty and extensive international cooperation

As of December 31, 2019, we had 706 full-time faculty at our University, with another group of 524 experienced professionals serving as adjuncts. Our faculty are not only experienced and reputable in academia, but also have deep connections to the media industry. The Drama, Film, TV Program Research Center, and the Aerophotography Research Center of our University all demonstrate the commitment of our University and our faculty to combining academic excellence with practical real world needs. Our efforts to recruit leaders in the media industry to educate our students do not stop at academia. As of December 31, 2019, there were 524 adjunct teachers in our faculty team, who on average had 10 years' industry experience.

As of December 31, 2019, our University had exchange or joint degree programs with over 50 universities around the world, including universities in New York, Tokyo, London and Hong Kong. More than 1,000 students have benefitted from these programs and gained international exposure. Additionally, 410 students are currently enrolled in our international preparatory program, which prepares them for overseas studies.

Experienced management team with a long and proven track record

Our founder and Chairman of the Board, Mr. Pu, was a pioneer in the TV industry. Mr. Pu founded Beijing Pushengda Advertising Co., Ltd. (北京普聖達廣告有限公司) in December 1998 and Huaxia Online in December 2001 to invest in TV series production. Mr. Pu from there led Huaxia Online and later Huaxia Audio-Visual to become a TV series production powerhouse in China, having made dozens of highly popular TV shows in the past two decades.

Mr. Yan Xiang received his bachelor's degree in broadcasting in January 1982 from the Beijing Broadcasting Institute (北京廣播學院), the predecessor of CUC. Two years after completing postgraduate studies in journalism from Hebei University (河北大學) in 2004, he joined CUCN as a professor. Mr. Yan has more than 30-years' working experience as broadcaster, advertising manager and producer, as well as around 12 years' management experience in media and arts higher education including as the dean of the broadcasting and art institute of CUCN from October 2007 to October 2016.

We also have a team of seasoned senior and mid-level management, including department directors in Huaxia Audio-Visual, a majority of whom have over 20 years' experience in the TV/film production industry, as well as vice presidents and deans in our University, who are all experienced educators in China. We believe the proven track record of our management team demonstrates its leadership, capability and commitment which will continue to lead us to future successes.

OUR BUSINESS STRATEGIES

We intend to maintain and strengthen our leading position in the TV series production industry and private media and arts university field, and at the same time expand our reach into areas like film production and talent agency to develop into a leading media group. To achieve this goal, we plan to pursue the following strategies:

Continue to produce high quality content

We believe that our Group has developed a distinct identity that customers and audiences associate with high quality and great viewership. We intend to build on this brand recognition by continuing to make high quality TV series that attract a broad audience. Six TV series and two feature web films are in the pipeline and are expected to hit the TV or the Internet in the next two years. Please see "– Products and services – TV/film production – TV series and films under production" for details. Moreover, we plan to further capitalize on our brand recognition as well as our experience and in-depth insights in the content production industry to expand our product genres. We have long been recognized as a leading producer of ancient costume TV series. We intend to go beyond this traditional strength, and explore more opportunities in other genres and from original story ideas in the future.

In addition to traditional TV series and films, we have witnessed rapid growth opportunities in producing content specifically for internet broadcasting, riding the tailwinds of faster internet connections, the increasing popularity of content consumption via internet, comparably less stringent regulatory regime, and more flexible production schedule. Broadcasting channels can also be determined relatively early, normally before the principal photography stage begins, and its profit is not fixed at a total purchase price but is instead related to the number of online views. Currently, with our first web film debuted in June 2020, we are producing and planning to produce in total five web films and two web series.

We also plan to expand our production of TV variety shows, with a new strategy. We will start producing shows on our own, a change from our previous practice of being commissioned by TV stations. We are currently working on an online reality show called *Super Intern (超級實習生)* together with Emperor Entertainment Group (英皇娛樂集團), one of the market leaders in the entertainment industry in the Asia-Pacific region.

Expand the capacity of our University and optimize our pricing to improve profitability

As of the Latest Practicable Date, our University occupied four parcels of land in the PRC with a total gross site area of approximately 705,455 square meters. Given that our current facilities have been reaching full capacity, and the utilization rate of our University was above 95% throughout the Track Record Period. Some of our occupied land is not fully utilized yet, which will allow us to build more dormitories, teaching buildings and other necessary facilities to accommodate additional students in the future and drive further growth of revenues. We started the phase II plan to expand the capacity of our University in January 2019. We plan to invest in aggregate approximately RMB400 million through 2021 to build additional dormitories that can accommodate 4,000 students (and thereby expand our school capacity for student enrollment, which as a boarding university is limited by our accommodation facilities), one gymnasium, and one teaching facility building for our international preparatory programs.

Our average annual tuition fee was RMB15,853 per student for the year ended December 31, 2019, which we believe leaves us with significant potential for tuition increase. Moreover, our highly profitable international preparatory program, which charges from RMB58,000 to RMB78,000 per student annually for the school year 2019/2020, is not subject to enrollment quotas set by the MOE. We plan to further expand this international preparatory program and aim to have 1,200 students in the next three years. We also plan to further expand our 4-year continuing education program in the future.

Explore new growth opportunities

We plan to expand our operations into several areas where we can leverage our brand recognition and our experience and connections in the content creation and arts education industries.

Art-related training programs are of particular interest to us, as we see great market opportunities given the recent strong growth momentum of this industry and the absence of dominant existing players, in the context of the growing size of the Chinese middle class that are willing to pay for art training for their children or themselves, and the impact of the internet celebrity economy that attracts young people into the arts and content creation. Specifically, we are exploring opportunities to launch our own art schools or training programs, as we see great market potential and the possibility to monetize the brand recognition of our Group, and our experience gained from running various featured programs in our University.

While nurturing young people who aspire to develop performing arts careers through our *Star Dream* training program, we also plan to launch a talent agency and management business in cooperation with Emperor Entertainment Group. Once selected, talent will continuously receive ongoing high-level training, resources and opportunities from our Group. We believe, in return, they can actively involve in our new TV shows such as *Super Intern (超級實習生)* and become part of the foundation for our future prosperity.

Continue to improve the education quality of our University

We are constantly endeavoring to improve our course offerings, particularly in our media and arts-related majors. For example, we will expand international cooperation on cartoon creation, including with the most well-known cartoonists Chiba Tetsuya and Himegawa Akira from Japan. We are also introducing top professors from the Russian Academy of Arts to upgrade our Western painting courses. In addition to improving the quality of our faculty, we are working continuously to optimize our curriculum. For instance, we are currently integrating cartoon creation-related courses to our Japanese major curriculum so that graduates will be equipped with linguistic skills as well as specific industry knowledge in cartoon creation to help them occupy a niche position in the job market.

Selectively pursue strategic alliances, investments and acquisitions

We may selectively pursue strategic investments or acquisitions that complement our business, represent a strategic fit and are consistent with our overall growth strategy. These investments could include acquisitions along our service value chain or of other market players that can help realize the economies of scale. We have not identified any specific target for our acquisition, but we intend to focus our search on quality local educators in media and arts that can capitalize on the recognition of our 'Cathay Media' brand and our insight to the industry.

BUSINESS OPERATION

During the Track Record Period, our business operations consisted of the following:

- TV/film production; and
- higher education.

The table below sets forth a breakdown of our revenue by segment during the Track Record Period:

	For the year ended December 31,					
	2017		**2018**		**2019**	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands of RMB, except percentage)					
Segment Revenue:						
TV/film production	300,601	54.0	91,396	24.8	435,529	58.3
Higher education	256,277	46.0	276,922	75.2	311,657	41.7
Total	556,878	100.0	368,318	100.0	747,186	100.0

TV/film production

We commenced producing TV series in 2001, when Huaxia Online produced *The Legend of the Condor Heroes (射雕英雄傳)*. This TV series won the most popular TV series award granted by Sina.com, a leading web portal in China. Since then we have successfully delivered many popular TV series to audiences in China and abroad, including *Demi-Gods and Semi-Devils (天龍八部)*, *The Return of the Condor Heroes (神鵰俠侶)*, and *Four Generations Under One Roof (四世同堂)*.

In addition to the production of TV series, our TV/film production business also includes production of TV variety shows and films. Our TV variety show production operation can be traced back as far as 1999, when Huaxia Online produced *Movies and TV Shows (影視同期聲)*. This program became a long-running classic show in the industry and was aired on a daily basis nationwide for 16 years until 2015. Since 1999, we have delivered many widely-watched shows to audiences in China and abroad. Some of our signature shows include *Movie and TV Show Club (影視俱樂部)*, which was broadcast weekly on CCTV from 1999 to 2015, and *I love Kitchen (我愛廚房)*, which was broadcast weekly on more than 20 TV stations from 2002 to 2006.

Until 2015, we had been commissioned by TV stations to produce TV variety shows. We have determined to switch strategies and now plan to produce TV shows in-house for sale. We believe this new model which is similar to our model for the production of TV series, has the potential to generate a higher profit margin. We are confident that these programs will be well-received by customers based on our established reputation and recognition in the industry as well as our close ties with TV stations and online video platforms. Currently, we are working on *Super Intern (超級實習生)*, an online reality show, with Emperor Entertainment Group.

Film and TV production share similar production methods, with many players, including directors and actors, actively engaging in both fields. Because of our successful track record in TV series production, our media industry connections and the similarity of the business model, we ventured into the film production industry in the early 2010s. We acted as a minority investor in two films in 2012, namely *The Palace (宮鎖沉香)* and *One Night Surprise (一夜驚喜)*. We started to produce films and dramas specially for internet broadcasting in 2019, and our first web film was debuted in June 2020.

Higher education

Our University, 南京傳媒學院 (Pinyin: Nanjing Chuanmei Xueyuan), is located in Jiangsu Province and provides undergraduate education, offering a curriculum covering 50 majors, with a focus on media and performing arts.

Our University had 14,256 students enrolled in undergraduate programs as of October 31, 2019. As of the Latest Practicable Date, our University occupied four parcels of land with a total gross site area of approximately 705,455 square meters, and 26 buildings with a total gross floor area of approximately 283,397 square meters.

Our University was initially established upon the cooperation of Nanjing Meiya and CUC as an independent college in 2004. As the operations and management of our University had sufficiently matured and in light of industry policies encouraging independent colleges to convert to private higher education institutions, in July 2019, CUC, CUCN and Nanjing Meiya entered into a termination agreement for a one-off payment of RMB160 million by CUCN and Nanjing Meiya to CUC to settle all historical outstanding payments, terminate the cooperation, and provide a transition period for CUCN to convert to a private higher education institution. See "History, reorganization and corporate structure – Corporate development of our Group – Prior cooperation with CUC" for details. Our University officially converted from an independent college to a private higher education institution under the new school name, 南京傳媒學院 (Pinyin: Nanjing Chuanmei Xueyuan), and obtained the updated Private School Operating License in May 2020.

Undergraduate programs

We have experienced steady growth since the commencement of the operation of our University. The following table sets forth information relating to the student enrollment for our undergraduate programs in each presented school year:

	School year			
	2016/2017	**2017/2018**	**2018/2019**	**2019/2020**
Students enrolled in the four-year undergraduate program	11,548	11,872	12,346	12,930
Students enrolled in the two-year junior college to undergraduate program	920	1,136	1,169	1,326
Total students enrolled	12,468	13,008	13,515	14,256
School capacity(1)	12,800	13,216	14,204	14,804
School utilization rate(2)	97.4%	98.4%	95.1%	96.3%

Notes:

* The student enrollment information during the Track Record Period was based on the official records of the relevant PRC education authority or the internal records of our University.

(1) Our University is a boarding university. The capacity for student enrollment at our University is restricted by the availability of our accommodation facilities.

(2) School utilization rate equals the number of total students enrolled in our undergraduate programs divided by the school capacity.

We charge our students tuition fees and boarding fee. Subject to approval from relevant PRC education authorities, we raise tuition fees at our University from time to time to reflect our increased operating costs. The following table sets forth information relating to annual tuition fees and boarding fee charged by our University for undergraduate programs in each presented school year:

	School year			
	2016/2017	**2017/2018**	**2018/2019**	**2019/2020**
		(in RMB)		
Tuition fees (range)	14,000~18,000	14,000~18,000	14,000~18,000	14,000~18,000
Boarding fee	1,500	1,500	1,500	1,500

We raised tuition fees for our undergraduate programs in September 2013, but we have not further raised tuition fees since then. New tuition fees are only applicable to newly enrolled students, while students who had already enrolled at our University continue to pay the applicable tuition fees at the rates applicable when they first enrolled.

The below table sets forth the average tuition fee per student enrolled in the undergraduate programs of our University for the years indicated:

	Year ended December 31,[(1)]		
	2017	2018	2019
		RMB	
Average tuition fees per student	16,053	16,123	15,853

Note:

(1) The average tuition fee per student for the years ended December 31, 2017, 2018 and 2019 are calculated by dividing the revenue generated from tuition fees of the students enrolled in the undergraduate program of our University, by all students for the years indicated by the number of students enrolled as of October 31 of such year.

We require students to pay tuition fees and boarding fee for the entire school year upfront, and recognize revenue proportionately over the whole period of the applicable program. In the event a student withdraws during a school year, we will calculate tuition fees and boarding fee that can be refunded to such student based on the following policy: (i) if a student withdraws from our University before the commencement of a school year, all of the tuition fees and boarding fee paid in advance will be refunded; and (ii) if a student withdraws from our University voluntarily during a school year, we will deduct the tuition fee and boarding fee proportionate to the number of months he/she has studied at our University in that whole school year, and then refund the remaining portion of what such student has already prepaid. Reasons for student withdrawal primarily include to pursue studies in other fields or overseas, to start his/her own business or health and other personal issues.

The following table sets forth information relating to the student withdrawals and refunds for our University in each presented school year:

	School year			
	2016/2017	2017/2018	2018/2019	2019/2020
Student withdrawals	22	27	41	26
Tuition and boarding fee refunded (in RMB)	230,480	321,202	386,812	208,885

Featured programs

In addition to our undergraduate degree education, we also have international preparatory programs and continuing education programs, which are not subject to enrollment limits or tuition fee approval by the MOE.

Our continuing education programs serve adults who want to further develop skills for a new job, or develop a personal interest, or obtain a degree.

Our international preparatory program caters to the needs of students looking for education that connects them to their next step of studies overseas, and is supported by our cooperation with more than 50 leading educational institutions in the field of media and arts across the world. Students enrolled in this program receive training on their majors as well as assistance with their school applications. In particular, our preparatory programs offer students a wide range of high standard arts training courses, and credits earned can be recognized by the overseas universities we cooperate with and count towards their undergraduate qualification. To better prepare our students for the future undergraduate studies, we also organize workshops given by internationally renowned artists and experts to enhance students' knowledge and skills. At the end of the program, the International School of our University will issue a certificate of completion to our students who have passed all required courses, and they are then expected to continue their undergraduate study with our cooperating overseas universities.

The table below sets forth student enrollment of our international preparatory programs and continuing education programs for the relevant school years.

	School year			
	2016/2017	**2017/2018**	**2018/2019**	**2019/2020**
International preparatory programs				
Students enrolled	42	41	166	410
Continuing education programs				
Students enrolled	72	58	36	301

In addition, we launched our first *Star Dream* training program in August 2019. Famous and experienced instructors attached by their previous cooperation with us and our reputation in the entertainment business work side-by-side with experts at our University to deliver tailored training programs for talented performers dreaming of stardom. This 16-day pilot program had proved to be popular. Within one month approximately 610 young actors applied in spite of a high training fee of close to RMB20,800, of which only 30 were admitted.

For the school years 2016/2017, 2017/2018, 2018/2019 and 2019/2020, our University had 426, 424, 398, and 254 part-time students, respectively, mainly consisting of students participating in some of our continuing education programs (correspondence education programs) and short-term training programs. For the years ended December 31, 2017, 2018 and 2019, revenue generated from our part-time students accounted for approximately 0.6%, 0.2% and 0.2% of the total revenue of our higher education business for the same years, respectively.

AWARDS AND CERTIFICATION

The table below sets out the major awards and certifications we have received:

Award/Certification	**Awarded by**	**Year**
TV/film production		
Star Award (星光獎)	State Administration of Radio, Film, and Television of China	2000, 2002, 2003

Award/Certification	Awarded by	Year
China TV Golden Eagle Awards (中國電視金鷹獎) – Best Ten TV Series Award	China Television Artists Association	2004
Best Ten TV Series	China Radio and Television Association	2014
Most Popular TV Series	Sina.com	2003
Most Charming TV Series	South TV	2004
Annual Quality TV Series	Internet China	2005
Best Ancient Costume TV Series	TV Series Billboard	2005
Feitian Award (Nomination)	NRTA	2006
Best Rating Award	China-made TV Series Festival	2006
Most Influential TV/Web Award	China Radio and Television Association, Communication University of China and Minzu University of China	2008
Annual Best TV Series Award	Sina BQ Popularity Ranking	2008
Popular TV Series	Hunan TV	2013
Top 30 Investment Value Culture and Creative Enterprise	China Culture and Finance Innovation Summit	2014
Industry Legend Award	iQiyi and PPS	2017
Outstanding Original Program	Tencent Video	2019
Popular TV Series	Guangxi TV	2019
Higher education		
Top 10 National Independent College	Chinese Universities Alumni Association	2015
Top Two Private Universities in Jiangsu Province	Chinese Universities Alumni Association	2017
Best Private Independent College in China	Chinese Universities Alumni Association	2016-2020

PRODUCTS AND SERVICES

TV/film production

TV series

As of the Latest Practicable Date, we had produced, or co-produced 33 TV series, comprising 1,279 episodes across various genres. The following table lists a selection of TV series we have produced since our inception.

Title	Distribution Permit grant year	% of investment from us	Core crew	Broadcasting platform	Highlights	Time of initial broadcast/ distribution	Production type	Countries and regions of initial broadcast	Co-producers (commencement of business relationship)
The Legend of the Condor Heroes (射雕英雄傳)	2003	60%	Producer: ZHANG Jizhong (張紀中) Director: JU Jueliang (鞠覺亮)	CCTV	• Sina.com – Most Popular TV Series	January 2003	adaptation	China, Japan, South Korea, Vietnam	New Media (北京慈文) (2003) Beijing Fu Yuan (北京福緣) (2003) Tian Di He Yun (天地和韻) (2003)

Title	Distribution Permit grant year	% of investment from us	Core crew	Broadcasting platform	Highlights	Time of initial broadcast/ distribution	Production type	Countries and regions of initial broadcast	Co-producers (commencement of business relationship)
Demi-Gods and Semi-Devils (天龍八部)	2003	10%	Producer: ZHANG Jizhong (張紀中) Director: ZHOU Xiaowen (周曉文), JU Jueliang (鞠覺亮), YUAN Bin (元彬) Scriptwriter: DAI Mingyu (戴明宇), BAI Yicong (白一驄)	CCTV	• Gold South TV – Most Charming TV Series • Internet China – Annual Quality TV Series • Golden Eagle Award – Best Ten TV Series • TV Series Billboard – Best Ancient Costume TV Series	December 2003	adaptation	China, Japan, South Korea, Vietnam	Jiu Zhou Yin Xiang (九洲音像) (2002)
Moment in Peking (京華煙雲)	2005	40%	Producer: YANG Shanpu (楊善樸), WANG Pengju (王鵬舉) Director: ZHANG Zien (張子恩) Scriptwriter: ZHANG Yongchen (張永琛), YANG Xiaoxiong (楊曉雄)	CCTV-1 (China Central TV)	• NRTA – Feitian Award (Nomination) • China-made TV Series Festival – Most Viewed TV Series	October 2005	adaptation	China, USA and Canada	Jiu Zhou Yin Xiang (九洲音像) (2002) Jin Ze Tai He (金澤太和) (2005)

Title	Distribution Permit grant year	% of investment from us	Core crew	Broadcasting platform	Highlights	Time of initial broadcast/ distribution	Production type	Countries and regions of initial broadcast	Co-producers (commencement of business relationship)
The Return of the Condor Heroes (神鵰俠侶)	2006	40%	Producer: ZHANG Jizhong (張紀中) Director: YU Min (于敏) Scriptwriter: LIU Yi (劉毅), WANG Xuejing (王雪靜)	TVB	• Beijing Star Daily – Annual Most Popular Martial Arts TV Series	March 2006	adaptation	China, Japan, South Korea, Vietnam	New Media (北京慈文) (2003) Beijing Fu Yuan (北京福緣) (2003) Dong Yang Fu Yuan (東陽福緣) (2006)
The Deer and the Cauldron (鹿鼎記)	2008	30%	Producer: ZHANG Jizhong (張紀中) Director: YU Min (于敏), ZHAO Jian (趙箭) Scriptwriter: GAO Dayong (高大勇), LANG Xuefeng (郎雪楓)	Anhui TV, Guizhou TV		May 2008	adaptation	China, Japan, South Korea, Vietnam	Hua Yi Ying Ye (華誼影業) (2008)

Title	Distribution Permit grant year	% of investment from us	Core crew	Broadcasting platform	Highlights	Time of initial broadcast/ distribution	Production type	Countries and regions of initial broadcast	Co-producers (commencement of business relationship)
Harbin under the Curtain of Night (夜幕下的哈爾濱)	2008	50%	Producer: ZHAO Baogang (趙寶剛) Director: ZHAO Baogang (趙寶剛), WANG Ying (王迎); Scriptwriter: GAO Guang (高光)	CCTV-1 (China Central TV)	• BQ Popularity Ranking – Annual Best TV Series	August 2008	adaptation	China, Australia, New Zealand and Vietnam	Xin Bao Yuan (鑫寶源) (2007)
Four Generations Under One Roof (四世同堂)	2008	50%	Producer: TAO Kun (陶昆) Director: WANG Jun (汪俊) Scriptwriter: ZHANG Ting (張挺)	CCTV-1 (China Central TV)		April 2009	adaptation	China and Vietnam	Beijing Lv Shi Wen Hua (北京履實文化) (2007)
The Heaven Sword and Dragon Saber (倚天屠龍記)	2009	50%	Producer: ZHANG Jizhong (張紀中) Director: YU Min (于敏), ZHAO Jian (趙箭) Scriptwriter: LIU Yi (劉毅), WANG Xuejing (王雪靜)	TVB		October 2009	adaptation	China, Japan, South Korea, Vietnam	H. Brothers (華誼兄弟) (2008)

Title	Distribution Permit grant year	% of investment from us	Core crew	Broadcasting platform	Highlights	Time of initial broadcast/ distribution	Production type	Countries and regions of initial broadcast	Co-producers (commencement of business relationship)
In Love with Power (美人無淚山河戀)	2012	30%	Producer: YU Zheng (于正) Director: LIANG Shengquan (梁勝權) Scriptwriter: SHEN Zhining (沈芷凝)	Jiangsu TV		December 2012	original	China	Dong Yang Xing Rui (東陽星瑞) (2011)
Old Days In Shanghai (像火花像蝴蝶)	2012	80%	Producer: YU Zheng (于正) Director: LI Huizhu (李慧珠), DENG Wei'en (鄧偉恩) Scriptwriter: LI Shunci (李順慈)	Dragon TV, Jiangsu TV	• China TV Program Production Association – Best Ten TV Series	June 2013	adaptation	China, Singapore, Vietnam	HuanYu Entertainment (歡娛影視) (2011)
The Smiling, Proud Wanderer (笑傲江湖)	2013	70%	Producer: YU Zheng (于正) Director: HU Yijuan (胡意涓) Scriptwriter: YU Zheng (于正)	Hunan TV	• Hunan TV – Popular TV Series	February 2013	adaptation	China, Japan, South Korea, Vietnam	Shanghai Qiang Sheng (上海強勝) (2011) Xi'an Hong Shang (西安虹尚) (2012)

Title	Distribution Permit grant year	% of investment from us	Core crew	Broadcasting platform	Highlights	Time of initial broadcast/ distribution	Production type	Countries and regions of initial broadcast	Co-producers (commencement of business relationship)
The Return of the Condor Heroes (神鵰俠侶)	2014	100%	Producer: YU Zheng (于正) Director: LI Huizhu (李慧珠) Scriptwriter: YU Zheng (于正)	Hunan TV		December 2014	adaptation	China, Japan, South Korea, Vietnam	N.A.
The Gods (封神)	2016	39%	Producer: YANG Xiaoming (楊曉明) Scriptwriter: ZHU Sujin (朱蘇進)	Hunan TV, Mango TV		April 2019	adaptation	China, USA, Thailand	Sanshangmedia (東陽三尚) (2013)
Untouchable Lovers (鳳囚凰)	2017	80%	Producer: YU Zheng (于正) Director: LI Huizhu (李慧珠) Scriptwriter: YU Zheng (于正)	iQiyi		January 2018	adaptation	China, Japan, South Korea, Vietnam	HuanYu Entertainment (歡娛影視) (2011)
The Heaven Sword and Dragon Saber (倚天屠龍記)	2019	100%	Director: JIANG Jiajun (蔣家駿) Scriptwriter: GUAN Zhanbo (關展博)	Tencent Video	• Tencent Video – Outstanding Original Program	February 2019	adaptation	China, Japan, South Korea, Vietnam	N.A.

Title	Distribution Permit grant year	% of investment from us	Core crew	Broadcasting platform	Highlights	Time of initial broadcast/ distribution	Production type	Countries and regions of initial broadcast	Co-producers (commencement of business relationship)
Zhaoge (朝歌)	2020	30%	Producer: YU Zheng (于正) Director: LIU Zhenming (劉鎮明) Scriptwriter: YU Zheng (于正)	iQiyi		–	adaptation	–	HuanYu Entertainment (歡娛影視) (2011)

Web film

The following table lists the web film we have produced as of the Latest Practicable Date.

Title	Record-filing with the NRTA	% of investment from us	Core crew	Broadcasting Platform	Time of initial broadcast/ distribution	Production type	Countries and regions of initial broadcast	Co-producers (commencement of business relationship)
Don't Call Me Jiushen (別叫我酒神)	April 2020	50%	Producer: LUO Rujia (羅茹嘉) Director: WANG Yanchuan (王岩川) Scriptwriter: TONG Rui (童睿)	Tencent Video	June 2020	adaptation	China	Tencent (騰訊) (2013)

Specifically, three TV series premiered during the Track Record Period and none were loss-making. The below table sets forth additional information relating to these series, including their gross profit margin and revenue generated during the Track Record Period:

Title	Amount of our investment	% of investment from us	Number of episodes	Gross profit margin for the Track Record Period	Viewership measurement[(1)]	Revenue generated for year ended December 31,		
						2017	2018	2019
						(in thousands of RMB)		
The Gods (封神)	RMB62.0 million	39%	65	38%	0.72%	–	61,230	28,072
Untouchable Lovers (鳳囚凰)	RMB144.1 million	80%	52	49%	1.06%	296,607	7,251	–
The Heaven Sword and Dragon Saber (倚天屠龍記)	RMB236.2 million	100%	50	46%	6.4 billion view	–	13,453	405,109

Note:

(1) Viewership measurement for TV series broadcast via cable networks is expressed as a percentage of the potential TV audience viewing, while the measurement for series broadcast via internet is expressed as view counts of respective online platforms.

We were the sole producer for some of our TV series. In addition, from time to time we also co-invest and co-produce TV series. Such co-production is on a title by title basis, and will last until the full life cycle, from pre-production, production to distribution, of a TV series or film is completed. In co-production projects, we and other co-producers invest into the production project in proportion to a pre-determined ratio when the funding needs arise, and make joint decisions on production, including, most importantly, budgeting, selection of creative crew and distribution. In most cases, each co-producer is engaged by the joint operation to take charge of different phases of the whole production and distribution process.

We and our co-production partners invest and share the ownership and earnings of the TV series and film rights upon the completion of production proportionally. For accounting purposes, such co-investment arrangements are classified as joint operations, and we and our co-production partners recognize direct rights to the assets, liabilities, revenues and expenses of these joint operations and our respective share of any jointly held or incurred assets, liabilities, revenues and expenses based on the terms as set out in co-investment and co-production agreements.

TV series and films under production

The table below sets forth the TV series and films under production as of the Latest Practicable Date. The expected timeframes and total investment from us are estimated based on current plans and estimates and subject to change, and reflect information available as of the date they were made.

Title	**Genre**	**% of investment from us**	**Current status**	**Expected completion of production**
Mrs. Qing (清夫人)	TV	100%	Pre-production (screenwriting)	2021
Ashes of Time (東邪西毒)	TV	100%	Pre-production (screenwriting)	2021
Copper Wedding (銅婚)	TV	100%	Pre-production (screenwriting)	2021
Kangxi Emperor (康熙大帝)	TV	100%	Pre-production (screenwriting)	2021
Hi, Shichahai (嗨, 什刹海)	TV	35%	Post-production (editing)	2020
Quiet (安靜)	TV	Not finalized	Principal photography	2020
Nantaihang Xuechi Village I (南太行血池村第一部)	Web film	100%	Pre-production (filing with NRTA)	2020
Nantaihang Xuechi Village II (南太行血池村第二部)	Web film	100%	Pre-production (filing with NRTA)	2021

The below table sets forth the carrying amount/total amount capitalized, budget, percentage of completion of all TV series and films completed or under production as of December 31, 2019 on a title-by-title basis:

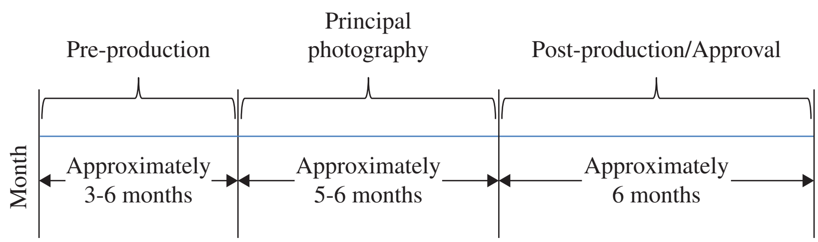
	Carrying amount/ total amount capitalized	**Budget**	**Percentage of completion**
	(in thousands of RMB)		
Completed production			
The Gods (封神)	3,747	NA	NA
Zhaoge (朝歌)	45,000	NA	NA
Under-production			
Kangxi Emperor (康熙大帝)	4,915	330,000	1.5%

Production timeline

We always take an active co-production role for all of our co-invested TV series and films, except for two minority investments in films during 2012 where we were passive investors. We believe that in this way we manage to maintain our reputation and ensure every TV program associated with the brand "Cathay Media" is of high quality and can expect to enjoy high popularity among viewers.

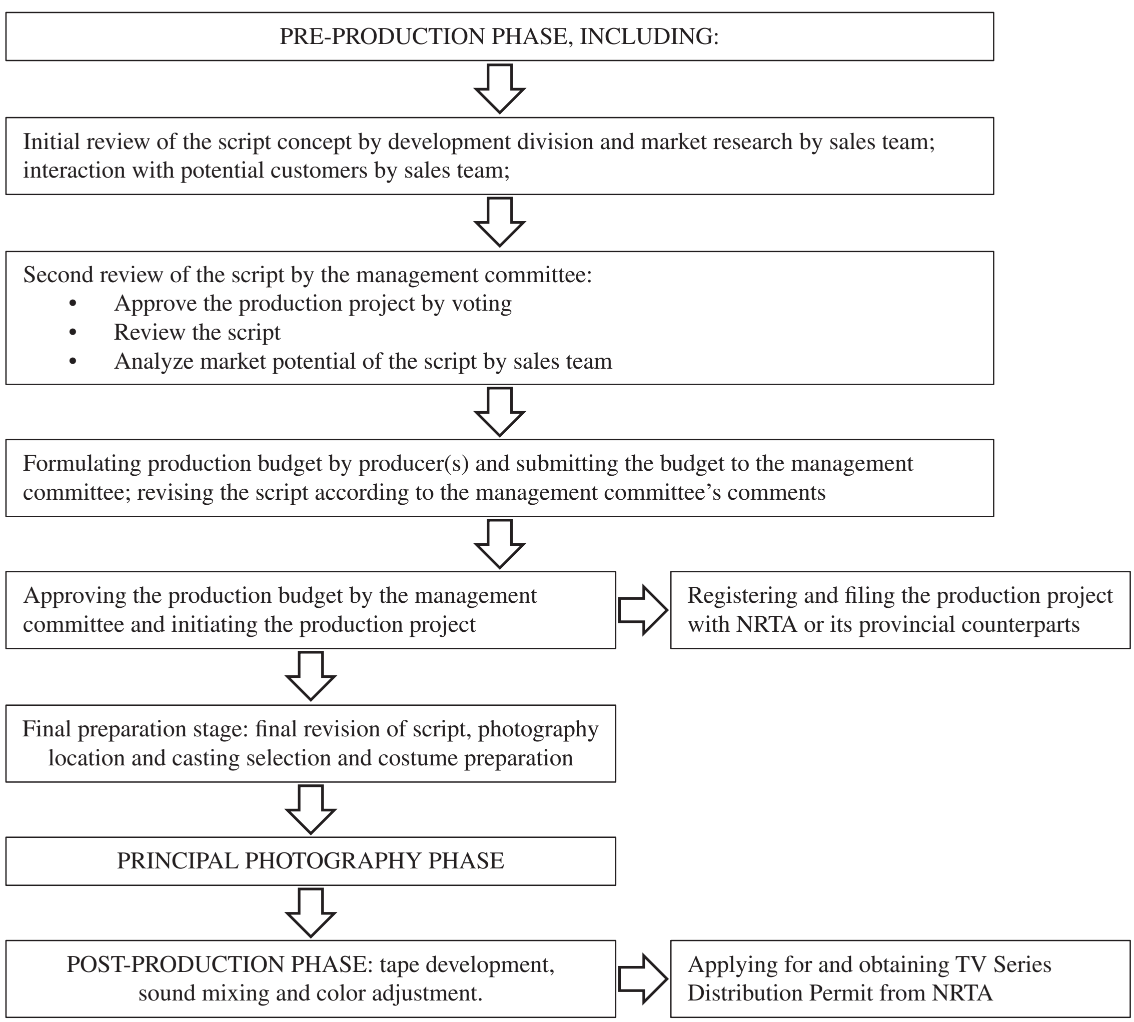
We set out below a description of the typical production process for a TV series, to illustrate the typical production process of our TV/film business segment. The production process for TV variety shows and films are similar to the process for a TV series as set out below.

The following diagram illustrates the timeline to produce a TV series:



Our TV series production process can be divided into three main phases: (i) pre-production; (ii) principal photography; and (iii) post-production.

The diagram below illustrates the TV series production process:



Pre-production

(a) Originating script concepts

The initial stage of TV series production involves identifying or originating script concepts. We have established multiple sourcing channels through which we are able to access a wide variety of content. We have set up a dedicated development division that specializes in identifying and recommending quality content for our scriptwriters. Their in-depth industry knowledge enables them to capture viewer preferences and react to market trends promptly. Our content sourcing channels include: (i) self-originated content developed by our contracted scriptwriters; (ii) adaptations from popular novels or plays; (iii) content originated by our development division; and (iv) content recommended by our senior management.

(b) Initial review of script concepts and market research

Once a script concept is established, our development division and sales team carry out an initial review from a marketing perspective. During this process, our sales team liaises with potential customers and discusses the script concept with them to evaluate its market potential. TV stations and online video platforms sometimes express interest in our TV series during such preliminary discussions in the form of legally-binding pre-sales agreements or in the form of non-legally-binding verbal confirmations of interest. We also use viewer rating statistics from various sources to assess the likely popularity of such script concepts. Only script concepts that pass initial reviews will be converted into scripts. Otherwise, unused script concepts will be stored in our script library.

(c) Scriptwriting

Upon approval of the content of script ideas by the development division and sales team, project producers liaise with suitable scriptwriters who write the scripts. We collaborate and maintain close communications with a number of experienced freelance scriptwriters to ensure we have the capacity to convert our approved story ideas into high-quality scripts. Additionally, we have contracted with a handful of scriptwriters so that we have the right of first refusal for their scripts. The whole script composition process usually requires approximately six months.

(d) Internal discussion among senior management, project producer and sales team

When the outline of a script is ready, project producers seek approval for production from our senior management who are directly in charge of script selection, budget review and investment return assessment. We believe that our strict internal pre-production quality control process contributes to the overall quality of our TV series.

(e) Production budget formulation and initiation of production project

Producers formulate production budgets based on the scenes and settings set out in the scripts during this stage, the chief producers meet with our sales team frequently to discuss cast selection, sales and distribution strategy and estimated selling price per episode, and our sales team will actively seek feedback from potential customers on these issues as cast selection has a great impact on viewer ratings in China, which in turn will affect price per episode acceptable to our potential customers. Our management committee reviews and approves production budgets for each TV series before a production project is officially commenced.

(f) Production project filing

We file the production project proposed with the local NRTA once a production project is officially initiated. The filing process will typically take approximately one month. During the Track Record Period, we did not encounter any production process delay during the NRTA examination process and were not subject to any adverse action by the NRTA.

(g) Engagement of crew and selection of production members

Project chief producers choose their production teams, which include cast, director and other production personnel such as videographers, assistant directors, art directors and location managers, mainly according to genre of scripts and production budgets. Our sales team also provides market feedback regarding potential cast's popularity and the expected market impact of a TV series from TV stations and online video platforms during this process. Based on the sales team's suggestion, we team up with well-known actors or directors, aiming to improve popularity among viewers and increase our brand awareness within the industry.

Principal photography

Our principal photography stage takes five to six months on average. We have substantial control over the length of production process.

During the principal photography phase, staff from our finance department are assigned to production teams and sent on-site to handle cash disbursements as well as review supporting documents such as contracts, producer's approvals and invoices to ensure the validity and accuracy of amounts before making payments to vendors. During the Track Record Period, the financial controller from the finance department was in charge of monitoring and controlling the costs of the TV series and carefully reviewing expenditures incurred for TV series. The financial controller was also in charge of determining the capitalization of expenditures. Our finance staff assigned to production teams report to our head office finance department every two weeks on the use of cash and requests for cash outflows for the next two weeks. Cash is wired to the production team every two weeks from the head office finance department based on approved budgets. Any deviation of actual requests for cash from the approved budgets will be reported directly to the management committee for review and approval. All expected cost overruns need to be explained to and pre-approved by management committee for the relevant project. We did not experience any major cost overruns during the Track Record Period.

Post-production

Our production team is usually heavily involved in the post-production process, including editing, sound mixing, color adjustment, subtitling and production of master tapes for our customers. Our producers and directors usually rent studios or facilities from Independent Third Parties to complete the post-production phase. This phase requires approximately six months.

After master tapes of our TV series are ready, they are submitted to NRTA for final review and approval to obtain a TV Series Distribution Permit (電視劇發行許可證). This review process generally takes approximately one month. The TV Series Distribution Permits (電視劇發行許可證) must be obtained prior to sending master tapes to our customers for broadcasting. During the Track Record Period, we did not encounter any production process delay during the NRTA examination process and were not subject to any adverse action by NRTA.

On February 21, 2020, the China Netcasting Services Association released the Guideline for Online Variety Shows (網絡綜藝節目內容審核標準細則), setting forth standards for online variety shows, mainly on content and casting. The new standards are consistent with our historical and current practice, so we do not see extra burden or adverse effect arising from this new regulation. See "Regulations – Regulations on TV series and variety shows production in the PRC – Regulations on online variety shows in the PRC" for more details.

Higher education

Education offering to our students

Curriculums and majors

Our University currently offers 50 majors, with a focus on media, performing arts, and art and design. We conduct thorough market research on employment trends and review and adjust our majors and course offerings accordingly. For example, in our Track Record Period, we created new majors in Korean language, musical performance and filmology that we believe have good job prospects based on our thorough market research.

We continue to explore new and innovative areas. We launched courses in new-media live streaming, and online e-sports commentary building on the foundations of our traditional strong majors in broadcasting and hosting. We established the e-sports department in 2017, aiming to build a leading platform for production, education and research of e-sports teaching, events and TV/films.

Benefiting from the synergies between our higher education and the TV/film production businesses, we are able to cultivate career-oriented talent through school-enterprise cooperation. For instance, we mobilize resources and those of our business partners, such as Emperor Entertainment Group, to provide students majoring in directing, screenwriting and performing arts with reputable leaders as mentors as well as enterprise-like practice opportunities. In addition, our photography department has built our professional aerial photography training base in Jiangsu Province through industry-university cooperation.

In a report by the Chinese Alumni Association in 2018, seven of our majors were rated five stars or above, among which the broadcasting & hosting, journalism, broadcasting and TV directing majors were rated six stars as "Top Independent College Majors in China". In 2019, broadcasting and hosting as well as broadcasting and TV directing majors were recognized as top tier undergraduate majors in Jiangsu Province by the Jiangsu provincial government.

Most of our students are enrolled in our four-year undergraduate program, and are admitted to our University through the National Higher Education Entrance Examination. In addition, a small portion of our students have studied at a junior college before attending our University. These students will generally spend another two years in our school before graduation.

Career planning initiatives and graduate employment

As a higher education service provider, we consider our graduates' employment rate to be a key measurement of our teaching quality. We have established a comprehensive program of employment and entrepreneurship guidance for our students:

- *Curriculum planning*: We generally design a comprehensive career planning map for our students, ranging from developing career awareness and setting career goals at an early stage, to providing relevant career-oriented courses, expanding practical training and enhancing job-seeking skills during the course of their enrollment;

- *Students practical training platform*: We strive to further enhance our students' employability and entrepreneurship skills through the provision of various practical training opportunities, such as entrepreneurship competitions, career planning competitions, resume drafting competitions and mock interviews; and

- *Career information system*: We are committed to perfecting our career information system, incorporating online and offline channels, including our website and WeChat, in order to timely disseminate critical employment-related information to students.

To assist our students in finding suitable job opportunities that best utilize their knowledge and skills and provide them with the appropriate platform to further develop their potential, we have established a graduate employment office, which is responsible for, among other things, (i) formulating, consolidating, verifying and reporting graduate career placement strategies; (ii) providing training to career placement officers; (iii) arranging employment guidance sessions for our students; (iv) exploring and developing relevant job markets for graduates; (v) organizing on-campus recruitment fairs; and (vi) monitoring graduates' employment status.

Workplace simulation training and internships

To give students ample opportunities to perfect their practical knowledge and skills, we designed and constructed numerous laboratories and studios at our University. These laboratories and studios provide enterprise-like simulated training environments. They are generally operated as part of specific task-oriented training programs to provide our students with a simulated workplace environment so that our students can seamlessly transition from in-class learning to real work-like experience. Major-related training courses usually require students to complete task-based projects, either individually or in collaboration with other students.

We also highly encourage our students to seek internships during the course of their studies to develop first-hand professional experience. Students generally obtain internships on their own or through various school-enterprise collaboration programs and external practical training bases we have established with our collaboration partners. Similar to simulated workplace training, we believe internships can provide further practical training to our students and better prepare them for future employment. Our University has cooperated with various reputable organizations, and as of December 31, 2019, we had formed collaboration relationships with 94 enterprises and institutions, who accept our students as interns. Our collaboration and internship network covers almost all city-level TV stations in Jiangsu Province and includes leading players in industry. For instance, we set up an internship program with iQiyi, a leading online video platform in China. Our teachers and students work with iQiyi to explore the latest trends in internet media and communication, and students enrolled in this program are exposed to first-hand practical experience.

Graduation and employment

Our University has achieved high initial employment rates for graduates. For the 2016/2017, 2017/2018 and 2018/2019 school years, our University had 3,229, 3,340 and 3,354 graduates, and the initial employment rates were 92.7%, 93.0% and 86.2%, respectively.

Implications of the Amendment of Law for Promoting Private Education of the PRC and the Draft Revision of the Regulations on the Implementation of the Law for Promoting Private Education of the PRC

The Amendment

On November 7, 2016, the Decision of the Standing Committee of the National People's Congress on Amending the Law for Promoting Private Education of the PRC (全國人民代表大會常務委員會關於修改《中華人民共和國民辦教育促進法》的決定) (the "**Amendment**") was promulgated and later came into force on September 1, 2017. The Amendment introduces a new classification system for private schools and the sponsors of private schools are allowed to choose to establish non-profit or for-profit private schools with the exception for schools providing compulsory education, which can only be established as non-profit entities. The following table sets forth the key differences between a for-profit private school and a non-profit private school under the Amendment:

Item	For-profit private school	Non-profit private school
Receipt of operating profits	Sponsors are allowed to receive operating profits, and the surplus from operations shall be handled in accordance with the provisions of the PRC Company Law and other laws and regulations	Sponsors are not allowed to receive operating profits, and all surplus from operations shall be used for the operation of the school
Licenses and registration	Private school operating licenses, business licenses	Private school operating licenses and a certificate of registration for a privately-run non-enterprise unit/the legal person certificate of public institution
Fees charged to students	Determined based on school operating costs and market demands, and no prior regulatory approval is required	Determined pursuant to the relevant regulations promulgated by the local governments
Tax treatment	Preferential tax treatment as stipulated by PRC laws and regulations	Same preferential tax treatment as public schools
Land	Acquired under PRC laws and regulations	Acquired through land allocation or other ways with governmental support and subsidy granted under the same principles for public school

Item	For-profit private school	Non-profit private school
Public funding	Public funding in the form of purchase of services, student loans, scholarships, lease or acquisition of unused State-owned assets	Public funding in the form of purchase of services, student loans, scholarships, lease or acquisition of unused State-owned assets, and government grants, incentive funds and donations
Liquidation	Liquidated in accordance with the provisions of the PRC Company Law. Sponsors can obtain the school's remaining assets after the settlement of the school's indebtedness	For schools established before the promulgation of the Amendment, if there are still remaining school assets after the settlement of school's indebtedness, such assets shall be used continuously for the operation of non-profit school. School sponsor can apply for compensation or rewards which shall be decided based on a number of factors

In addition to the Amendment, on December 30, 2016, the MOE, the SAIC and the Ministry of Human Resources and Social Security jointly issued the Implementation Rules on the Supervision and Administration of For-profit Private Schools (營利性民辦學校監督管理實施細則), which details the supervision and administration of for-profit private schools regarding the establishment of schools, the organization structure, the education and teaching activities, finance and assets, the information publication, the change and termination of schools and the penalties for violation. For further details of the Amendment and the Implementation Rules, please refer to "Regulations – Regulations on private education in the PRC – The Law for Promoting Private Education and the Implementing Rules for the Law for Promoting Private Education".

The Amendment is silent on the specific measures regarding how existing schools can choose to become for-profit private schools, which, according to the Amendment, shall be regulated by laws and regulations to be promulgated by the local government authorities. On a local legislation level, in February 2018, the government of Jiangsu Province promulgated the Implementation Opinion on Encouraging Social Groups to Engage in Education and Promoting the Healthy Development of Private Education (江蘇省政府關於鼓勵社會力量興辦教育促進民辦教育健康發展的實施意見) (the "**Jiangsu Opinion**"), and in May 2018, five local government authorities, including the Education Department of Jiangsu Province, promulgated the Implementation Rules for Classification and Registration of Private Schools in Jiangsu Province (江蘇省民辦學校分類登記實施細則) (the "**Jiangsu Implementation Rules**"). The Jiangsu Implementation Rules allow private schools established before November 7, 2016 like our University to choose and complete the registration as for-profit or non-profit schools by 2020, or possibly extended until 2022. However, both the Jiangsu Opinion and the Jiangsu Implementation Rules did not set out detailed procedures for the registration.

In light of this policy uncertainty, our University has not yet elected to be classified as a for-profit private school or a non-profit private school. Under the existing regulatory environment and based on the interpretation of the Amendment and the existing ownership structure of our University, it is our intention to register our University as a for-profit private school. In the event that our University chooses to be and successfully registers as a for-profit private school, the potential impact of the Amendment includes the following:

- The rights and interests of the sponsors of our University will be protected in more definitive and favorable ways: the Amendment provides that the school sponsors of for-profit private schools can obtain the schools' operating profits, and remaining assets upon liquidation;

- Our University shall have the discretion to determine the amount of fees to be charged;

- Our University may enjoy support from certain PRC government policies: the Amendment stipulates that the governments at or above the county level in the PRC can provide various policy support to for-profit private schools, such as preferential tax policies and student loans;

- There may be increased uncertainty about the extent of the benefits to be provided by the government supporting measures: according to the Amendment, while land will be supplied to non-profit private schools by the government through allocation or other means, for-profit private schools are not expected to enjoy the same treatment as public schools and non-profit private schools; and

- Our University will be subject to the requirements of applying for re-registration: the Amendment also requires that private schools choosing to register as for-profit private schools shall carry out financial settlement procedures, clarify property ownership, pay the relevant taxes and fees, and re-apply for registration.

Based on the foregoing, there remain substantial uncertainties in the interpretation and implementation of the Amendment regarding various aspects of the operations of a private school, in particular, (i) specific procedures required to be completed for a school to register a for-profit school or non-profit school; and (ii) respective preferential tax treatments that may be enjoyed by a for-profit school.

The MOJ Draft for Comments

On August 10, 2018, the MOJ issued the Draft Revision of the Regulations on the Implementation of the Law for Promoting Private Education of the PRC (the Draft for Examination and Approval) (中華人民共和國民辦教育促進法實施條例(修訂草案) (送審稿) (the "**MOJ Draft for Comments**") to seek public comments. The MOJ Draft for Comments further promotes the development of private education by providing that a private school shall enjoy rights or preferential policies stipulated by laws equivalent to those applicable to a public school, which primarily include: (i) a non-profit private school shall enjoy the same tax policies as enjoyed by a public school, and a for-profit school shall enjoy tax preferential treatments and other preferential policies applied to industries encouraged by the state for development; and (ii) the local governments shall grant preferential treatments in terms of land use by means of allocation in accordance with the principle of treating non-profit private schools equally as public schools, and for schools that provide education for academic credentials, may provide land by means of bid invitation, auction or listing, assigning contracts, long-term lease or combination of sale as well as rental, and may give appropriate preferential treatment on charges for the assignment or rental of land, and may permit payment in installments.

The MOJ Draft for Comments stipulates further provisions of the operation and management of private schools including, among other things, (i) a private school shall conduct any connected transactions in a manner that is open, justified and fair and shall establish disclosure mechanisms for such transactions. Any agreement involving material interests or any long-term and recurring agreement entered into between a non-profit private school and its connected party shall be reviewed and audited by the relevant government authorities in terms of necessity, legitimacy and compliance; (ii) the registered capital of a for-profit private school providing higher diploma education shall be not less than RMB200 million; and (iii) public schools shall not establish or participate in the establishment of for-profit private schools. If a public school establishes or participates in the establishment of a non-profit private school, it shall first obtain approval from government authorities, and shall not use the state's fiscal funds, affect the public school's teaching activities, or obtain profits through brand licensing.

The MOJ Draft for Comments may also have an impact on our University's operation if passed in the current form: (i) we will have to increase the registered capital of our University to not less than RMB200 million (as of the Latest Practicable Date, our University has a registered capital of RMB150 million, we plan to fulfill the shortfall of the registered capital by capital injection by our Group through our internal resources or bank borrowings); and (ii) if our school management model is considered to be a centralized school management model or if our Contractual Arrangements are considered as a "contractual arrangements" under Clause 12 of the MOJ Draft for Comments, we may need to register our University as a for-profit private school. Such stipulation may also have a negative impact on our expansion strategy, as we may no longer be able to acquire non-profit private schools or control them through ways such as franchising or "contractual arrangements", our acquisition scope may also be limited. Further, our Contractual Arrangements may be regarded as connected transactions of our private school. We may incur substantial compliance costs for establishing disclosure mechanisms and undergoing reviewing and audit by the relevant government authorities. Such process may not be in our control and may be highly complicated and burdensome. Government authorities may, during their review and audit process, compel us to make modifications to our Contractual Arrangements, which may in turn adversely affect the operation of our Contractual Arrangements. Government authorities may also find that one or more agreements underlying our Contractual Arrangements do not comply with applicable PRC laws and regulations and may subject us to administrative penalties, resulting in material adverse impact on our operations and financial condition.

The MOJ previously required comments from the public on the MOJ Draft for Comments, if any, to be submitted prior to September 10, 2018. However, it has not provided the timeframe to amend the Implementation Rules on the Law for Promoting Private Education of the PRC. As of the Latest Practicable Date, no new Implementation Rules on the Law for Promoting Private Education of the PRC have been promulgated. Uncertainties exist with respect to the form and content of the upcoming amended Implementation Rules on the Law for Promoting Private Education of the PRC. We will pay close attention to the MOJ Draft for Comments and consult with our PRC Legal Adviser for the developments of the MOJ Draft for Comments and will make relevant amendments accordingly.

Under the Law for Promoting Private Education, sponsors of a private school are allowed to register and operate the school as a for-profit private school if such school is not providing compulsory education. Pursuant to the Implementing Measures on Classification Registration of Private Schools, the rules for changing the registration type of private schools shall be formulated by the provincial government in accordance with relevant national legislations and in light of local conditions. Under the current regulations for Jiangsu Province, registration as a for-profit private school is not conditional on possession of property right certificates for all land and buildings in use. The current form of the MOJ Draft for Comments is also silent in this regard. Therefore, our PRC Legal Adviser is of the view that our Group is entitled to register our University as a for-profit private school under the current applicable PRC Laws.

On-campus services

Meal catering services

We outsource all of the campus food and meal catering services at our University to third-party catering service providers, all of whom are Independent Third Parties. We require all catering service providers to obtain relevant licenses and permits required by laws and regulations. The catering providers are obliged to provide catering services to our students and faculty for three meals each day, and must ensure the food quality and safety. They are also generally required to ensure that for each meal, the relevant canteen is open for a certain number of hours for each meal service.

Medical care services

We provide routine medical services for our students and faculty by outsourcing such services to qualified independent third party medical care providers. We require third-party medical care providers to hold all licenses and permits required by law and regulations. In certain serious and emergent medical situations, we will promptly send our students and faculty members to local and nearby hospitals for treatment.

INVENTORY

We provide education service and produce intangible assets of TV and film rights in our operation, therefore the concept of inventory does not strictly apply to us. Instead, the TV and film rights on our balance sheet represent the assets of which we can license the broadcasting rights.

Although we generally start the production of our TV series without receiving a definitive purchase commitment from our customers, for the last ten TV series we made, we have been able to sell all of them before their production was completed. We believe that is attributable to the popularity of our TV series, our long-term close cooperation with our customers and our consistent efforts to seek customer feedback from the outset of the production process.

CUSTOMERS, SALES AND MARKETING

Overview

TV/film production

The customers in our TV/film production business include state-owned TV stations comprising China's sole national TV station, CCTV, provincial TV stations with nationwide coverage, as well as municipal TV stations that operate terrestrial channels. We have also licensed the broadcasting rights of our TV series to online video platforms and overseas markets. For our film production business, we target the end retail audience directly.

All of our five largest customers during the Track Record Period were from our TV/film production business and were Independent Third Parties. For the years ended December 31, 2017, 2018 and 2019, revenue generated from our five largest customers was RMB300.5 million, RMB75.6 million, and RMB434.1 million, respectively, representing 100.0%, 82.7% and 99.7% of our total revenue from our TV/film production business for the same years. For the years ended December 31, 2017, 2018 and 2019, the revenue contribution from our largest customer represented 98.7%, 60.2%, and 92.0% of our total revenue from our TV/film production business.

The table below sets forth details of our top five customers for the Track Record Period:

Customer	Goods provided	Transaction amount *(in thousands of RMB)*	% of revenue	Start of business relationship	Customer background
Year ended December 31, 2017					
Customer A	Broadcasting rights	296,607	53.3	2013	Operator of an online video platform based in Beijing and listed on NASDAQ
Customer B	Broadcasting rights	1,699	0.3	2017	Film producer and distributor based in Hong Kong
Customer C	Broadcasting rights	1,558	0.3	2017	TV/film producer and distributor based in Japan
Customer D	Broadcasting rights	443	0.1	2015	Operator of a TV network broadcast from Chengdu, Sichuan Province
Customer E	Broadcasting rights	228	0.0	2017	Operator of a TV network in Africa and equipment supplier based in Beijing
Total		*300,535*	*54.0*		

Customer	Goods provided	Transaction amount *(in thousands of RMB)*	% of revenue	Start of business relationship	Customer background
Year ended December 31, 2018					
Customer F	Broadcasting rights	55,004	14.9	2010	Operator of a TV network broadcast from Changsha, Hunan Province
Customer G	Broadcasting rights	9,502	2.6	2016	Operator of a TV network broadcast from Hong Kong and listed on the Stock Exchange
Customer H	Broadcasting rights	4,434	1.2	2013	Operator of an online video platform based in Shenzhen and subsidiary of a company listed on the Stock Exchange
Customer I	Broadcasting rights	3,355	0.9	2016	Operator of a TV network broadcast from Taiwan
Customer C	Broadcasting rights	3,334	0.9	2018	TV/film producer and distributor based in Japan
Total		*75,629*	*20.5*		
Year ended December 31, 2019					
Customer H	Broadcasting rights	400,943	53.7	2013	Operator of an online video platform based in Shenzhen and subsidiary of a company listed on the Stock Exchange
Customer J	Broadcasting rights	27,300	3.6	2013	Operator of an online video platform based in Hunan Province
Customer K	Broadcasting rights	3,959	0.5	2018	A Beijing-based company principally engaged in TV/film production and distribution
Customer L	Broadcasting rights	1,175	0.2	2019	Provider of interactive multimedia services and subsidiary of a company listed on the Stock Exchange
Customer M	Broadcasting rights	682	0.1	2019	Operator of a TV network broadcast from Nanning, Guangxi Province
Total		434,059	58.1		

The composition of our five largest customers changed from period to period primarily due to our business model. We produce a variety of genres of TV series based on our management's assessment of the latest market trends and the genre of TV series that are most likely to generate a good level of interest from TV stations and online video platforms. Our customers themselves also have specific preferences for different genres each year depending on their own assessment of the likely viewer preferences. The TV series that we produce in a year would therefore attract different customers. Our largest customer in our TV/film production business was different from period to period for the Track Record Period. Please refer to "Risk factors – Risks relating to our business and industries – We generate a substantial portion of our revenue from sales of our TV series to several TV stations and online video platforms. If our cooperative relationships with TV stations and online video platforms deteriorate, our business, financial condition and results of operations could be adversely affected" for risks associated with this revenue concentration.

To the best knowledge of our Directors, none of our Directors, senior management, their respective close associates or any of our Shareholders holding more than 5.0% of our issued capital, is related to or owns any interest in any of our five largest customers in our TV/film production business.

In most cases, we contract with TV stations and online video platforms to broadcast our programs for a period of two to eight years after the initial broadcast. The licensing fees are generally negotiated on a per episode basis with a pre-determined range of total episodes. Licensing fees are paid in installments – customers normally pay the first installment of 20%-30% of the total price after signing the contract and reviewing certain basic documents (for example, project filing with the local NRTA and copyright related documents), which we recognize as contract liabilities on our balance sheet, then another 30%-40% when we deliver the master tapes, and the remaining amount after the TV programs are broadcast or become available online. Some contracts with our customers include protective clauses which allow our customers to terminate the licensing agreement if the master tapes we deliver do not meet their technical criteria or the TV programs we produced are restrained from broadcasting in unexpected circumstances, for example, change of regulations or industry policies. None of our contracts were terminated by our customers during the Track Record Period.

Among all our customers for TV/film production, online video platforms are a particularly important distribution channel, generating over 98% of our total revenue from our TV/film production business for the years ended December 31, 2017 and 2019. The below table sets out a breakdown of contribution of revenue by distribution channels for our TV/film production business during the Track Record Period:

	Year ended December 31,					
	2017		**2018**		**2019**	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except percentages)					
TV stations	–	–	55,971	61.2	1,059	0.2
Online video platforms	296,835	98.7	6,035	6.6	428,245	98.3
Overseas markets	3,766	1.3	29,390	32.2	6,225	1.5
Total	300,601	100.0	91,396	100.0	435,529	100.0

In 2019, Hunan TV, one of our customers, adjusted its programming pursuant to the national publicity needs. As a result, 13 episodes of our TV series *The God (封神)* were not aired. As advised by our PRC Legal Adviser, the suspension of broadcasting of *The Gods (封神)* should not be considered as a breach by us under the licensing agreement with Hunan TV because (i) the TV Series Distribution Permit of *The Gods (封神)* has been approved by the NRTA; (ii) the master tapes of *The Gods (封神)* have been delivered to Hunan TV according to the licensing agreement; and (iii) based on our consultation with the NRTA, the NRTA has never issued any ban on the broadcasting of *The Gods (封神),* and the unaired episodes are still eligible to be broadcasted according to the valid TV Series Distribution Permit.

In addition, we can still legally license the broadcasting right of *The Gods (封神)* to other customers after five years of the date of the first broadcasting. There has been no negative impact caused by this suspension, and we have continued producing, obtaining licenses and selling TV series after the *The Gods (封神)*, which include *The Heaven Sword and Dragon Saber (倚天屠龍記)* and *Don't Call Me Jiushen (別叫我酒神)*.

TV stations

We license first-round broadcasting rights of each of our TV series to no more than two satellite TV channels pursuant to the "One TV Series Two Channels" ("一劇兩星") rule required by the NRTA since the beginning of 2015. After the expiration of the broadcasting period for the first-round airing, we continue to license such TV series to other TV stations for further rounds of broadcasting. Most of the economic value of a TV series lies in the first-round broadcasting.

CCTV, Hunan TV, Tianjin TV, Anhui TV and TVB are our major TV station customers since our inception. We have worked closely and maintained a cooperation relationship with them for 15 years on average. In addition, we have licensed our TV series to over 50 TV stations across China.

The sale of each of our TV series is negotiated and licensed on a series-by-series basis and there is no agreement between the TV stations and us which stipulates the minimum number of episodes the TV stations will purchase from us in a particular year. We generally do not commit to producing TV series for any TV station and did not have any contractual commitments to produce specific TV series for any TV station as of the Latest Practicable Date.

Online video platform

Changing consumer preferences along with technological advances have increased the number of channels for broadcasting TV series. Online video platforms are now a particularly important channel for sales and distribution of TV series.

We commenced the licensing of the broadcasting rights of our TV series to Tencent Video and iQiyi in 2013 and have since licensed our series to several other online video websites in China, such as Mango TV. We typically seek to license our latest TV series to one platform to maximize the selling price for such TV series and license our older TV series as a package to a number of online video platforms. Our process for the negotiation of licensing agreements and the terms of those agreements is substantially the same as those that we enter into with TV stations.

Overseas markets

We license our TV series to various overseas markets, directly to TV stations or through local distributors, particularly targeting regions with large Chinese populations or high demand for Chinese media content. During the Track Record Period, our TV series were broadcast in more than 80 countries and regions, including the United States, Canada, Australia, Japan, Thailand, and Hong Kong.

Pricing

Our pricing of TV series is based on feedback from potential customers. We start seeking feedback from potential customers from a very early stage in the production process. During our interaction with TV stations and online video platforms, we will discuss key aspects of our proposed product, from the number of episodes to per episode price, from category to director, and from script to casting. We value our customers' insights to the industry and will sometimes adjust our price and casting based on their requests. If our customers consider a particular actor suitable for the leading role and expect the involvement of that actor to attract a larger audience, we generally will try to accommodate such request. At the same time, change to our proposed selling price arising from the change of leading actors is generally acceptable to, and will be borne by, our customers.

Higher education

Customers in our higher education business primarily consist of our students. We did not have any single customer who accounted for more than 5% of our revenue in our higher education business for each of the years ended December 31, 2017, 2018 and 2019.

Students and student recruitment

We have been operating in the higher education industry since 2004 and we believe the reputation of our University, the high employment rate of our graduates, the quality of our curriculums and the qualification of our teachers are key elements that attract our prospective students. In order to be enrolled at the undergraduate programs in our University, students are required to take the PRC National Higher Education Entrance Exam, achieve the required total score, and follow the national and local admission standards and procedures. Additionally, arts students also need to take art entrance exams organized by provincial education authorities and universities. The number of students we are able to admit for the undergraduate programs at our University is set and approved by the relevant PRC education authorities.

To attract more applications from high-quality students, we utilize a variety of marketing and recruitment tools, which include, but are not limited to: (i) designing attractive and informative school websites to promote our brand name and provide an introduction to our University, teachers, curriculums, programs and other relevant information; (ii) designing and distributing comprehensive promotional materials; (iii) utilizing various online and mobile channels such as Weibo, QQ and WeChat to publicize our University and connect with candidates effectively and cost-efficiently; (iv) encouraging our students to promote our University at high schools in their home towns; and (v) placing student recruitment advertisements on TV and in newspapers.

Our reputation, together with our consistent recruitment efforts, have enabled us to experience stable growth in the number of applicants to our University's art related majors. For the school years 2016/2017, 2017/2018, 2018/2019 and 2019/2020, 36,689, 52,863, 58,092 and 63,176 students took the art entrance exams to compete for a total of 2,324, 2,524, 2,360 and 2,694 places in our University, respectively.

We also offer scholarships to outstanding applicants who demonstrate academic excellence or other commendable qualities, and grants and other types of financial assistance to students with financial needs. For the school years 2016/2017, 2017/2018 and 2018/2019, we provided an aggregate of RMB6.2 million, RMB6.2 million and RMB4.9 million, respectively, in scholarships, grants and other types of financial aid to qualified students.

SERVICE PROVIDERS AND EMPLOYEES

As of December 31, 2017, 2018 and 2019, we employed 546, 602 and 895 full-time employees, respectively. We believe the number of our full-time employees is in-line with the industry practice and can support our expansion. The table below sets forth the number of our full-time employees by function as of December 31, 2019:

Function	Number of employees
TV/film production	
Content creation	24
Administration	33
Higher education	
Full-time teachers	706
Administration	132
Total	895

We believe that we maintain good working relationships with our employees, and we have not experienced significant problems with our employees or disruption to our operations due to labor disputes during the Track Record Period.

In addition to our full-time employees, we engage many third-party service providers in the production of our TV series and films, including directors, producers, actors, providers of film studios, production equipment, costumes and special effects. Our University also contracts with construction companies and information technology equipment providers for buildings and facilities in our campus.

For the years ended December 31, 2017, 2018 and 2019, the purchase amounts from our five largest suppliers/service providers were RMB247.3 million, RMB208.4 million, and RMB204.7 million, respectively, representing 97.8%, 83.8% and 78.0% of our total purchases for the same years. The purchase amounts from our largest supplier/service provider were RMB95.0 million, RMB163.1 million, and RMB125.0 million, respectively, for the years ended December 31, 2017, 2018 and 2019, representing 37.6%, 65.6% and 47.7% of our total purchases for the same years.

The table below sets forth details of our top five suppliers for the Track Record Period:

Supplier	Products/ service received	Transaction amount	% of costs	Start of business relationship	Supplier background
		(in thousands of RMB)			
Year ended December 31, 2017					
Supplier A	TV/film production	95,024	37.6	2016	Project-specific TV/film crew
Supplier B	TV/film production	79,141	31.3	2012	TV/film producer and distributor based in Dongyang, Zhejiang Province
Supplier C	Actors fees	29,700	11.7	2016	Actor's studio based in Shanghai
Supplier D	TV/film production	23,400	9.3	2017	Project-specific TV/film crew
Supplier E	Licensing and service fee	20,000	7.9	2003	University in Beijing
Total		*247,265*	*97.8*		

Supplier	Products/ service received	Transaction amount *(in thousands of RMB)*	% of costs	Start of business relationship	Supplier background
Year ended December 31, 2018					
Supplier F	TV/film production	163,117	65.6	2018	TV/film producer and distributor based in Dongyang, Zhejiang Province
Supplier G	TV/film production	15,400	6.2	2017	TV/film producer and distributor based in Shanghai
Supplier E	Licensing and service fee	15,000	6.0	2003	University in Beijing
Supplier H	Electricity	8,404	3.4	2003	Provincial electricity provider
Supplier I	TV/film production	6,518	2.6	2018	TV/film producer and distributor based in Beijing
Total		*208,439*	*83.8*		
Year ended December 31, 2019					
Supplier E	Licensing and termination fee	125,000	47.7	2003	University in Beijing
Supplier J	Construction	44,983	17.1	2019	Construction company based in Nantong, Jiangsu Province
Supplier K	Leasing fees	19,480	7.4	2003	Mr. Pu
Supplier H	Electricity	7,888	3.0	2003	Provincial electricity provider
Supplier I	TV/film production	7,342	2.8	2018	TV/film producer and distributor based in Beijing
Total		*204,693*	*78.0*		

Other than Mr. Pu, our executive Director and Controlling Shareholder, to the best knowledge of our Directors, none of our Directors, senior management, their respective close associates or any of our Shareholders holding more than 5.0% of our issued share capital, is related to or owns any interest in any of our five largest suppliers/service providers.

Major service providers in TV series/film production

We believe our ability to consistently engage professional, reputable and experienced crews, including scriptwriters, producers, directors and actors has been a key factor to our success.

Chief producers

Generally, our project chief producers are responsible for the production process and thus are critical to the success of our TV series. We mainly work with freelance chief producers for the production of our TV series as the most experienced and reputable chief producers in the industry generally work independently instead of being employed by any specific production firms. Our contracts with these freelance chief producers, which are either with them individually or with their production studio, generally set out clearly their responsibilities, which normally include managing the whole production process of the TV series and ensuring that filming of the series is completed within a certain period and under a pre-approved budget. In addition, chief producers are also obliged to participate in post-production promotion activities if required by us. The compensation payable to engaged chief producers typically consists of two parts, their fixed salary as a crew member and a share, of up to 10%, of the net profit of the TV series they produced.

The table below lists representatives of the freelance chief producers that have worked with us and their representative TV works and number of episodes they have produced for us:

Producer	Representative TV works produced	Representative TV works produced for us	Number of TV series episodes produced for us
ZHANG Jizhong (張紀中)	– Romance of The Three Kingdoms (三國演義) – Journey to the West (西遊記) – Years of Passion (激情燃燒的歲月)	– The Legend of the Condor Heroes (射雕英雄傳) – Demi-Gods And Semi-Devils (天龍八部) – Hero of Yong Le Age (永樂英雄兒女) – The Return of the Condor Heroes (神鵰俠侶) – Sword stained with Royal Blood (碧血劍) – The Deer and the Cauldron (鹿鼎記) – Paladins in Troubled Times (大唐遊俠傳) – The Heaven Sword and Dragon Saber (倚天屠龍記)	316
YU Zheng (于正)	– Beauty's Rival in Palace (美人心計) – The Return of the Condor Heroes (神鵰俠侶) – The Smiling, Proud Wanderer (笑傲江湖)	– In Love with Power (美人無淚山河戀) – The Smiling, Proud Wanderer (笑傲江湖) – Old Days in Shanghai (像火花像蝴蝶) – The Return of the Condor Heroes (神鵰俠侶) – Zhaoge (朝歌) – Untouchable Lovers (鳳囚凰)	267
FAN Xingchao (范興超)	– Jin Mao Xiang (金茂祥) – A Beautiful New World (美麗新天地)	– Jin Mao Xiang (金茂祥) – Singing When You Are Sad (悲傷時唱首歌) – Because of You (因為有妳)	96
LI Cheng (李程)	– The Journey of Flower (花千骨) – Hot Girl (麻辣變形計)	– Kungfu King Huo Yuanjia (霍元甲)	42
LIN Qiang (林強)	– Romance of Red Dust (紅拂女) – Emerald on the Roof (屋頂上的綠寶石)	– Romance of Red Dust (紅拂女) – Emerald on the Roof (屋頂上的綠寶石)	60
LIU Yiwei (劉儀偉)	– The Eloquent Ji Xiaolan (鐵齒銅牙紀曉嵐) – The Story of the Stone (紅樓夢2010)	– Mother-to-be Quartet (準媽媽四重奏)	32

Producer	Representative TV works produced	Representative TV works produced for us	Number of TV series episodes produced for us
ZHUANG Liqi (莊立奇)	– Romance in the Rain (情深深雨濛濛)	– Pink Ladies (粉紅女郎)	39
WANG Pengju (王鵬舉)	– The Legend of the Condor Heroes (射雕英雄傳) – Demi-Gods and Semi-Devils (天龍八部)	– Moment In Peking (京華煙雲)	44
YANG Xiaoming (楊曉明)	– The Legend (傳奇)	– The Gods (封神)	65
ZHAO Baogang (趙寶剛)	– Struggle (奮鬥) – My Youthfulness (我的青春誰做主) – Beijing Youth (北京青年)	– Harbin Under the Curtain of Night (夜幕下的哈爾濱)	33

In addition, we also employed some in-house producers. They either sometimes assist the retained freelance chief producers in some instances or act as chief producers themselves for others. Our employed chief producer has more than 21 years of experience and possess extensive experience in controlling the production processes and costs of our TV programs and films.

All of our employed chief producers are subject to non-competition restrictions during the term of their employment.

Directors

Generally, we choose suitable directors to work on our TV series or films based on the genre of the work. We also cooperate with famous directors to enhance our brand profile and influence. Primarily due to our distinguished brand and reputation, we have attracted high-profile directors to work with us in our TV series, including ZHANG Jizhong (張紀中), ZHAO Baogang (趙寶剛), LIU Zhenming (劉鎮明), LI Huizhu (李慧珠) and JU Jueliang (鞠覺亮).

Scriptwriters

We generally do not rely on any particular scriptwriters or employ any in-house scriptwriter team. Instead, building on our long-term collaborative relationships, we work with numerous independent scriptwriters to convert our story ideas into scripts. We normally ask retained scriptwriters to provide us the outline of each episode and the full script of the first few episodes first, and under our standard engagement agreement with scriptwriters, we have the right to terminate the engagement if the outline and samples for the first several episodes do not meet our expectation. We believe this mode keeps our retained scriptwriters motivated to provide their best product and allows the flexibility to change style and detail of a story promptly without incurring extensive expenses.

Actors

Benefiting from our well-established brand and reputation, we have successfully attracted famous actors to feature in our TV series and films, including HU Jun (胡軍), HUANG Lei (黃磊), HUANG Xiaoming (黃曉明), LU Yi (陸毅) and LI Xiaoran (李小冉). To expand our brand awareness in overseas markets, we have also cooperated with well-known actors from China, Hong Kong, Taiwan and other countries or regions, including Michelle CHEN (陳妍希) and Joe CHEN (陳喬恩). We select suitable actors to feature in our TV series and sign contracts with them on a series-by-series basis. Our contracts with our main actors are generally entered into through their personal studios or companies, and typically include details of the remuneration paid to the actors for each episode and the estimated period of time for photography.

Teachers in our University

Our teaching staff

We believe the quality of our teachers is one of the decisive factors to our success in our higher education business. We consider that teachers who possess sufficient industry expertize and practical knowledge, and are capable and dedicated to teaching will be instrumental in shaping the learning habits of our students.

As of the Latest Practicable Date, we had in total 1,230 teachers, comprising full-time teachers and part-time teachers. Almost all of our full-time teachers had a bachelor's degree or above, and approximately 70% had a master's degree or above. As of the Latest Practicable Date, 124 new teachers were expected to receive their qualification certificates in September 2020, 78 were planning to sit for the next available exam, and the rest of our full-time teachers possessed valid teacher qualification certificates (教師資格證) issued by the PRC government. We also value the recognitions bestowed upon our teachers who have achieved teaching excellence, subject matter expertize and relevant work experience. For instance, during the Track Record Period, our teachers have contributed to the publication of about 900 research papers.

For the school years 2016/2017, 2017/2018, 2018/2019 and 2019/2020, our student-to-teacher ratio was 16.3:1, 14.4:1, 11.9:1 and 11.6:1, respectively. Under the Indicators of Basic Conditions for Operating Higher Education Institutions (Trial) (普通高等學校基本辦學條件指標(試行)) promulgated by the MOE in 2004, there are two types of indicators, namely, basic school operating condition indicators (the "**Basic Indicator**") and monitoring school operating condition indicators (the "**Monitoring Indicator**"). The Basic Indicator prescribed two levels of compliance standards: Qualified Standard (合格標準) and Enrollment Restriction Standard (限制招生標準). The student-to-teacher ratio is one of the Basic Indicator. Universities in different categories are subject to different student-to-teacher ratio standards. The applicable Enrollment Restriction Standard for arts universities is 17:1 while the Qualified Standard is 11:1. In the event that any Basic Indicator of a higher educational institution does not meet the Enrollment Restriction Standard for such indicator, the competent authority will issue a yellow card which will limit the student admission quota of that institution to the actual number of its graduating students for that school year. Receiving yellow cards for three consecutive years could lead to a red card which will suspend the student admission of such institution.

With the assistance of our PRC Legal Adviser, we consulted the Education Department of Jiangsu Province to confirm the matters relating to the Indicators of Basic Conditions for Operating Higher Education Institutions (Trial). We were advised by an official in charge of private education from the Development and Planning Office of the Education Department of Jiangsu Province, who is responsible for the supervision and inspection of the school-running behaviors of private higher education institutions in Jiangsu Province stated that as our University has passed the annual inspections, the relevant education authority would not impose any limitation on student enrollment or any other adverse administrative measures (including yellow or red card). Our PRC Legal Adviser is of the view that the risk that our University will be penalized for student-to-teacher ratio is remote.

Meanwhile, we have endeavored to recruit more teachers and our student-to-teacher ratio has already been improved. We plan to recruit 50 additional qualified teachers by 2021. Our management team is working on the approach and threshold of introducing talents, reward mechanism for recommending talents and detailed framework of recruitment. We have provided relevant training to our management team about the ratio requirements under relevant PRC laws and regulations to further enhance their understanding. We will adjust our teacher recruitment plans each year according to the regulatory requirements of the competent government authorities.

Teacher recruitment

Before hiring a teacher, we consider his or her education background, subject matter expertize and relevant work experience. For example, we generally consider hiring teaching candidates who (i) have majored on the same subject matters for which the teaching position is sought; (ii) preferably have a master's degree or above, or hold relevant professional and technical qualifications; (iii) can effectively implement tailored teaching methods; and (iv) possess strong communication, language and interpersonal skills. We administer written assessments and in-person interviews by the officials at the human resources department of our University and the dean of respective department. We also require teaching applicants to teach a demonstration class as part of his or her application process so we can evaluate his or her performance on a real-time basis. In addition, we also consider other criteria, such as the teaching applicant's prior teaching experience, awards and recognitions.

Teacher training programs

Our training programs generally include (i) subject matter training; (ii) training on teaching theories and methodologies, such as training on managing student behavior in the classroom; (iii) training in teaching skills and techniques, such as training on how to use various hardware and software to prepare teaching materials and conduct in-class teaching; (iv) cultural training, such as training on academic and professional improvements and team building; and (v) professional training, such as training on stress management and professional image building. In addition to the training we provide in-house, we also encourage our teaching staff to attend external training courses and programs organized by third parties, such as local education authorities.

Teacher performance evaluation

To ensure we continuously provide high quality education to our students, we conduct teacher performance reviews and evaluations annually. Our teacher performance reviews include in-class observations and evaluations of our teachers' preparation and the effectiveness of their classroom instructions. Our evaluations generally focus on teachers' moral qualities, teaching capabilities and subject matter expertize, work attitude, teaching results in terms of various targets and personal character. As part of the evaluation process, we also highly encourage our students to complete teacher satisfaction surveys at the end of each term during the school year so we can consider their views and suggestions in our assessments. We generally reward teachers who receive outstanding performance reviews.

As a private higher education service provider, we believe we offer relatively competitive compensation to our teachers so we can retain and attract talented teaching staff. Our teachers' compensation package typically includes a base salary, compensation based on student performance, a subsidy and/or a performance bonus. In addition, because our University is a boarding school, our teaching staff has been provided with subsidized living arrangements. We also provide discounted meals to the teachers at the cafeteria of our University.

COMPETITION

TV/film production

The TV series and film production industry is highly fragmented and competitive. According to the NRTA, there were 18,728 TV series production firms in China as of the end of 2018. According to the NRTA Development and Research Center, on average, only approximately 26.8%-34.4% of all TV series produced each year are successfully broadcasted.

We compete with other players for demand for TV series, viewership of TV series, supply of scripts and contents, production equipment, and the services of performing artists, directors, producers and other creative and technical personnel, all of which are essential to the success of our TV/film production business.

Our Directors believe that our main competitors are large-scale privately-owned TV series production companies that possess similar production as well as sales and distribution capabilities. We also compete with state-owned TV series production organizations, which generally produce TV series for broadcasting by their affiliated TV stations. We face competition with such state-owned TV series production organizations if we also target their affiliated TV stations to license our TV series and if our TV series are broadcasted in the same time slot as theirs. Our TV series also encounter competition with imported TV series.

We believe market competition is based on the quality of TV series content, brand recognition, scale of production as well as sales and distribution capability. We believe our competitive edge lies in our script sourcing and conversion capability, experienced production team, and close and stable relationships with key TV stations in China, which enable us to achieve our leading position in the market.

Higher education

The private higher education services market in China is rapidly evolving, highly fragmented and competitive. We face competition primarily from public schools and other private higher educational institutions in China. We believe our principal competitive advantages include, among others:

- the reputation of our University;

- our extensive operating experience;
- the effectiveness and completeness of our educational and practical training-focused programs;
- the employment rate of our graduates and the extensiveness of the career planning guidance we provide;
- the scope and quality of our education programs, services and major offerings;
- the abundance of the practical and training opportunities we are able to provide to our students;
- our cooperation with overseas schools to obtain high-quality educational resources; and
- overall student experience and satisfaction.

We expect the competition in the private higher education market to persist and intensify. We believe we are able to compete effectively due to our strong reputation, established practical training-focused programs, and high employment rate. However, some of our existing and potential competitors, especially public universities, have governmental support in the form of government subsidies and other payments or fee reductions. Our competitors may devote greater resources, financial or otherwise, than we can to student recruitment, campus development and brand promotion, and respond more quickly than we can to changes in student demands and market needs. Please refer to "Risk Factors – Risks relating to our business and industries – We face intense competition in the PRC education industry, which could lead to adverse pricing pressure, reduced operating margins, loss of market share, departures of qualified employees and increased capital expenditures", for further details.

RESEARCH AND DEVELOPMENT

TV/film production

High-quality scripts are among the most critical factors to the success of a TV series or film. Our past experience has demonstrated that TV series and films produced from quality scripts can usually win high viewership. We have continuously developed high-quality scripts which we believe can distinguish our TV series from our competitors and enable us to react to market preferences promptly.

Script selection

We maintain diverse channels to source story ideas and work with scriptwriters to convert those story ideas to scripts. Please see "– Products and services – TV/film production – Production timeline" and "– Service providers and employees – Major service providers in TV series/film production – Scriptwriters" for more details. Scripts that are to be actually produced as TV series or films must pass the joint review carried out by our management committee, production team and sales team. The in-depth industry knowledge of our management team combined with our ongoing dialog with our customers and viewer rating analysis enable us to capture viewer preferences properly and thus tailor our TV series and films according to market needs.

Script library

During the Track Record Period, we generally maintained more than 25 script concepts in our script library. Scripts that fail to pass the joint review will be saved in our script library and may be put into production after further modification. Scripts of genres that were not selected for immediate production will also be saved until the specific genre becomes suitable for production. Our diversified script library enables us to produce TV series and films of diversified genres and respond to changing viewer preferences in a timely manner. As of December 31, 2019, there were 37 script concepts in our script library.

Higher education

Selection and design of teaching materials

We adhere to strict procedures for selecting teaching materials and textbooks in order to maintain the quality of our education. Our teaching material management policies cover the selection, procurement, distribution and management of the teaching materials to be used by our University. We generally require our teachers to adopt and use teaching materials published recently, which must comply with the basic course requirements and course syllabuses for each major offered by us. In addition, we typically require our teachers to teach one course with one set of teaching materials for an extended period of time in order to ensure consistency and learning stability, until such materials are no longer suitable for our teaching requirements, in which case they will subsequently be replaced. In terms of selection, teaching materials for a course typically must be approved by the teaching and research department of the major under which such course is offered.

In addition, we permit our University to use teaching materials and textbooks designed and published by our teachers, who generally create appropriate teaching materials based on the conditions of the class and the major they offer. For example, as of December 31, 2019, our teachers had published about 100 textbooks, covering a variety of subject matters.

INTELLECTUAL PROPERTY

Our intellectual property assets include:

- trademarks in names, domain names, logos and characters which are subject to statutory terms; and

- copyrights of our TV series, films, scripts, Media IP and purchased scripts, each subject to the statutory terms.

As of the Latest Practicable Date, we had either full or joint ownership of the copyright to 33 TV series, 73 registered trademarks and 13 registered domain names. As of the same date, we were in the process of applying for the registration of eight trademarks. We have not received any claim of infringement of or initiated any lawsuits against other parties' intellectual properties during the Track Record Period.

We protect the intellectual property rights of our TV series and films through a series of measures:

- TV series licensing contracts entered into with our customers generally explicitly stipulate that, unless specifically permitted, customers are only allowed to broadcast our TV series within authorized platforms and areas/regions and the customers are prohibited from infringing or misappropriating our intellectual property rights by sub-licensing our TV series or reproducing our TV series into audio and video products.

- our employees are prohibited under their employment contracts from making any improper use of our intellectual properties, including but not limited to disclosing the copyrights of our TV series to any third party, during the term of their employment and for two additional years following the termination of their employment contracts.

- after master tapes are finalized in the post-production process, they are then transported back to us securely and are locked in a room with restricted access. Any staff entering the room must first obtain our management's approval and any entry and exit from the room are registered in a log.

LAND AND PROPERTIES

As of the Latest Practicable Date, we occupied four parcels of land in the PRC with a total gross site area of 705,454.8 square meters and 26 buildings with a total gross floor area of 283,397.2 square meters for our University in Nanjing. Four buildings with a total planned gross floor area of 40,052.88 square meters are currently under construction and are expected to be completed by the end of 2020. All of the above properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules, according to the property valuation report prepared by Cushman & Wakefield as set out in Appendix III to this document. As of Latest Practicable Date, we also entered into five lease agreements to lease nine properties with a total gross floor area of 1,505.9 square meters.

Land

As of the Latest Practicable Date, we occupied four parcels of land for our University with a gross site area of 705,454.8 square meters, and we obtained all land use right certificates for the four parcels of land of 705,454.8 square meters in Nanjing, Jiangsu Province for science and education use.

Buildings and buildings under construction

As of the Latest Practicable Date, we occupied 26 buildings located in the PRC with an aggregate gross floor area of 283,397.2 square meters for our University in Nanjing. All of the buildings that are occupied by our University have been designed mainly for education-related usage (including teaching facilities, canteen, dormitory, warehouse and recreational usage), among which we have obtained building ownership certificates for 22 buildings with an aggregate gross floor area of 246,594.0 square meters.

Specifically, among the 26 buildings we occupied, there are:

- One building with 8,581.6 square meters which lacks the construction planning permit (建設工程規劃許可證), representing approximately 3.0% of the total gross floor area of the buildings we occupied;

- Three buildings with 30,223.3 square meters which lack the construction commencement permit (施工許可證), representing approximately 10.7% of the total gross floor area of the buildings we occupied; and

- Four buildings with 96,654.6 square meters which have not passed fire control assessment (消防驗收), representing approximately 34.1% of the total gross floor area of the buildings we occupied.

As of the Latest Practicable Date, we were not aware of any actual or contemplated actions, claims or investigations by any government authorities or third parties against us with respect to the lack of building ownership certificates and other relevant certificates or permits for certain of our owned buildings and buildings under construction. For further details on the risks associated with our owned properties, please see the section headed "Risk factors – Risks relating to our business and industries – The land and buildings with defective titles may subject us to administrative fines and other penalties".

We have implemented extensive and comprehensive measures to rectify the above defects in our owned buildings and buildings under construction. We are in the process of applying to the relevant government authorities for the relevant outstanding certificates and permits and are closely following up with the government authorities with respect to our applications. In this respect, we obtained confirmations from the relevant and competent government authorities that we will not be subject to the above mentioned administrative penalties and are permitted to use the relevant buildings under the current status. Based on the above, our PRC Legal Adviser is of the view that (a) those government authorities are the competent authorities in giving such confirmations, and (b) based on such confirmations, the risk that we will be subject to the above mentioned administrative penalties regarding not obtaining the construction planning permit, construction commencement permit, acceptance inspection upon completion and fire control assessment for such buildings is relatively low. Our PRC Legal Adviser is also of the view that there are no material legal impediments for our University to make remedial applications for the outstanding certificates of fire control, and our University should be able to obtain such certificates after passing the fire control assessment conducted by the project owners, design, construction and supervision units, submitting application documents and passing the on-site completion inspection by the local governmental authorities.

Based on the above, our Directors are of the view that the above defects in our owned properties will not have a material adverse effect on our overall operations and financial condition as a whole.

As advised by our PRC Legal Adviser, our University is subject to the Indicators of Basic Conditions for Operating Higher Education Institutions (Trial) (普通高等學校基本辦學條件指標(試行)) (the "**Indicators**"). The teaching and administrative building area per student belongs to the Basic Indicator. In the event that one of the Basic Indicator of a university does not meet the Enrollment Restriction Standard, the university may receive a yellow card issued by competent authority and its student admission must not exceed the number of graduates in the same year. The site area per student belongs to the Monitoring Indicator, which is supplementary to the Basic Indicator to primarily reflect improvements to the operation conditions of such higher education institution. As advised by our PRC Legal Adviser, as of the Latest Practicable Date, the relevant legislation does not state any legal consequences for a breach of the Monitoring Indicator. According to the Indicators, the applicable Qualified Standard of teaching and administrative building area per student and site area per student for arts universities is 18 square meters and 88 square meters, respectively. We had not received any yellow card or red card as of the Latest Practicable Date.

The following table presents the teaching and administrative building area per student and site area per student at our University in the school years 2016/2017, 2017/2018, 2018/2019 and 2019/2020:

	School Year			
	2016/2017	**2017/2018**	**2018/2019**	**2019/2020**
	(square meters)			
Teaching and administrative building area per student	19.8	18.9	18.2	17.3
Site area per student	56.6	54.2	52.2	49.5

Except for the school year 2019/2020, our teaching and administrative building area per student was above the Qualified Standard during the Track Record Period. Our site area per student did not fully meet the requirements of the Monitoring Indicators during the Track Record Period. On August 31, 2018, we consulted with the relevant officials of Education Department of Jiangsu Province relating to failure to fulfill certain indicators of school operating conditions. An official in charge of private education from the Development and Planning Office of the Education Department of Jiangsu Province, who is responsible for the supervision and inspection of the school-running behaviors of private higher education institutions in Jiangsu Province, stated that it is quite common that the operation conditions of an independent college may not keep up with its rapid development for some period of time. Considering that our University has passed the annual inspections, the relevant education authority would not impose any limitation on student enrollment or any other adverse administrative measures, including yellow or red card.

Based on the foregoing, our PRC Legal Adviser is of the view that the risk that our University will be penalized by the relevant education authorities for its lower ratios of teaching and administrative building area and site area to the number of students is relatively low and did not constitute a material non-compliance.

We endeavor to continuously improve the ratios of the teaching and administrative building area and site area to the number of students and aim to meet such requirement. We will monitor and adjust the ratios as necessary and practicable based on the needs of our increasing student enrollments without compromising our profitability. We will continue to seek suitable expansion and construction opportunities with a focus on improving the ratios of teaching and administrative building area and site area to the number of students. In addition, we believe we will be able to improve the Indicators of our Universities when we complete the current construction plans. Going forward, we will also actively promote land acquisition and timely commence the construction of the new campuses to meet the relevant ratio requirements.

Leased properties

As of the Latest Practicable Date, we entered into five lease agreements to lease nine properties with a total gross floor area of 1,505.9 square meters. The rental fee is RMB405,840.5 per month.

The relevant lease agreements we have entered into with our landlords were not registered with the relevant PRC government authorities. Our PRC Legal Adviser has advised us that we may be required by the relevant PRC authorities to register the relevant lease agreements within a prescribed time limit. If we fail to do so, we may be subject to fines ranging from RMB1,000 to RMB10,000 for each non-registered lease. However, as of the Latest Practicable Date, we had not been fined by the relevant PRC authorities with respect to these non-registered leases, and our PRC Legal Adviser has advised us that the non-registration of such lease agreements would not affect their validity. For further details on the risks associated with our leased properties, see "Risk factors – Non-registration of some of our lease agreements may subject us to administrative fines".

As for eight of the leased properties, the lessors failed to provide the consent of the owner who is an interested party for changing the use of such properties from residential into commercial. In addition, one of the leased properties was mortgaged as security to a bank by its owner prior to the conclusion of the lease agreements. As advised by our PRC Legal Adviser, if the interested owner does not give consent to the use the above-mentioned properties for business use, we may not be able to continue to use such leased properties for business use; in case the bank realizes its mortgage and sells the above-mentioned property, the lease agreements may not be legally binding on the assignee of the such property; therefore, after the mortgage is realized, there is uncertainty in whether we can continue to use such leased property.

Nevertheless, we do not anticipate any difficulties in locating suitable alternative sites, and we are of the view that any relocation with regard to these properties will not have a material adverse effect on our business operations.

Efforts to ensure future compliance

With a view to ensuring our full compliance with property related laws and regulations in the PRC going forward, we have enhanced our internal control measures, including establishing internal compliance guidelines for our properties and a comprehensive compliance checklist setting out the detailed procedures and prerequisites that have to be completed and/or fulfilled before any construction or operation of the buildings may commence. Such procedures serve to ensure that we will obtain the relevant licenses and permits (including land use right certificates and building ownership certificates) as required by laws and regulations and follow the requisite procedures relating to construction works and completion of buildings. We provide our Directors, senior management and employees involved in property related matters with continuous training programs and regular updates on the relevant PRC laws and regulations and enhance their awareness.

INSURANCE

We provide group accident insurance to all members of the production team, including actors and actresses, for each TV series or film. We have also purchased insurance policy covering our all buildings and facilities in our University.

However, we do not maintain insurance policies with respect to property and equipment in the TV series/film production process due to fire, explosion, earthquake, typhoon, flood and certain other risks. While we believe that our insurance policies are adequate and in line with industry norms in China, we do not carry business interruption insurance or key-personnel insurance or any policy of a similar nature.

HEALTH, SAFETY AND ENVIRONMENTAL CONCERNS

We are dedicated to protecting the health and safety of our employees and students.

Our producers supervise the entire production process of our TV series and films, and are in charge of safety control at photography scenes. Safety control measures we adopt routinely during production processes include:

- following the applicable regulations, rules and guidelines strictly, particularly when explosives or other dangerous equipment or materials are involved;
- engaging professionals to handle certain shooting activities in which explosives or other dangerous equipment or materials are extensively used;
- assigning dedicated crews to ensure the safety of the shooting location and equipment; and
- carefully designing each explosion scene before shooting dangerous scenes involving explosions to protect the crew's safety. Our explosives experts will first conduct experiment trials to ensure the adequate amount of explosives is used to produce the best dramatic effect without endangering cast members. Each artist will be briefed on where the detonation points are set to ensure that they are within the required safety range before the explosion scenes are shot.

Our University has also adopted and implemented student health and safety measures and procedures to protect our students from bodily harm and other health and safety risks. We provide routine medical services for our students and faculty by outsourcing such services to qualified third party medical care providers. In the event of any certain serious and emergency medical situations, we will promptly send our students to local hospitals for treatment. With respect to school safety, we promote the security of our University by engaging third party security companies to provide the routine security service.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any serious accident, medical situation or safety issue involving our employees, students and service providers.

LEGAL PROCEEDINGS AND COMPLIANCE

As of the Latest Practicable Date, neither our Company nor any of our subsidiaries was a party to any litigation, of which the outcome would materially adversely impact our business operation and financial condition.

As of the Latest Practicable Date, to the best of our knowledge, we were not aware of any other pending or threatened litigation, arbitration or administrative proceedings against us or any of our subsidiaries, which could have a material and adverse effect on our financial condition or results of operations.

During the Track Record Period and up to the Latest Practicable Date, we did not have any material or systematic non-compliance of the laws or regulations that, taken as a whole, in the opinion of our Directors are likely to have a material and adverse effect on our business, financial condition or results of operations.

According to our PRC Legal Adviser, other than as disclosed in "Risk factors – Risk relating to our business and industries – The land and buildings with defective titles may subject us to administrative fines and other penalties", "– Land and properties" and "– Higher education – Teachers in our University", we have complied with all relevant PRC laws and regulations in all material respects during the Track Record Period and up to the Latest Practicable Date. See these mentioned subsections for detailed description, which are also summarized below.

Some of our land and buildings lack certain permits and certificates

As of the Latest Practicable Date, among the 26 buildings we currently occupied, a building with an aggregate gross floor area of 8,581.6 square meters lacks the construction planning permits (建設工程規劃許可證); three buildings with an aggregate gross floor area of 30,223.3 square meters lack the construction commencement permits (施工許可證); and four buildings with a total planned gross floor area of 96,654.6 square meters have not passed the fire control assessment (消防驗收).

According to our PRC Legal Adviser, for construction work carried out without construction planning permits, the relevant government authority may order the cessation of construction. If the impact on planning caused by such construction can be eradicated, the relevant government authority may order the construction entity to rectify such impact and an additional fine of not less than 5% but not more than 10% of the construction cost may be imposed. If such impact cannot be eliminated, the relevant government authority may: (i) order the construction entity to demolish the construction; (ii) confiscate the buildings or structures or any income illegally earned from such properties; and/or (iii) impose a fine of not more than 10% of the construction cost. With respect to failure to obtain construction commencement permits, we are subject to the risk of being required to adopt remedial measures within a certain time limit and being fined 1% to 2% of the contract price of the construction project. As for construction projects that are delivered for use without passing the relevant completion inspections, the construction entity may be ordered to rectify and may be obliged to pay compensation where any damage has been caused, and a fine of not less than 2% but not more than 4% of the contract price of the construction may also be imposed. With respect to the failure to pass the fire control assessments, we are subject to the risk of being prohibited from using such buildings and being fined between RMB30,000 and RMB300,000 for each building.

We have implemented extensive and comprehensive measures to rectify the above defects, including applying to the relevant government authorities for the relevant outstanding certificates and permits and closely following up with the government authorities with respect to our applications. We expect to obtain all of the relevant permits and certificates within one year.

Internally, we have established internal compliance guidelines for our properties and facilities and a comprehensive compliance checklist setting out the detailed procedures and prerequisites that have to be completed or fulfilled before any construction or operation of the buildings or facilities may commence; such procedure serves to ensure that we will obtain the relevant licenses and permits as required by laws and regulations and follow the requisite procedures relating to construction works and completion of buildings.

Unfulfillment of certain Indicators of school operating conditions

As one of the basic operating condition indicators of our University, our student-to-teacher ratio was 16.3:1, 14.4:1, 11.9:1 and 11.6:1 for the school years 2016/2017, 2017/2018, 2018/2019 and 2019/2020, respectively, which was above the applicable Enrollment Restriction Standard (17:1) but did not meet the Qualified Standard (11:1) for this Indicator. The incident occurred primarily because our recruitment of qualified teachers failed to catch up with the growth of the student body of our University.

The relevant provision stipulated that in the event that a higher educational institution does not meet the Enrollment Restriction Standard for the Basic Indicator, the competent authority will issue a yellow card which will limit the student admission quota of that institution to the actual number of its graduating students for that school year. Receiving yellow cards for three consecutive years could lead to a red card which will suspend the student admission of such institution.

In addition, our site area per student did not fully meet the requirement of the Monitoring Indicators during the Track Record Period as our campus size could not keep up with the rapid development of our University. The site area per student belongs to the Monitoring Indicator, which is supplementary to the Basic Indicator to primarily reflect improvements to the operation conditions of such higher education institution. In the school year 2019/2020, our teaching and administrative building area per student was slightly below the Qualified Standard. As advised by our PRC Legal Adviser, as of the Latest Practicable Date, the relevant legislation does not state any legal consequences for a breach of the Monitoring Indicator, and the risk that our University will be penalized by the relevant education authorities for its lower ratios of teaching and administrative building area and site area to the number of students is relatively low and did not constitute a material non-compliance.

On August 31, 2018, we consulted with the relevant officials of Education Department of Jiangsu Province relating to failure to fulfill certain indicators of school operating conditions. An official in charge of private education from the Development and Planning Office of the Education Department of Jiangsu Province, who is responsible for the supervision and inspection of the school-running behaviors of private higher education institutions in Jiangsu Province, stated that it is quite common that the operation conditions of an independent college may not keep up with its rapid development for some period of time. Considering that our University has passed the annual inspections, they would not impose any limitation on student enrollment or any other adverse administrative measures, including yellow or red card.

To improve and avoid non-compliance incidents related to the student-to-teacher ratio, we have endeavored to recruit more teachers and our student-to-teacher ratio has already improved. We plan to recruit 50 additional qualified teachers by 2021. Our management team is working on the approach and threshold of introducing talents, reward mechanism for recommending talents and detailed framework of recruitment. We will adjust our teacher recruitment plans each year according to the regulatory requirements of the competent government authorities. Internally, we will provide internal training to our management team about the requirements relating to Indicators under the relevant PRC laws and regulations to further enhance their understanding.

As for teaching and administrative building area and site area per student, we will continuously improve the ratios of the teaching and administrative building area and site area to the number of students and aim to meet such requirement. We will continue to seek suitable expansion opportunities with a focus on improving such ratios. We will also actively promote land acquisition and timely commence the construction of new campuses and buildings to meet the relevant ratio requirements. Internally, we will monitor and adjust our ratios as necessary and practicable based on the needs of our increasing student enrollments without compromising our profitability.

Our Directors are of the view that the occurrence of the aforementioned non-compliance incidents was principally due to the lack of knowledge of and familiarity with the applicable legal requirements. As part of the listing process, our Directors have undergone directors' training on the above discussed laws and regulations and have also engaged legal advisers to advise them on applicable legal or regulatory requirements. After considering the above rectification and improvement actions taken by our Company, and our business nature and operation scale, our Directors are satisfied that our internal control system is adequate and effective for our current operations.

INTERNAL CONTROL

In preparation for the Listing, we engaged an independent third party consultant (the "**Internal Control Consultant**") in December 2016 to perform the first round of review over selected areas of our internal controls (the "**Internal Control Review**"). The scope of the Internal Control Review performed by the Internal Control Consultant was agreed between us, the Joint Sponsors and the Internal Control Consultant. The selected areas of our internal controls over financial reporting that were reviewed by the Internal Control Consultant included (i) entity-level controls including control environment, risk assessment, control activities, information and communication and monitoring, and (ii) business process level controls including revenue and collection, purchase and payment, inventory and cost management, asset management, treasury management, financial reporting management, taxation management and IT general controls. The Internal Control Consultant provided recommendations in relation to strengthening the aforesaid internal controls over financial reporting to our management for consideration.

We have taken the recommendations and have implemented relevant control measures as a result of the Internal Control Review, including:

- establishing the Board and board committees in accordance with the Listing Rules;

- establishing the polices on internal control at the entity level including code of conduct, management of conflict of interest, financial report compliance, internal control system and procedure, related party transaction management, and sensitive information monitoring and information disclosure; and

- establishing financial accounting rules for both TV/film production business and higher education business, and adjusting financial accounting method of income, cost and other key accounts.

The Internal Control Consultant performed a follow-up review in March 2018 to review the status of the management actions taken by us to address the findings of the Internal Control Review (the "**Follow-up Review**") and perform the second round of review over the same areas of our internal control as the first round of review in July 2019. The Internal Control Consultant did not have any further recommendation in the Follow up Review and the second round review and our Directors confirmed that all of the major recommendations provided by the Internal Control Consultant have been followed and corrective actions were taken accordingly to address our internal control deficiencies and weaknesses.

In addition, we have adopted a set of internal rules and policies governing the conduct of our teachers and employees. We have set up a monitoring system to implement anti-bribery and anti-corruption measures so as to ensure that our employees comply with our internal rules and policies as well as the applicable laws and regulations. For example, our management is responsible for conducting a fraud and bribery risk assessment on an annual basis and our Audit Committee reviews and approves our annual risk assessment results and policies. We have also identified certain forbidden conduct in our internal anti-bribery and anti-corruption policies, including, among others, the prohibition to (i) obtain economic and other benefits through gifts and donations, (ii) offer sponsorship or travel arrangements against fair competition, and (iii) provide various kinds of membership cards and gift cards. We will offer mandatory training courses to our existing and new employees to enhance their knowledge and awareness of the relevant rules and regulations, as well as their own personal and professional conduct. Moreover, we have instituted remedies and relevant economic and administrative punishment measures for employees who are/might be involved in corruption and bribery activities. We have introduced measures to strengthen our cash management, including (i) improving the authorization mechanism for payment and tightening control over chops and internet banking tokens necessary for bank account operation, (ii) conducting regular cash checking and preparing bank reconciliation report and cash report periodically, and (iii) monitoring the use of funds as well as the accounts under our entities' names. During the Track Record Period, we were not aware of any corruption involving, or any other material misconduct committed by our employees.

RISK MANAGEMENT

Our business is exposed to various risks and we believe that risk management is essential to our growth and success. Key operational risks faced by us include, among other things, changes in general market conditions and perceptions of private higher education, changes of viewing preferences and changes in the regulatory environment in the PRC. Please refer to the section headed "Risk factors" in this document for disclosures on various risks we face. In addition, we also face numerous market risks, such as interest rate, credit, liquidity and currency risks that arise in the ordinary course of our business. For a discussion on these market risks, please see the section headed "Financial information – Financial risk disclosure" in this document.

To properly manage these risks, we have established the following risk management structures and measures:

- our Board of Directors is responsible and has the general power to manage the operations of our business, and is in charge of managing the overall risks of our Group. It is responsible for considering, reviewing and approving any significant business decision involving material risk exposures, such as our decision to expand our business network into new geographic areas, new facility construction, and to enter into cooperative business relationships with third parties to establish new business;

- we maintain insurance coverage, which we believe is in line with customary practice in our industries; and

- we are making arrangements with certain banks to ensure we are able to obtain credits to support our business operation and expansion.

LICENSES AND PERMITS

Our PRC Legal Adviser has advised that during the Track Record Period and up to the Latest Practicable Date, except for certain non-compliance matters as disclosed in the "Risk factors – Risks relating to our business and industries – The land and buildings with defective titles may subject us to administrative fines and other penalties", and "– Land and properties" sections, we had obtained all licenses, permits, approvals and certificates necessary to conduct our operations in all material respects from the relevant government authorities in the PRC, and such licenses, permits, approvals and certificates remained in full effect.

The table below sets forth details of our material licenses and permits:

Type of permit	**Holder**	**Issuance date**	**Expiry date**
Permit for Production and Operation of Radio and TV Programs	Dongyang Huaxia	June 28, 2019	March 31, 2021
Permit for Production and Operation of Radio and TV Programs	Huaxia Audio-Visual	April 1, 2019	March 31, 2021
Permit for Production and Operation of Radio and TV Programs	Huaxia Online	April 1, 2019	March 31, 2021
Private School Operating License	CUCN	March 2020	March 2024

BACKGROUND

We currently conduct our TV/film production business and our private higher education business (the "**Relevant Businesses**") through our Consolidated Affiliated Entities in the PRC as PRC laws and regulations, or their implementation by relevant government authorities, generally prohibit or restrict foreign ownership in the Relevant Businesses. Currently, PRC laws and regulations prohibit the operation of TV series or film production companies and restrict the operation of higher education institutions to Sino-foreign cooperation ownership (in addition to imposing a qualification requirement on the foreign owners). Government approvals of Sino-foreign cooperation ownership in the private education sector have, with very limited exceptions, been withheld in practice.

As a result of the restrictions imposed by PRC laws and regulations, our Company is unable to own or hold any direct sponsor interest or equity interest in our Consolidated Affiliated Entities. Accordingly, the term 'ownership' or the relevant concept, as applied to our Company in this document, refers to an economic interest in the assets or businesses through the Contractual Arrangements without holding any sponsor/equity interest in our Consolidated Affiliated Entities. The Contractual Arrangements, through which we are able to exercise control over and derive the economic benefits enjoyed by Registered Shareholders from our Consolidated Affiliated Entities, have been narrowly tailored to achieve our business purpose and minimize the potential conflict with relevant PRC laws and regulations.

PRC LAWS AND REGULATIONS RELATING TO FOREIGN OWNERSHIP IN THE MEDIA AND EDUCATION INDUSTRIES

TV/film production

Pursuant to the Special Administrative Measures for the Access of Foreign Investment (Negative List) (2019 version) (外商投資準入特別管理措施(負面清單) (2019年版)), foreign investors are prohibited from holding any equity interest in any PRC radio and TV production company and any PRC film production company. See "Regulations – Regulations on TV series and variety shows production in the PRC" for more details.

With the assistance of our PRC Legal Adviser, we consulted the NRTA on August 5, 2019, being the competent authority as advised by our PRC Legal Adviser to confirm the matters relating to foreign investment in a radio and TV production company. We were advised by an official of the Division of TV Series Content of the NRTA that:

(i) foreign investment in TV and film production and distribution business are explicitly prohibited, and the NRTA will not approve any foreign investors to directly or indirectly invest in such business; and

(ii) the execution of the Contractual Arrangements does not require approval from the NRTA.

Given the relevant regulations and policy followed by the NRTA as summarized above, our Directors consider that it is not practicable for us to hold any equity interest in Dongyang Huaxia and its subsidiaries directly or indirectly.

Higher education

Pursuant to the Special Administrative Measures for the Access of Foreign Investment (Negative List) (2019 version) (外商投資準入特別管理措施(負面清單) (2019年版)), the provision of higher education in the PRC falls within the 'restricted' category. As such, foreign investment in higher education institutions must be in the form of a Sino-foreign cooperation, which means that foreign investors may only operate higher education institutions through cooperating with PRC incorporated entities that are in compliance with the Regulations on Operating Sino-foreign Schools (中外合作辦學條例) (the "**Sino-Foreign Regulation**") and its implementing rules. In addition, such catalog provides that the domestic party shall play a dominant role in the Sino-foreign cooperation, meaning that: (a) the principal or other chief executive officer of the schools or education institutions shall be a PRC national; and (b) the representative of the domestic party shall account for no less than half of the total members of the board of directors, the executive council or the joint administration committee of the Sino-foreign school (the "**Foreign Control Restriction**"). Currently, the principal, the chief executive officers and all members of the board of directors (except Jacqueline Luo) of CUCN are PRC nationals.

In relation to the interpretation of Sino-foreign cooperation, pursuant to the Sino-Foreign Regulation and its implementing rules, the foreign investor in a Sino-foreign school (a "**Sino-Foreign School**") must be a foreign educational institution with relevant qualification and high quality of education (the "**Qualification Requirement**"). Furthermore, pursuant to the Implementation Opinions of the MOE on Encouraging and Guiding the Entry of Private Capital in the Fields of Education and Promoting the Healthy Development of Private Education (關於鼓勵和引導民間資金進入教育領域促進民辦教育健康發展的實施意見), the foreign portion of the total investment in a Sino-Foreign School should be below 50% (the "**Foreign Ownership Restriction**") and the establishment of these schools is subject to approval of education authorities at the provincial or national level. Our PRC Legal Adviser has advised that the laws and regulations are currently uncertain as to what specific criteria must be met by a foreign investor (such as length of experience, and form and extent of ownership in the foreign jurisdiction) in order to demonstrate to the relevant authority that it meets the Qualification Requirement.

With the assistance of our PRC Legal Adviser, we consulted the Education Department of Jiangsu Province (江蘇省教育廳) on August 15, 2019, being the competent authority as advised by our PRC Legal Adviser, to confirm the matters relating to the Sino-Foreign Schools relevant to us. We were advised by an official of Development and Planning Office of the Education Department of Jiangsu Province that:

(i) the Foreign Control Restriction and the Foreign Ownership Restriction apply to Sino-Foreign Schools in Jiangsu Province;

(ii) no implementing measures or specific guidance were promulgated pursuant to the Sino-Foreign Regulation and its implementing rules and the Qualification Requirement in Jiangsu Province;

(iii) although there is an understanding that the foreign investor will generally be an educational institution ranked globally among the top 200 universities or top 100 in the relevant fields, due to policy reason, the Education Department of Jiangsu Province will be unlikely to approve an application to convert CUCN or any schools to be newly established or invested by us into Sino-Foreign Schools; and

(iv) the execution of the Contractual Arrangements does not require approval from them.

Given the policy adopted by the Education Department of Jiangsu Province as summarized above, our Directors consider that it is not practicable for us to seek to apply to reorganize CUCN as a Sino-Foreign School.

Notwithstanding the above, we have adopted a specific plan and will continue to expend genuine efforts and financial resources towards meeting the Qualification Requirement. We will remain abreast of any regulatory developments and continuously assess whether we meet the Qualification Requirement, with a view to unwinding the Contractual Arrangements wholly or partially as and when practicable and permissible under the prevailing PRC Laws.

Circumstances in which we will unwind the Contractual Arrangements

In relation to our TV series and film production and distribution business, if the operation of a PRC radio and TV production and distribution company and PRC film and distribution production company by foreign investors is permitted, we will exercise the Exclusive Call Option Agreement and unwind and terminate our Contractual Arrangements to the extent permissible as soon as practicable, and we will directly hold the maximum percentage of equity interest permissible under the relevant PRC laws and regulations.

In relation to our higher education business, in the event that the Qualification Requirement is removed or we are able to meet the Qualification Requirement but, as permitted by the applicable PRC laws and regulations at the relevant time:

(i) the Foreign Ownership Restriction and the Foreign Control Restriction remain – we will partially unwind the Contractual Arrangements and directly hold a sponsor or equity interest of less than 50% in the relevant school or corporate entity since, as a foreign investor, we can only hold no more than 50% interest in a Sino-Foreign School. However, we will still rely on the Contractual Arrangements in place with respect to the domestic interests in order to establish control over such school or corporate entities. Our Company will also acquire rights to appoint less than 50% of the members of the board of directors of the school. We will then control the voting power of the other members of the board of directors appointed by the domestic party by way of the Contractual Arrangements;

(ii) the Foreign Ownership Restriction remains and the Foreign Control Restriction is removed – we will partially unwind the Contractual Arrangements and directly hold a sponsor or equity interest of less than 50% in the relevant school or corporate entity since, as a foreign investor, we can only hold no more than 50% interest in a Sino-Foreign School. However we will still rely on the Contractual Arrangements in place with respect to the domestic interests in order to establish control over such school or corporate entities. Our Company will also acquire rights to appoint all members to the board of directors of the school;

(iii) the Foreign Ownership Restriction is removed and the Foreign Control Restriction remains – although, as a foreign investor, we can hold a majority interest in a Sino-Foreign School, the Sino-Foreign Regulation and its implementing rules still dictate that there be a domestic interest in the school and we will not be eligible to operate the schools by ourselves. Therefore, we will acquire rights to appoint less than 50% of the members of the board of directors of the school. We will then control the voting power of the other members of the board of directors appointed by the domestic party by way of the Contractual Arrangements. We also plan to directly hold the maximum permitted percentage of sponsor or equity interest in the relevant school or corporate entity, subject to the approval of relevant government authorities. We will continue to control the remaining minority domestic interests by way of the Contractual Arrangements; and

(iv) both the Foreign Ownership Restriction and the Foreign Control Restriction are removed – we will be allowed to directly hold 100% of the interests held by the Registered Shareholders in our University or relevant corporate entities and we will fully unwind the Contractual Arrangements and directly hold all sponsor or equity interests held by the Registered Shareholders in the relevant school or corporate entity. Our Company will also acquire rights to appoint all members to the board of directors of the school.

In the event that the Qualification Requirement, the Foreign Ownership Restriction and the Foreign Control Restriction are all removed (and assuming there are no other changes in the relevant PRC laws and regulations), we will exercise the Exclusive Call Option Agreement to unwind and terminate our Contractual Arrangements as soon as practicable, and we will directly hold sponsor interests held by the Registered Shareholders in CUCN without using the Contractual Arrangements.

Plan to comply with the Qualification Requirement

We are implementing a business plan with a view to expanding our education operations overseas. We currently plan to establish and operate a university authorized to grant Bachelor of Arts degrees in Animation and Media in the state of California, the United States. We believe that such business plan represents our commitment and a meaningful endeavor to demonstrate compliance with the Qualification Requirement. In particular, we have taken the following concrete steps to comply with the Qualification Requirement:

- On June 27, 2017, we incorporated a holding company of a new school in California, United States, namely, Cathay Picture, Inc., which is wholly-owned by Cathay Media HK and will be responsible for the daily operation and management of the university to be established;

- On July 6, 2017, we entered into a consulting agreement with an independent education consultant with extensive experience and background in private post-secondary education in California, the United States, pursuant to which the consultant shall provide consultation and adviser services in relation to the licensing application submitted to the Bureau for Private Post-secondary Education ("**BPPE**") in California; and

- On May 30, 2018, we submitted a formal application to, and have since been in correspondence with, the BPPE for the establishment of a university through the non-accredited process.

- In December 2018, we received a response letter from the BPPE to request for further information, which we responded to in January 2019.

- In February 2020, we received a request from BPPE for further information, which we responded to in March 2020.

Based on the further information requested by BPPE and our understanding from our agent, assuming there is no major issue, the approval process with the BPPE is expected to complete in or before 2021. We anticipate that the new university will formally commence operations in around half a year after licensing approval is received.

We had expended approximately US$20,650 in connection with our plan as of December 31, 2019. We also estimate additional costs of around US$40,000 in relation to the licensing and accreditation process, and that an initial investment of US$1 million will be required to establish this university. We intend to fund the establishment, management and operations of the new university from internal resources.

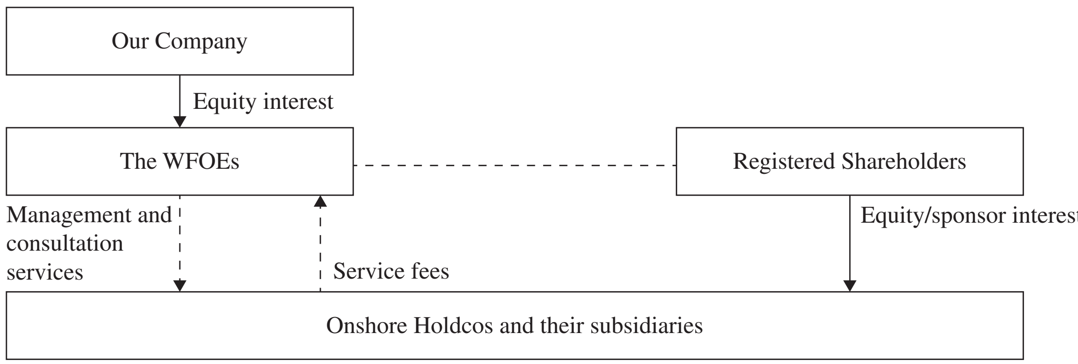
We are in the process of searching for appropriate premises to be used as our initial school office. With the assistance of the consultant, we have prepared the program syllabus and designed the online learning management system. We intend to appoint a chief academic officer with at least 10 years' experience in academic affairs and university management, and approximately twelve additional staff and faculty.

Our PRC Legal Adviser is of the view that while Sino-foreign Schools are to be jointly established by both foreign and domestic educational institutions, it is currently uncertain as to what specific criteria must be met by a foreign investor (such as length of experience, and form and extent of ownership in the foreign jurisdiction) in order to demonstrate that it meets the Qualification Requirement. Based on the interviews conducted with the Education Department of Jiangsu Province and the steps that we have undertaken as mentioned above, our PRC Legal Adviser is of the view that we have taken all reasonable steps towards fulfilling the Qualification Requirement subject to the discretion of competent authority.

We will communicate with the relevant authorities on a regular basis following the Listing to keep abreast of any regulatory developments, including whether there will be any change in policy for approving Sino-Foreign Schools in Jiangsu Province, and assess whether we are qualified to meet the Qualification Requirement. We will disclose our progress in the implementation of our overseas expansion plans and updates to the Qualification Requirement in our annual and interim reports to inform the public investors after the Listing as and when appropriate.

CONTRACTUAL ARRANGEMENTS

The following simplified diagram illustrates the flow of economic benefits from our Consolidated Affiliated Entities to our Group under the Contractual Arrangements:



Notes:

(1) Registered Shareholders refer to the registered shareholders of the Onshore Holdcos (Dongyang Huaxia and Nanjing Lanchou). Dongyang Huaxia is owned by Mr. Pu as to 99% and Mr. Liu Chang as to 1%. Nanjing Lanchou is owned by Mr. Pu as to 100%.

(2) "—>" denotes legal and beneficial ownership in the equity/sponsor interest.

(3) "--->" denotes contractual relationship.

(4) "----" denotes the control by WFOEs over the Registered Shareholders and the Onshore Holdcos through (i) powers of attorney to exercise all shareholders' rights in the Onshore Holdcos, (ii) exclusive options to acquire all or part of the equity/sponsor interests held by the Registered Shareholders in our Consolidated Affiliated Entities and (iii) equity pledges over the equity interests held by the Registered Shareholders in the Onshore Holdcos, Huaxia Audio-Visual and Nanjing Meiya.

Summary of the material terms of the Contractual Arrangements

Exclusive Business Cooperation Agreements

Pursuant to the exclusive business cooperation agreements entered into by and between the WFOEs, the Registered Shareholders, the Onshore Holdcos and CUCN dated August 28, 2019 (the "**Exclusive Business Cooperation Agreements**"), the WFOEs have the exclusive right to provide to Dongyang Huaxia and its subsidiaries, Nanjing Lanchou and CUCN technical services, management support services, consulting services, intellectual property licenses and other additional services as the parties may mutually agree from time to time, and in return, the Onshore Holdcos, CUCN shall make payments accordingly. Without the WFOEs' prior written consent, the Onshore Holdcos and CUCN shall not and shall urge their subsidiaries not to accept services which are in competition or contradiction with those covered by the Exclusive Business Cooperation Agreements from any third party.

In addition, pursuant to the Exclusive Business Cooperation Agreements, each of the Registered Shareholders undertakes to the WFOEs that in the event of death, loss of or restriction on capacity, divorce or other circumstances which may affect the exercise of his direct or indirect sponsor or equity interest in the Onshore Holdcos and CUCN, he shall have made all necessary arrangement and signed all necessary documents such that his respective successor, guardian, spouse, and any other person which may as a result of the above events obtain the sponsor interest or equity rights shall not prejudice or hinder the enforcement of the Contractual Arrangements.

Exclusive Technical Services and Management Consultancy Agreements

Pursuant to the exclusive technical services and management consultancy agreements entered into by and between the WFOEs, the Onshore Holdcos and CUCN dated August 28, 2019 (the "**Exclusive Technical Services and Management Consultancy Agreements**"), the WFOEs have the exclusive right to provide, or designate any third party to provide, technical and management services to Dongyang Huaxia and its subsidiaries, Nanjing Lanchou and CUCN, which may involve:

(a) design, development, update and maintenance of software for computer and mobile devices;

(b) design, development, update and maintenance of webpages and websites necessary for their business activities;

(c) design, development, update and maintenance of management information systems necessary for their business activities;

(d) provision of other technical support necessary for their business activities;

(e) provision of technical consulting services;

(f) provision of technical training;

(g) engaging technical staff to provide on-site technical support;

(h) other technical services reasonably requested by them;

(i) design of curriculum;

(j) preparation, selection and/or recommendation of course materials;

(k) provision of teacher and staff recruitment and training support and services;

(l) provision of student recruitment support and services;

(m) provision of public relation services;

(n) preparation of long term strategic development plans and annual working plans;

(o) development of financial management systems and recommendation and optimization on annual budget;

(p) advising on design of internal structures and internal management;

(q) provision of management and consultancy training;

(r) conduct of market research;

(s) preparation of market development plan;

(t) building of marketing network; and

(u) providing other services reasonably requested by them.

Without the WFOEs' prior written consent, none of our Consolidated Affiliated Entities may accept services covered by the Exclusive Technical Services and Management Consultancy Agreements from any third party.

In consideration of the technical and management consultancy services provided by the WFOEs, each of the Onshore Holdcos and CUCN agreed to pay the WFOEs a service fee equal to all (in the case of the Onshore Holdcos) or 91% (in the case of CUCN) of their respective amount of surplus from operations (after deducting operating costs and other sums required by relevant laws and regulations to be reserved or withheld). The WFOEs have the right (but not the obligation) to adjust the amount of such service fee by reference to the actual services provided and the actual business operations and needs of the Onshore Holdcos and CUCN, provided that any adjusted amount shall not exceed the amount mentioned above.

Pursuant to the Exclusive Technical Service and Management Consultancy Agreements, unless otherwise prescribed under the PRC laws and regulations, the WFOEs shall have exclusive proprietary rights to any technology and intellectual property developed and materials prepared in the course of the provision of research and development, technical support and services by the WFOEs to Dongyang Huaxia and its subsidiaries, Nanjing Lanchou and CUCN, and any intellectual property in the products developed, including any other rights derived thereunder, in the course of performance of obligations under the Exclusive Technical Service and Management Consultancy Agreements and/or any other agreements entered into between the WFOEs and other parties.

Exclusive Call Option Agreements

Under the exclusive call option agreements entered into by and between the WFOEs, our Consolidated Affiliated Entities and the Registered Shareholders dated August 28, 2019 (the "**Exclusive Call Option Agreements**"), the Registered Shareholders have irrevocably granted the WFOEs or their designated purchaser the right to purchase all or part of the interests held by them in our Consolidated Affiliated Entities. The purchase price payable by the WFOEs in respect of the transfer of such interest upon exercise of the call option shall be the lowest price permitted under the PRC laws and regulations. The WFOEs or their designated purchaser shall have the right to purchase such proportion of the interests as it decides at any time.

The Registered Shareholders have further undertaken to the WFOEs that they:

(a) shall not sell, assign, transfer or otherwise dispose of or create encumbrance over their interest in any of our Consolidated Affiliated Entities directly or indirectly without the prior written consent of the WFOEs;

(b) shall not increase or reduce or agree to the increase or reduction of capital investment of our Consolidated Affiliated Entities without the prior written consent of the WFOEs;

(c) shall not agree to or procure any of our Consolidated Affiliated Entities to divide into or merge with other entities without the prior written consent of the WFOEs;

(d) shall not dispose of or procure the management of our Consolidated Affiliated Entities to dispose of any of the assets of our Consolidated Affiliated Entities without the prior written consent of the WFOEs, except in the ordinary course of business and provided that the value of assets in relation to each and every disposal shall not exceed RMB10 million;

(e) shall not terminate or procure the management of our Consolidated Affiliated Entities to terminate any material contract (which includes any agreement under which the amount for each and every termination involved exceeds RMB10 million, the Contractual Arrangements and any agreement of similar nature or content to the Contractual Arrangements) or enter into any other contracts which may contradict such material contracts without the prior written consent of the WFOEs;

(f) shall not procure any of our Consolidated Affiliated Entities to enter into any transactions which may have an actual impact on the assets, liabilities, operations, equity structures or other legal rights of the Consolidated Affiliated Entities without the prior written consent of the WFOEs, save for transactions which are in the ordinary course of business of our Consolidated Affiliated Entities with the amount of each and every transaction involved not more than RMB10 million, or transactions which have been disclosed to the WFOEs and approved by the WFOEs;

(g) shall not agree to or procure Dongyang Huaxia, Nanjing Lanchou and its subsidiaries and CUCN to declare or in substance distribute any proceeds or agree to such distribution without the prior written consent of the WFOEs;

(h) shall not agree to or procure our Consolidated Affiliated Entities to change its business model or mode/nature of operation;

(i) shall not agree to or procure any of our Consolidated Affiliated Entitles to amend its articles of association without the prior written consent of the WFOEs;

(j) shall ensure that our Consolidated Affiliated Entities do not provide or obtain loans or provide any guarantees or otherwise undertake any other action to guarantee, or undertake any material obligations (including obligations under which the amount payable by our Consolidated Affiliated Entities exceeds RMB10 million, obligations which restrict or hinder the due performance of obligations under the Contractual Arrangements by our Consolidated Affiliated Entities, obligations which restrict or prohibit the financial or business operations of our Consolidated Affiliated Entities, or any obligations which may result in change of the structure of the school sponsor's/shareholder's interest of our Consolidated Affiliated Entities) outside its ordinary course of business without the prior written consent of the WFOEs;

(k) shall use its best endeavors to develop the business of our Consolidated Affiliated Entities and ensure compliance with laws and regulations by our Consolidated Affiliated Entities, and shall not take or fail to take any action which may prejudice the assets, goodwill or the effectiveness of operational licenses of our Consolidated Affiliated Entities;

(l) shall, prior to the transfer of their interests in our Consolidated Affiliated Entities to the WFOEs or their designated purchaser and without prejudice to the Shareholders' Rights Entrustment Agreements, execute all documents necessary for holding and maintaining the ownership of its interest in our Consolidated Affiliated Entities;

(m) shall sign all documents and take all necessary actions to facilitate transfer of its equity/sponsor interest in our Consolidated Affiliated Entities to the WFOEs or their designated purchaser;

(n) shall take all such actions to facilitate our Consolidated Affiliated Entities in their performance of their obligations under the Exclusive Call Option Agreements if such performance requires any action be taken by the Registered Shareholders on their part;

(o) shall, in their capacity as shareholders of our Consolidated Affiliated Entities and without prejudice to the Contractual Arrangements, procure directors nominated by them to exercise all rights to enable any of our Consolidated Affiliated Entities to perform its rights and obligations under the Exclusive Call Option Agreements, and shall replace any director or council member who fails to do so; and

(p) in the event that the consideration paid by the WFOEs or their designated purchaser for the transfer of all or part of the interest held by the Registered Shareholders in our Consolidated Affiliated Entities exceeds RMB0, shall pay such excess amount to the WFOEs or its designated entity.

Shareholders' Rights Entrustment Agreements

Pursuant to the shareholders' rights entrustment agreements entered into by and between the WFOEs, the Onshore Holdcos, and the Registered Shareholders (the "**Shareholders' Rights Entrustment Agreements**"), the Registered Shareholders have irrevocably authorized and entrusted the WFOEs to exercise all their rights as shareholders of each of the Onshore Holdcos to the extent permitted by PRC laws. These rights include, but are not limited to:

(a) the right to attend shareholders' meetings of the Onshore Holdcos;

(b) the right to exercise voting rights in respect of all matters discussed and resolved at the shareholders' meeting of the Onshore Holdcos;

(c) the right to determine the transfer or disposal in any form of equity interest in our Onshore Holdcos;

(d) the right to propose to convene interim shareholders' meetings of the Onshore Holdcos;

(e) the right to sign all shareholders' resolutions and other legal documents which the Registered Shareholders have authority to sign in their capacity as shareholders of the Onshore Holdcos;

(f) the right to instruct the directors and legal representative of the Onshore Holdcos, to act in accordance with the instruction of the WFOEs;

(g) the right to exercise all other rights and voting rights of shareholders as prescribed under the articles of association of the Onshore Holdcos;

(h) the right to handle the legal procedures of registration, approval and licensing of the Onshore Holdcos at the education department, the department of civil affairs or other government departments; and

(i) other shareholders' rights pursuant to applicable PRC laws and regulations and the articles of association of the Onshore Holdcos as amended from time to time.

The WFOEs may delegate their rights under the Shareholders' Rights Entrustment Agreements to the directors of the WFOEs or their designated person, without prior notice to or approval by the Registered Shareholders, and any person as successor of civil rights of the WFOEs or liquidator by reason of subdivision, merger, liquidation of the WFOEs or other circumstances shall have authority to replace the WFOEs to exercise all rights under the Shareholders' Rights Entrustment Agreements.

Equity Pledge Agreements

Pursuant to the equity pledge agreements entered into by the WFOEs, the Registered Shareholders, the Onshore Holdcos, Huaxia Audio-Visual and Nanjing Meiya dated August 28, 2019 (the "**Equity Pledge Agreements**"), Mr. Pu, Mr. Liu Chang, Dongyang Huaxia, and Nanjing Lanchou unconditionally and irrevocably pledged and granted first priority security interests over all of their respectively equity interests in Dongyang Huaxia, Huaxia Audio-Visual, Nanjing Lanchou, and Nanjing Meiya, together with all related rights thereto to the WFOEs as security for performance of the Contractual Arrangements and all direct, indirect or consequential damages and foreseeable loss of interest incurred by the WFOEs as a result of any event of default on the part of the Registered Shareholders and the Consolidated Affiliated Entities and all expenses incurred by the WFOEs as a result of enforcement of the obligations of the Registered Shareholders and the Consolidated Affiliated Entities under the Contractual Arrangements (the "**Secured Indebtedness**").

Pursuant to the Equity Pledge Agreements, without the prior written consent of the WFOEs, the Registered Shareholders and the Onshore Holdcos shall not transfer their equity interests or create further pledge or encumbrance over the pledged equity interests. Any unauthorized transfer shall be invalid, and the proceeds of any transfer of the equity interest shall be first used in the payment of the Secured Indebtedness or deposited to such third party as agreed to by the WFOEs. The Registered Shareholders and the Onshore Holdcos also waived any pre-emptive rights upon enforcement and agreed to any transfer of the pledged equity pursuant to the Equity Pledge Agreements.

Any of the following events shall constitute an event of default under the Equity Pledge Agreement:

(a) any of the Registered Shareholders or our Consolidated Affiliated Entities commits any breach of any obligations under the Contractual Arrangements;

(b) any representations or warranties or information provided by any of the Registered Shareholders or our Consolidated Affiliated Entities under the Contractual Arrangements is proved incorrect or misleading; or

(c) any provision in the Contractual Arrangements becomes invalid or incapable of performance due to changes in PRC laws and regulations or promulgation of new laws and regulations in the PRC, and the parties have not agreed on any alternative arrangement.

Upon the occurrence of an event of default as described above, the WFOEs shall have the right to enforce the Equity Pledge Agreement by written notice to the Registered Shareholders and the Onshore Holdcos in one or more of the following ways:

(a) to the extent permitted under PRC laws and regulations, the WFOEs may request the Registered Shareholders and the Onshore Holdcos to transfer all or part of their equity interests in Huaxia Audio-Visual, Nanjing Meiya, Dongyang Huaxia or Nanjing Lanchou to any entity or individual designated by the WFOEs at the lowest consideration permissible under the PRC laws and regulations;

(b) sell the pledged equity interest by way of auction or at a discount and have priority in the entitlement to the sales proceeds; and

(c) dispose of the pledged equity interest in other manner subject to applicable laws and regulations.

We are in the process of registering the Equity Pledge Agreement with the relevant administration for market regulation of the PRC.

Directors' Rights Entrustment Agreements

Pursuant to the directors' rights entrustment agreements entered into by and between WFOE-Education and each director of CUCN dated August 28, 2019 (the "**Directors' Rights Entrustment Agreements**"), each of the directors of CUCN (the "**Appointees**") has irrevocably authorized and entrusted WFOE-Education to exercise all of their rights as directors of CUCN and to the extent permitted by PRC laws. These rights include, but are not limited to:

(a) the right to attend meetings of the board of directors as representative of the directors;

(b) the right to exercise voting rights in respect of all matters discussed and resolved at the board meeting of CUCN;

(c) the right to propose to convene interim board meetings of CUCN;

(d) the right to sign all board minutes, board resolutions and other legal documents which the directors have authority to sign in their capacity as directors of CUCN;

(e) the right to instruct the legal representative, financial, business, and administration responsible persons of CUCN to act in accordance with the instruction of WFOE-Education;

(f) the right to exercise all other rights and voting rights of directors as prescribed under the articles of association of CUCN;

(g) the right to vote on behalf of CUCN regarding bankruptcy, liquidation, dissolution or termination of CUCN;

(h) the right to make a choice between for-profit private schools or non for-profit private schools in accordance with the PRC laws, regulations or rules;

(i) the right to handle the legal procedures of registration, approval and licensing of CUCN at the education department, the department of civil affairs or other government regulatory departments; and

(j) other directors' rights pursuant to applicable PRC laws and regulations and the articles of association of CUCN as amended from time to time.

The WFOEs may delegate their rights under the Directors' Rights Entrustment Agreements to the directors of the WFOEs or their designated person, without prior notice to or approval by the Appointees, and any person as successor of civil rights of the WFOEs or liquidator by reason of subdivision, merger, liquidation of the WFOEs or other circumstances shall have authority to replace the WFOEs to exercise all rights under the Directors' Rights Entrustment Agreements.

Other aspects of the Contractual Arrangements

Powers of Attorney

Pursuant to the Shareholders' Powers of Attorney executed by each of the Registered Shareholder in favor of the WFOEs (together with the Directors' Powers of Attorney, the "**Powers of Attorney**"), each of the Registered Shareholder authorized and appointed the WFOEs as their agent to act on their behalf to exercise or delegate the exercise of all of their rights as shareholders of the Onshore Holdcos. Each of the Shareholders' Powers of Attorney shall constitute a part of and embody the terms of the relevant Shareholders' Rights Entrustment Agreement.

Pursuant to the Directors' Powers of Attorney executed by each of the Appointees in favor of WFOE-Education, each of the Appointees authorized and appointed WFOE-Education as their agent to act on their behalf to exercise or delegate the exercise of all of their rights as directors of CUCN. Each of the Directors' Powers of Attorney shall constitute a part of and embody the terms of the relevant Directors' Rights Entrustment Agreement.

Each of the Registered Shareholders and Appointees irrevocably agreed that the authorization and appointment in the Powers of Attorney shall not be invalid, prejudiced or otherwise adversely affected by reason of their loss of or restriction on capacity, death or other similar events. In addition, the Powers of Attorney specifically provide that the attorney-in-fact is entitled to sign minutes and file documents with the relevant authorities.

Dispute resolution

In the event of any dispute with respect to the interpretation or performance of the provisions, each of the Contractual Agreements stipulates that:

(a) any dispute, controversy or claim arising out of or in connection with the performance, interpretation, breach, termination or validity of the Contractual Arrangements shall be resolved through negotiation after one party delivers to the other parties a written negotiation request setting out the specific statements of the disputes or claims;

(b) if the parties are unable to settle the dispute within 30 days of delivery of such written negotiation request, any party shall have the right to refer the dispute to and have the dispute finally resolved by arbitration administered by the China International Economic and Trade Arbitration Commission in Beijing, China under the prevailing effective arbitration rules thereof. The results of the arbitration shall be final and binding on all relevant parties;

(c) the arbitration commission shall have the right to award remedies over the equity interest and property interest and other assets of any parties, injunctive relief (for the conduct of business or to compel the transfer of assets), or order the bankruptcy winding up of any parties; and

(d) upon request by any party, the courts of competent jurisdictions shall have the power to grant interim remedies in support of the arbitration pending formation of the arbitral tribunal or in appropriate cases. The courts of the PRC, Hong Kong, the Cayman Islands and the place where the principal assets of our Consolidated Affiliated Entities are located shall be considered as having jurisdiction for the above purposes.

In connection with the dispute resolution arrangements as set out in the Contractual Arrangements and the practical consequences, we are advised by our PRC Legal Adviser that:

(a) under PRC laws, an arbitral body does not have the power to grant any injunctive relief or provisional or final liquidation order for the purpose of protecting assets of or sponsor interest in our Consolidated Affiliated Entities in case of disputes. As such, these remedies may not be available to our Group under PRC laws;

(b) further, under PRC laws, courts or judicial authorities in the PRC generally would not award remedies over the assets of our Consolidated Affiliated Entities, injunctive relief or winding-up of each of our Consolidated Affiliated Entities as interim remedies, before there is any final outcome of arbitration;

(c) however, PRC laws do not disallow the arbitral body to give award of transfer of assets of or a sponsor interest in our Consolidated Affiliated Entities at the request of arbitration applicant. In the event of non-compliance with such award, enforcement measures may be sought from the court. However, the court may or may not support such award of the arbitral body when deciding whether to take enforcement measures;

(d) in addition, interim remedies or enforcement orders granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC; therefore, in the event we are unable to enforce the Contractual Arrangements, we may not be able to exert effective control over each of our Consolidated Affiliated Entities, and our ability to conduct our business may be negatively affected; and

(e) even if the above-mentioned provisions may not be enforceable under PRC laws, the remaining provisions of the dispute resolution clauses are legal, valid and binding on the parties to the agreement under the Contractual Arrangements.

As a result of the above, in the event that any of our Consolidated Affiliated Entities or Registered Shareholders breaches any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over our Consolidated Affiliated Entities and conduct our business could be materially and adversely affected. See "Risk factors – Risks relating to our Contractual Arrangements" for details.

Conflicts of interest

To ensure our effective control over our Consolidated Affiliated Entities, we have implemented measures to protect against the potential conflicts of interest between our Company and the Registered Shareholders. Pursuant to the Exclusive Call Option Agreements, the Registered Shareholders granted the WFOEs or its designated third party an exclusive option to purchase all or part of the interests held by the Registered Shareholders in our Consolidated Affiliated Entities, under circumstances in which the WFOEs or its designated third party is permitted under PRC laws and regulations to own all or part of the interests held by the Registered Shareholders in our Onshore Holdcos and other Consolidated Affiliated Entities. Under the irrevocable Powers of Attorney they appointed the WFOEs, or any person designated by the WFOEs (excluding Mr. Pu or other non-independent persons or persons who may give rise to conflicts of interests) as their respective attorney-in-fact to appoint directors and vote on their behalf on all matters of our Onshore Holdcos requiring approval under their articles of associations and under the relevant PRC laws and regulations.

Furthermore, there are mechanisms in place to protect against the spouses of the Registered Shareholders from exercising any control or influence over the Consolidated Affiliated Entities. Each of the spouses of the Registered Shareholders executed irrevocable undertakings (the "**Spousal Undertakings**"), pursuant to which:

(a) the spouse has full knowledge of and has consented to the entering into of the Contractual Arrangements by the Registered Shareholder, and in particular, the arrangement as set out in the Contractual Arrangements in relation to the restrictions imposed on (including on the pledge, transfer or disposal of) the direct or indirect sponsor or equity interest in our Consolidated Affiliated Entities;

(b) Mr. Liu Chang's spouse has not participated, is not participating and shall not in the future participate in the operation, management, liquidation, dissolution and other matters in relation to our Consolidated Affiliated Entities;

(c) the spouse authorizes the Registered Shareholder or their authorized persons to execute all necessary documents and perform all necessary procedures from time to time for and on behalf of the spouse in relation to the spouse's sponsor or equity interest in our

Consolidated Affiliated Entities (direct or indirect) in order to safeguard the interest of the WFOEs under the Contractual Arrangements and give effect to the fundamental purposes thereunder, and confirms and agrees to all such documents and procedures;

(d) any undertaking, confirmation, consent and authorization under the Spousal Undertakings shall not be revoked, prejudiced, invalidated or otherwise adversely affected by any increase, decrease, consolidation or other similar events relating to the direct or indirect sponsor or equity interest in our Consolidated Affiliated Entities;

(e) any undertaking, confirmation, consent and authorization under the Spousal Undertakings shall not be revoked, prejudiced, invalidated or otherwise adversely affected by death, loss of or restriction on capacity of the spouse, divorce or other similar events; and

(f) all undertakings, confirmations, consents and authorizations under the Spousal Undertakings shall continue to be valid and binding until otherwise terminated by both the WFOEs and the spouse in writing.

Based on the above, our Directors are of the view that the measures we have adopted are sufficient to mitigate the risks associated with the potential conflicts of interest between us and the Registered Shareholders and that these measures are sufficient to protect our Group's interest in our Consolidated Affiliated Entities.

Loss sharing

Neither the agreements constituting the Contractual Arrangements nor PRC laws and regulations provide or require that our Company or the WFOEs be obligated to share the losses of our Consolidated Affiliated Entities or provide financial support to our Consolidated Affiliated Entities. Further, each of our Consolidated Affiliated Entities is a separate legal entity and shall be solely liable for its own debts and losses with assets and properties owned by it.

Despite the foregoing, given that our Group conducts its businesses in the PRC through our Consolidated Affiliated Entities which hold the requisite PRC licenses and approvals, and that our Consolidated Affiliated Entities' financial condition and results of operations are consolidated into our Company's financial statements under the applicable accounting principles, our business, financial condition and results of operations would be adversely affected if our Consolidated Affiliated Entities suffer losses. Therefore, the provisions in the Contractual Arrangements are tailored so as to limit, to the greatest extent possible, the potential adverse effect on the WFOEs and our Company resulting from any loss suffered by our Consolidated Affiliated Entities.

Liquidation

According to the Exclusive Business Cooperation Agreements, the Registered Shareholders have undertaken that the WFOEs or any person designated by the WFOEs are entitled to appoint members of the liquidation committee of Onshore Holdcos and CUCN upon the winding up of our Onshore Holdcos and CUCN to manage their assets. In the event of a dissolution or liquidation, all of the remaining assets of Onshore Holdcos and CUCN shall be transferred to the WFOEs after such dissolution or liquidation pursuant to PRC laws.

Insurance

Our Company does not maintain an insurance policy to cover the risks relating to the Contractual Arrangements.

Our confirmation

Our Directors confirm that, as of the Latest Practicable Date, we had not encountered any interference or encumbrance from any PRC governing bodies in operating its businesses through our Consolidated Affiliated Entities under the Contractual Arrangements.

LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

Based on the above, our PRC Legal Adviser is of the opinion that:

1. the Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements are legal, valid and binding on the parties thereto, the contents of each agreement do not violate the mandatory provisions of current PRC laws, except in the following cases: under the current PRC laws, the arbitration body does not have the power to grant any injunctive relief, requiring civil entities to act or not to act, therefore the injunctive relief and other temporary relief measures under Contractual Arrangements may not be legally and effectively enforced under current PRC laws;

2. the consummation of the Contractual Arrangements does not violate the M&A Rules;

3. the execution and performance of the Contractual Arrangements would not be deemed as 'concealment of illegal intentions with a lawful form' under PRC contract law and the General Principles of the PRC Civil Law;

4. the execution and performance of the Contractual Arrangements do not violate the provisions of the articles of association of our Onshore Holdcos, Huaxia Audio-Visual, Nanjing Meiya and CUCN; and

5. the execution of the Contractual Arrangements does not require any pre-approvals or authorizations from PRC governmental authorities, except that:

    (a) the pledge of any equity interest in the Onshore Holdcos, Huaxia Audio-Visual and Nanjing Meiya in favor of the WFOEs is subject to registration requirements with the relevant administration for market regulation;

    (b) the transfer of the sponsor or equity interest in our Consolidated Affiliated Entities contemplated under the Contractual Arrangements is subject to applicable approval and/or registration requirements under the then applicable PRC laws;

    (c) any arbitral awards or foreign rulings and/or judgments in relation to the performance of the Contractual Arrangements are subject to applications to the competent PRC courts for recognition and enforcement; and

    (d) under PRC laws, an arbitral body does not have the power to grant any injunctive relief, requiring civil entities to act or not to act, or requiring winding-up of each of our Consolidated Affiliated Entities as interim remedies.

Our Directors are of the view that the Contractual Arrangements are narrowly tailored because the Contractual Arrangements are only used to enable our Company to control our Consolidated Affiliated Entities that engage in the operation of our media and education business where the PRC laws and regulations currently prohibit the operation of TV series and film production companies and restrict higher education institutions to Sino-foreign cooperation ownership, in addition to imposing Qualification Requirements on the foreign owners and withholding government approval in respect of Sino-foreign cooperation ownership that are currently impracticable for us to meet or obtain.

In relation to CUCN in particular, with the assistance of our PRC Legal Adviser, we consulted an official of the Development and Planning Office of the Education Department of Jiangsu Province, being the competent authority to confirm matters relating to CUCN in Jiangsu Province, on August 15, 2019. Based on such consultation, we were given to understand that the payment of service fees is made on the basis of the service relationship between WFOE-Education and CUCN, which will not be regarded as proceeds being distributed to the sponsors of CUCN on condition that there exist normal service agreements and transactions.

We have been advised by our PRC Legal Adviser, however, that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. Accordingly, there can be no assurance that the PRC regulatory authorities will not in the future take a view that is contrary to the above opinion of our PRC Legal Adviser. We have been further advised by our PRC Legal Adviser that if the PRC government finds that the Contractual Arrangements do not comply with PRC government restrictions on foreign investment in the Relevant Businesses, we could be subject to severe penalties, which could include:

1. revoking the business and operating licenses of the WFOEs and our Consolidated Affiliated Entities;

2. restricting or prohibiting related party transactions between the WFOEs and our Consolidated Affiliated Entities;

3. imposing fines or other requirements with which we, the WFOEs and our Consolidated Affiliated Entities may find it difficult or impossible to comply;

4. requiring us, the WFOEs and our Consolidated Affiliated Entities to restructure the relevant ownership structure or operations; and

5. restricting or prohibiting the use of any proceeds from the Global Offering to finance our business and operations in the PRC.

The imposition of any of these penalties could have a material adverse effect on our ability to conduct our business. See “Risk factors – Risks relating to our Contractual Arrangements“ for more details.

ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

According to HKFRS 10 – Consolidated Financial Statements, a subsidiary is an entity that is controlled by another entity (known as the parent). An investor controls an investee when it is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Although our Company does not directly or indirectly own the Consolidated Affiliated Entities, the Contractual Arrangements enable our Company to exercise control over the Consolidated Affiliated Entities.

Under the Exclusive Technical Services and Management Consultancy Agreements, it was agreed that, in consideration of the services provided by WFOEs, each of our Onshore Holdcos and CUCN will pay services fees to the WFOEs. The services fees, subject to the WFOEs' adjustment, are equal to all (in the case of the Onshore Holdcos) or 91% (in the case of CUCN) of their respective amount of surplus from operations (after deducting operating costs and other sums required by relevant laws and regulations to be reserved or withheld). The WFOEs may adjust the services scopes and fees at its discretion. The WFOEs also have the right to periodically receive or inspect the accounts of our Consolidated Affiliated Entities. Accordingly, the WFOEs have the ability, at their sole discretion, to extract all of the economic benefit of our Onshore Holdcos through the Exclusive Technical Services and Management Consultancy Agreements.

In addition, under the Exclusive Business Cooperation Agreements and the Exclusive Call Option Agreements, the WFOEs have absolute contractual control over the distribution of dividends or any other amounts to the equity holders of our Consolidated Affiliated Entities as the WFOEs' prior written consent is required before any distribution can be made. In the event that the Registered Shareholders receive any profit distribution or dividend from our Consolidated Affiliated Entities, the Registered Shareholders must immediately pay or transfer such amount (subject to the relevant tax payment being made under the relevant laws and regulations) to our Company.

As a result of these Contractual Arrangements, our Company has obtained control of our Consolidated Affiliated Entities through the WFOEs and, at our Company's sole discretion, can receive substantially all of the economic interest returns generated by our Consolidated Affiliated Entities. Accordingly, our Consolidated Affiliated Entities' results of operations, assets and liabilities, and cash flows are consolidated into our Company's financial statements. The basis of consolidating the results of our Consolidated Affiliated Entities is disclosed in note 4.2.1 to the Accountant's Report in Appendix I.

COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements:

(i) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;

(ii) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;

(iii) our Company will disclose the overall performance of and compliance with the Contractual Arrangements in our annual reports; and

(iv) our Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of the WFOEs and our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

DEVELOPMENT IN PRC LEGISLATION ON FOREIGN INVESTMENT

Background of the Foreign Investment Law

On March 15, 2019, the National People's Congress approved the Foreign Investment Law which became effective on January 1, 2020. On December 26, 2019, the State Council promulgated the Implementation Regulations on the Foreign Investment Law (外商投資法實施條例), which came into effect on January 1, 2020. The Foreign Investment Law replaced the Law on Sino-Foreign Equity Joint Ventures, the Law on Sino-Foreign Contractual Joint Ventures and the Law on Foreign-Capital Enterprises to become the legal foundation for foreign investment in the PRC. The Foreign Investment Law stipulates certain forms of foreign investment, but does not explicitly stipulate contractual arrangements as a form of foreign investment. The Implementation Regulations on the Foreign Investment Law are also silent on whether foreign investment includes contractual arrangements.

Impact and consequences of the Foreign Investment Law

Conducting operations through contractual arrangements has been adopted by many PRC-based companies, including our Group. We use the Contractual Arrangements to establish control of our Consolidated Affiliated Entities, by the WFOEs, through which we operate our business in the PRC. As advised by our PRC Legal Adviser, since contractual arrangements are not specified as foreign investment under the Foreign Investment Law and if future laws, regulations and provisions prescribed by the State Council do not incorporate contractual arrangements as a form of foreign investment, our Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements will not be affected and will continue to be legal, valid and binding on the parties.

Notwithstanding the above, the Foreign Investment Law stipulates that foreign investment includes "foreign investors invest in China through any other methods under laws, administrative regulations or provisions prescribed by the State Council" without elaboration on the meaning of "other methods". The Implementation Regulations on the Foreign Investment Law are also silent on whether foreign investment includes contractual arrangements. There are possibilities that future laws, administrative regulations or provisions prescribed by the State Council may regard contractual arrangements as a form of foreign investment, at which time it will be uncertain whether the Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how the above-mentioned Contractual Arrangements will be handled. Therefore, there is no guarantee that the Contractual Arrangements and the business of our Consolidated Affiliated Entities will not be materially and adversely affected in the future due to changes in PRC laws and regulations. See "Risk factors – Risks relating to our Contractual Arrangements – Substantial uncertainties exist with the PRC foreign investment legal regime and may have a significant impact on our corporate structure and business operations".

REGULATIONS ON FOREIGN INVESTMENT IN THE PRC

Foreign Investment Industries Guidance and the 2019 Negative List

According to Provisions on Guiding the Orientation of Foreign Investment (指導外商投資方向規定) (Order No. 346 of the State Council) (the "**Foreign Investment Orientation Provisions**") which was promulgated by the State Council on February 11, 2002 and came into effect on April 1, 2002, projects with foreign investment shall fall into four categories – encouraged, permitted, restricted and prohibited. The encouraged, restricted and prohibited projects with foreign investment shall be listed in the catalog of industries for guiding foreign investment, which may be revised and promulgated by the relevant departments of the State Council from time to time, while any project not listed in the catalog is deemed to be a permitted project for foreign investment.

On June 30, 2019, the NDRC and MOFCOM promulgated the Special Administrative Measures for the Access of Foreign Investment (Negative List) (2019 version) (外商投資准入特別管理措施(負面清單) (2019年版)) (the "**2019 Negative List**") with effect from July 30, 2019. The 2019 Negative List sets out the areas where foreign investment is prohibited and the areas where foreign investment is allowed only on certain conditions. Unless provided in other laws, foreign investment in areas not listed on the 2019 Negative List is permitted and treated equally with domestic investment.

Regulations on Sino-foreign investment in operating schools

Pursuant to the 2019 Negative List, higher education is a restricted industry for foreign investors, and foreign investors are only allowed to invest in higher education in cooperation with a domestic party. Further, the domestic party shall play a dominant role in the cooperation, which means the headmaster or other chief executive officer of the schools shall be a PRC national and representatives of the domestic party shall be at least half of the total members of the board of directors, the executive council or the joint administration committee of the Sino-foreign cooperative educational institution.

Sino-foreign cooperation in operating schools is specifically governed by the Regulation on Operating Sino-foreign Schools of the PRC (中華人民共和國中外合作辦學條例), which was promulgated by the State Council on March 1, 2003, became effective on September 1, 2003 and amended on July 18, 2013 and March 2, 2019, the Law for Promoting Private Education of the PRC (中華人民共和國民辦教育促進法), and the Implementing Rules for the Regulations on Operating Sino-foreign Schools (中華人民共和國中外合作辦學條例實施辦法) (the "**Implementing Rules**"), which were issued by the MOE on June 2, 2004 and became effective on July 1, 2004.

The Regulation on Operating Sino-foreign Schools and its Implementing Rules apply to the activities of educational institutions established in the PRC jointly by foreign educational institutions and Chinese educational institutions, the students of which are to be recruited primarily from PRC citizens and encourage substantial cooperation between overseas educational organizations with relevant qualifications and experience in providing high-quality education, and PRC educational organizations to jointly operate various types of schools in the PRC, with such cooperation in the areas of higher education and occupational education being encouraged. The overseas educational organization must be a foreign educational institution with relevant qualification and experience at the same level and in the same category of education. Sino-foreign cooperative schools are not permitted to engage in compulsory education and military, police, political and other kinds of education that are of a special nature in the PRC. Any Sino-foreign cooperative school and cooperation program shall be approved by the relevant education authorities and obtain an Operation Permit for Sino-foreign Cooperation School, and a Sino-foreign cooperative school established without the above approval or permit may be prohibited by the relevant authorities, be ordered to refund the fees collected from its students and be subject to a fine of no more than RMB100,000, while a Sino-foreign cooperation program established without such approval or permit may also be banned and be ordered to refund the fees collected from its students.

On June 18, 2012, the MOE issued the Implementation Opinions of the MOE on Encouraging and Guiding the Entry of Private Capital in the Fields of Education and Promoting the Healthy Development of Private Education (關於鼓勵和引導民間資金進入教育領域促進民辦教育健康發展的實施意見) to encourage private investment and foreign investment in the field of education. According to these opinions, the proportion of foreign capital in a PRC-foreign education institute shall be less than 50%.

Foreign investment in TV series production industry

Foreign investment in TV series production is restricted or prohibited under PRC laws. Pursuant to Certain Opinions on Canvassing Foreign Investment into the Culture Industry (關於文化領域引進外資的若干意見) and the 2019 Negative List, foreign investors are prohibited from holding any equity interest in any PRC radio and TV program production company. On July 19, 2004, the SARFT promulgated the Regulations on the Administration of Production and Operation of Radio and Television Programs (廣播電視節目製作經營管理規定) (the "**Radio and TV Programs Regulations**"), which came into effect on August 20, 2004 and was revised on August 28, 2015 and October 31, 2018. Pursuant to the Radio and TV Programs Regulations, the state encourages domestic social organizations, enterprises and institutions (excluding wholly foreign-owned enterprises, sino-foreign joint ventures and cooperative enterprises established in China) to establish institutions that produce and distribute radio and TV programs and to engage in production and distribution of radio and TV programs.

Regulations on foreign investment

Pursuant to the Interim Administrative Measures for the Record-filing of the Establishment and Modification of Foreign-invested Enterprises (外商投資企業設立及變更備案管理暫行辦法), which was promulgated by MOFCOM on October 8, 2016, and amended on July 30, 2017 and June 29, 2018, establishment and modifications of foreign-invested enterprises not subject to the approval under the special entry management measures shall be filed with the competent commercial authorities. On December 30, 2019, MOFCOM and the State Administration for Market Regulation jointly issued the Measures for Reporting of Foreign Investment Information (外商投資信息報告辦法) (the "**Foreign Investment Information Measures**"), which came into effect on January 1, 2020 and replaced the Interim Administrative Measures for the Record-filing of the Establishment and Modification of Foreign-invested Enterprises. Beginning January 1, 2020, when foreign investors carry out investment activities directly or indirectly in China, foreign investors or foreign-invested enterprises shall submit information through the Enterprise Registration System and the National Enterprise Credit Information Publicity System operated by the State Administration for Market Regulation. Specifically, foreign investors or foreign-invested enterprises shall report their establishments, modifications and cancellations and file their annual reports in accordance with the Foreign Investment Information Measures. When a foreign-invested enterprise has completed filing of such reports, the relevant information will be passed by the competent market regulation department to the competent commercial department, so the reports do not need to be submitted separately.

The Foreign Investment Law of the PRC (中華人民共和國外商投資法) (the "**Foreign Investment Law**") was adopted by the National People's Congress on March 15, 2019. It took effect on January 1, 2020 and replaced the Sino-Foreign Equity Joint Venture Enterprise Law (中外合資經營企業法), the Sino-Foreign Cooperative Joint Venture Enterprise Law (中外合作經營企業法) and the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法) to become the legal foundation for foreign investment in the PRC. The Foreign Investment Law of the PRC sets out the definitions of foreign investment and the framework for promotion, protection and administration of foreign investment activities.

The Foreign Investment Law defines foreign investment as any investment activity directly or indirectly carried out in the PRC by one or more foreign natural persons, enterprises or other organizations, and specifically stipulates as forms of foreign investment (a) establishment of a foreign-invested enterprise in the PRC by a Foreign Investor, either individually or collectively with any other investor, (b) obtaining shares, equities, assets interests or any other similar rights or interests of an enterprise in the PRC by a Foreign Investor, (c) investment in any new construction project in the PRC by a Foreign Investor, either individually or collectively with any other investor, and (d) investment in any other manner stipulated under laws, administrative regulations or provisions prescribed by the State Council. The Implementation Regulations on the Foreign Investment Law (as detailed below) are also silent on whether foreign investment includes contractual arrangements.

The Foreign Investment Law establishes the administration systems for foreign investment, which mainly consists of national treatment plus negative list system, foreign investment information report system and security review system. These systems, together with other stipulated administration measures, constitute the framework of foreign investment administration. Under the national treatment plus negative list system, Foreign Investors shall not invest in any field prohibited by the negative list and shall meet the investment conditions stipulated for any field restricted by the negative list, while for foreign investments outside the negative list, national treatment will be given.

The Foreign Investment Law sets forth principles and measures to promote foreign investment in the PRC and specifically provides that the PRC legally protects Foreign Investors' investment, earnings and other legitimate rights and interests in the PRC.

The Foreign Investment Law further provides that foreign-invested enterprises established before the Foreign Investment Law comes into effect may retain their original form of organization for five years after the Foreign Investment Law becomes effective. On December 26, 2019, the State Council promulgated the Implementation Regulations on the Foreign Investment Law (外商投資法實施條例), which came into effect on January 1, 2020. Pursuant to these implementation regulations, if an existing foreign-invested enterprise fails to change their form of organization before January 1, 2025, the relevant market regulation departments shall not process other registration matters for such enterprise and may disclose the relevant information. The Implementation Regulations on the Foreign Investment Law further requires that foreign-invested enterprises and domestic enterprises shall be treated equally with respect to policy making and implementation.

REGULATIONS ON TV SERIES AND VARIETY SHOWS PRODUCTION IN THE PRC

Regulations on TV series production in the PRC

On August 11, 1997, the State Council promulgated the Administrative Regulations on Radio and Television (廣播電視管理條例) (the "**Radio and TV Regulations**"), which was amended on December 7, 2013 and March 1, 2017. Pursuant to the Radio and TV Regulations, only radio stations, television stations and radio and television program production and operation entities approved by the radio and television administrative bureaus at or above the provincial level are allowed to produce radio and television programs. Radio and television stations shall not broadcast any radio and television programs produced by entities without a Permit for Production and Operation of Radio and TV Programs.

Under the Radio and TV Programs Regulations, any entities that engage in the production of radio and television programs are required to apply for the Permit for Production and Operation of Radio and TV Programs from SARFT or its provincial branches. Applicants must have necessary professionals, working places and equipment in accordance with its applied business scope. The Radio and TV Programs Regulations also set out certain other requirements that the applicants must satisfy. The effective period of the Permit for Production and Operation of Radio and TV Programs is two years from the grant date. Entities with the Permit for Production and Operation of Radio and TV Programs must conduct their business operations in strict compliance with the approved scope of production and operation.

Production of TV series

Under the Radio and TV Programs Regulations, the establishment of a TV series production entity is subject to the approval of SARFT and a TV Series production permit is required to be obtained prior to the production of any TV series. To implement the provisions set forth in the Radio and TV Regulations, the Radio and TV Programs Regulations stipulate detailed rules on the application and issuance of the TV Series production permit. Pursuant to the Radio and TV Programs Regulations, only entities with the Permit for Production and Operation of Radio and TV Programs or the Film Production Permit are eligible to apply for the TV Series Production Permit. There are two types of TV Series Production Permits. A type B TV Series Production Permit is granted by provincial administration of radio, film and television on a series-by-series basis, the effective period of which may not exceed 180 days unless extension is granted by the issuance authority. A company will not be qualified for a type A TV Series Production Permit unless it has produced no less than six single-episode TV series or three TV series (each with no fewer than three episodes) within two consecutive years. The Type A TV Series Production Permit is effective for two years commencing from the issuance date and applies to all TV series produced by the holder of such permit within its effective period.

On September 21, 2004, SARFT promulgated the Administrative Regulations on Sino-foreign Cooperation in TV Series Production (中外合作製作電視劇管理規定) (the "**Sino-foreign Cooperation Regulations**"), which came into effect as of October 21, 2004 and amended on October 31, 2018. These Regulations apply to the cooperative production of TV series (including TV animations) between PRC radio and television program production entities and foreign legal persons or individuals. Under the Sino-foreign Cooperation Regulations, the cooperative production of TV series (including TV animations) is subject to prior approval by SARFT. There are three cooperative models: (i) Joint Production, whereby PRC and foreign parties jointly invest in and produce TV series (including TV animations), and share profits and risks; (ii) Coordinated Production, whereby the foreign parties make investments and provide the major creation team (主創人員), outdoor scenes are all or partly shot in the PRC, and the PRC party is responsible for providing equipment, services, facilities or other assistance for a fee; and (iii) Commissioned Production, whereby the PRC party is entrusted by a foreign party to shoot or create TV series in China. The Joint Production model, among other things, requires (i) the PRC party to hold a Type A TV Series Production Permit (for TV series production) or a Permit for Production and Operation of Radio and TV Programs (for TV animation production); (ii) the drama or animation script to be jointly created by PRC and foreign parties;

(iii) the copyright of the TV series or animation within PRC or worldwide to be jointly owned by the PRC and foreign parties; and (iv) no less than one-third of the major creation team to be designated by the PRC party for TV series production.

Administration of TV series content

SARFT promulgated the Administrative Regulations on TV Series Content (電視劇內容管理規定) (the "**TV Series Content Regulations**"), on May 14, 2010, which came into effect as of July 1, 2010 and was amended on May 4, 2016 and October 31, 2018. These regulations and measures apply to (i) TV series (including TV animations) to be broadcasted on domestic TV stations or distributed within PRC, including TV series made by domestic producers and those produced via Sino-foreign cooperation; and (ii) foreign-made TV series (including TV animations and films) to be broadcasted by domestic TV stations. Pursuant to the TV series Content Regulations, TV series shall not contain any contents that oppose the fundamental principles determined in the PRC's Constitution; obstruct the implementation of the laws, regulations and rules; subvert state power or damages national unity; compromise state security, divulge state secrets and harm the dignity or interests of the State; incite ethnic hatred or racial discrimination or damage inter-ethnic unity; sabotage the PRC's religious policy or propagate heretical teachings or feudal superstitions; disseminate rumors, disturb social order or disrupt social stability; propagate obscenity, pornography, gambling, violence, murder or fear or incite the commission of crimes; insult or slander a third party or infringe upon the lawful rights and interests of a third party; or are otherwise prohibited by laws or administrative regulations.

To ensure the contents of the TV series are in compliance with the above provisions, the TV series Content Regulations set forth a government examination system on the scripts and TV series. TV series producers must file the abstracts of the TV series scripts to the relevant provincial counterpart of SARFT before the TV series production. The provincial counterpart of SARFT will further report to SARFT for review and public notification. The TV series producer must produce the TV series in accordance with the published abstracts. If there is any variation to the major scripts or character, the TV series producer must file another application to the relevant provincial counterpart of SARFT for re-examination on the changed scripts or characters. Upon completion of the production, the TV series producer must apply for examination of the TV series from SARFT and/or its provincial counterpart. Importers are also required to apply for such examination on the imported TV series. SARFT and/or its provincial counterpart will grant a TV series Distribution Permit if the TV series has passed the examination. If the name, major characters, major content or length of each episode of these TV series have been changed afterwards, the producer must re-apply to SARFT and/or its provincial counterpart for examination on such changes. SARFT, however, may determine based on the public interest, to require editing of the TV series which have been granted the TV series Distribution Permit, to terminate the broadcasting and distribution of such TV series or to disqualify such TV series from competing for any awards.

Development of High-Definition TV

On September 2, 2010, SARFT issued the Notice on Further Facilitating and Regulating the Development of High-Definition TV (關於進一步促進和規範高清電視發展的通知), pursuant to which the high-definition TV series shall account for at least 50% of the total production volume of the TV series produced by the TV series production entities and only high-definition TV series are qualified to compete for TV series-related awards from 2011 onward. As all the TV series produced by our Group are already high-definition TV series, such notice does not have any implications for our Group.

Regulations on online variety shows in the PRC

On February 21, 2020, the China Netcasting Services Association released the Guideline for Online Variety Shows (網絡綜藝節目內容審核標準細則) (the "**Guideline**") to improve the quality of online variety shows. The Guideline sets forth criteria in two categories, namely the basic standards and the specific rules. The basic standards provide that the online variety shows shall not, among others: (i) contain any content that distorts, vilifies, desecrates or denies the deeds and spirit of heroic martyrs, or infringes on the names, portraits, reputation or honor of the heroic martyrs; (ii) spread obscene, pornographic or violent content, or content involving gambling, murder or terror, or content abetting crimes; or (iii) contain any other content prohibited by relevant laws and administrative regulations. The specific rules further provide that the online variety shows shall not, among others: (i) use any major creators or artists who have negative social impact due to scandals, misdeeds or crimes; (ii) contain any prohibited content, or any description, introduction or comments on specific social groups with discriminatory or derogatory languages; (iii) have underlying security risks; (iv) rely on artists with huge fan base or use production budget on overhype and cause exaggerated publicity; (v) engage minors to participate in talent shows; or (vi) contain unscientific and illogical reasoning in storytelling or reasoning shows with role-playing.

REGULATIONS ON PRIVATE EDUCATION IN THE PRC

Education Law of the PRC

On March 18, 1995, the National People's Congress of the PRC (全國人大常務委員會) enacted the Education Law of the PRC (中華人民共和國教育法) (the "**Education Law**"), which was amended on August 27, 2009. The Education Law sets forth provisions relating to the fundamental education systems of the PRC, including a school education system comprising pre-school education, primary education, secondary education and higher education, a system of nine-year compulsory education, a national education examination system, and a system of education certificates. The Education Law stipulates that the government formulates plans for the development of education and establishes and operates schools and other institutions of education and provides that, in principle, enterprises, social organizations and individuals are encouraged to establish and operate schools and other types of institution of education in accordance with PRC laws and regulations. However, private schools may be operated for "reasonable returns", as described in more detail below. On December 27, 2015, the Standing Committee of the PRC National People's Congress (全國人民代表大會常務委員會) (the "**NPC Standing Committee**") published the Decision on Amendment of the Education Law, which became effective on June 1, 2016. The NPC Standing Committee narrowed the provision prohibiting the establishment or operation of schools or other educational institutions for commercial purposes to only restricting a school or other educational institution founded with governmental funds or donated assets in the amended Education Law.

The Education Law also stipulates that some basic conditions shall be fulfilled for the establishment of a school or any other institution of education, and the establishment, modification or termination of a school or any other institution of education shall, in accordance with the relevant PRC laws and regulations, go through the procedures of examination, verification, approval, registration or filing.

Regulations on higher education

According to the Higher Education Law of the PRC (中華人民共和國高等教育法), which was promulgated on August 29, 1998 and was then amended on December 27, 2015 and December 29, 2018, higher education includes education for academic qualifications and education for non-academic qualifications. Higher educational institutions are universities, independent colleges, and specialized higher education schools, including higher vocational schools and higher education schools for adults. The establishment of higher educational institutions for regular course education and above shall be subject to examination and approval by the administrative department for education under the State Council, the establishment of higher educational institutions for special course education shall be subject to examination and approval by the people's governments of provinces, autonomous regions and municipalities directly under the Central Government. The establishment of other higher education organizations shall be subject to examination and approval by the administrative department for education under the people's governments of provinces, autonomous regions and municipalities directly under the Central Government. Higher education for academic qualifications includes special course education, regular course education and graduate course education. Higher education shall be conducted by higher educational institutions and other higher education organizations. Higher educational institutions shall be established in accordance with State plans for the development of higher education and in keeping with the interests of the State and the public. Universities and independent colleges shall mainly conduct regular course education and education at a still higher level. Specialized higher education schools shall conduct special course education. With the approval of the administrative department for education under the State Council, research institutes may undertake graduate programs. Other higher education organizations shall conduct higher education for non-academic qualifications. Universities and independent colleges shall, in addition, have a stronger staff for teaching and research, a higher level of teaching and research, as well as a necessary size of the student body, so that they can offer regular course education and education at a higher level. Moreover, universities shall offer at least three branches of learning designated by the State as the main courses.

Further, the MOE issued the Several Provisions on the Administration of Private Colleges and Universities (民辦高等學校辦學管理若干規定) on February 3, 2007, which were amended on November 10, 2015, pursuant to which the conditions for running private colleges and universities shall conform to the establishment standards as prescribed by the state and the basic indicators for running regular colleges and universities. The investors of a private college or university shall, under the Law for Promoting Private Education of the PRC and its implementation rules, timely and fully perform the capital contribution obligation. No private college or university may engage in educational and teaching activities in any place other than that as specified in the license for running private education, or establish any branch, or rent or lend to others its license for running private education. The principal of a private college or university shall satisfy the appointment requirements of the state and shall have ten or more years of experience of administration of higher education and shall not be over 70 years old. The term of office of a principal shall be four years in principle.

Regulations on the operation of Independent Colleges

According to Measures for the Establishment and Administration of Independent Colleges (獨立學院設置與管理辦法), which was promulgated on February 22, 2008, amended on November 10, 2015 and became effective on the same day, "Independent Colleges" refer to the colleges engaging in undergraduate diploma education and set up by the cooperation of colleges and universities engaging in undergraduate, and graduate diploma education and social organization and individuals except for the state organs, with non-state financial funds.

A social organization applying to be the sponsor of an independent college shall be qualified as a legal person, with its registered capital being no less than RMB50 million, its total assets being no less than RMB0.3 billion, net assets being no less than RMB120 million and its asset-liability ratio being no more than 60%. Common colleges and social organizations that intend to engage in the set-up of an independent college shall enter into a cooperative agreement which contains the independent college's education aim, its cultivation goal, each party's investment sum and method of investment, the rights and obligations of each party, the methods for solving disputes, and other appropriate content. The application for the establishment of an independent college shall be subject to the approval by the MOE in accordance with the same procedures for the set-up of the colleges and universities engaging in undergraduate diploma education.

An independent college shall establish an executive council, a board of directors and other forms of decision-making bodies. The executive council or the board of directors shall be organized by the representative of the colleges and universities and social originations who are sponsors of the independent colleges, the principal, the representatives of the faculty and staff. No less than two-fifths of the members of the executive council or the board of directors shall be the representative of the colleges or universities. The executive council or the board of directors shall consist of at least five persons, with one acting as the director-general of the executive council or chairman of the board of directors. Their names shall be reported to the examination and approval organ for record.

The executive council, the board of directors or a decision-making body of other forms for an independent college shall hold a meeting at least twice each year. Upon the proposal of one-third or more of the component members, the executive council, the board of directors or a decision-making body of other forms may convene a temporary meeting. The quorum attendance of the meeting of the executive council, the board of directors or a decision-making body of other forms shall be more than half of the executive or directors of an independent college. Material matters such as the appointment or dismissal of the principal, the modification of the articles of association of the independent college, the preparation of development plans, the review and approval of budget and final accounts and other material matters specified in the articles of association of an independent college shall be subject to the resolution of the executive council, the board of directors or a decision-making body of other forms passed by two-thirds or more of its component members.

An independent college shall grant a certificate of graduation with the name of the college on it to students that complete the required study with qualified performance. Furthermore, an independent college that obtains the appropriate qualification for conferring degrees after it is examined and approved in accordance with the relevant regulations is permitted to grant a bachelor's degree certificate to students who satisfy the required conditions.

Where an independent college uses the management resources, teachers, curriculums and other education resources of the colleges and universities who act as its sponsors, the payment made by the independent college to its sponsors is permitted to be deemed and calculated as the running cost of the independent college in accordance with the cooperation agreement among the sponsors and/or the relevant PRC regulations. The sponsors of an independent college may require receipt of reasonable gains from the college, such amount is calculated by deducting running costs, deposits in the reserved development funds and other necessary expenses from the income of the independent college in accordance with PRC.

The Law for Promoting Private Education and the Implementation Rules for the Law for Promoting Private Education

The Law for Promoting Private Education of the PRC (中華人民共和國民辦教育促進法) became effective on September 1, 2003 and was amended on June 29, 2013, and further amended on November 7, 2016 and December 29, 2018 and the Implementation Rules for the Law for Promoting Private Education of the PRC (中華人民共和國民辦教育促進法實施條例) became effective on April 1, 2004. Under these regulations, "private schools" are defined as schools established by social organizations or individuals using non-government funds. The establishment of a private school shall meet the local need for educational development and the requirements of the Education Law and relevant laws and regulations. The standards for the establishment of private schools shall conform to those for the establishment of public schools of the same grade and category. In addition, private schools providing academic qualifications education, pre-school education, education for self-study examination and other education shall be subject to approval by the education authorities at or above the county level, while private schools engaging in occupational qualification training and occupational skill training shall be subject to approvals from the authorities in charge of labor and social welfare at or above the county level. A duly approved private school will be granted a Permit for operating a Private School (民辦學校辦學許可證), and shall be registered with the Ministry of Civil Affairs of the PRC (中華人民共和國民政部) (the "**MCA**") or its local counterparts as a privately run non-enterprise institution (民辦非企業單位).

Under the above regulations, private schools have the same status as public schools, though private schools are prohibited from providing military, police, political and other kinds of education which are of a special nature. Sponsors of private schools are not permitted to establish for-profit private school providing compulsory education. The operations of a private school are highly regulated. For example, a private school shall establish the executive council, the board of directors or any other form of decision-making body and such decision-making body shall meet at least once a year. Teachers employed by a private school shall have the qualifications specified for teachers and meet the conditions for the post as provided for in the Teachers Law of the PRC (中華人民共和國教師法) and other relevant laws and regulations. There shall also be a definite number of full-time teachers in a private school, and in private schools offering academic qualifications education, full-time teachers shall account for not less than one-third of the total number of the teachers. CUCN provides a diploma or certificate to students. In line with relevant regulations, all of our courses required for PRC diplomas are taught by teachers who are certified by the relevant city education bureaus after undergoing systematic training and passing standardized tests in the subject as they teach.

According to PRC laws and regulations, entities and individuals that establish private schools are commonly referred to as "sponsors" instead of "owners" and "shareholders". The economic substance of "sponsorship" with respect of private schools is substantially similar to that of ownership with regard to legal, regulatory and tax matters. A sponsor of a private school has the obligation to make capital contributions to the school in a timely manner. The contributed capital can be in the form of tangible or non-tangible assets such as materials in kind, land use rights or intellectual property rights. The capital contributed by the sponsor becomes an asset of the school and the school has independent legal person status. In addition, the sponsor of a private school has the right to exercise ultimate control over the school by becoming the member of and controlling the composition of the school's decision making body. Specifically, the sponsor has control over the private school's constitutional documents and has the right to elect and replace the private school's decision making bodies, such as the school's board of directors, and therefore controls the private school's business and affairs.

Sponsors of the private school are allowed to register and operate the school as a for-profit (the "**For-Profit Private Schools**") or a non-profit private school (the "**Non-Profit Private Schools**") as long as a private school does not provide compulsory education. Sponsors of For-Profit Private Schools are allowed to receive income from the operation of the school and the balance of running such school is permitted to be handled in accordance with the PRC Company Law and other relevant laws and administrative regulations. While sponsors of Non-Profit Private Schools are prohibited from receiving income from the operation of the school, the balance of running such schools shall be only used for the operation of the schools. Furthermore, the remaining assets upon liquidation of For-Profit Private Schools are permitted to be handled in accordance with the relevant provisions of the PRC Company Law and that of Non-Profit Private Schools shall only be used for the operation of other Non-Profit Schools.

For-Profit Private Schools are entitled to make their own decisions about the fees collection in accordance with the market situations, while the fees collection of Non-Profit Private schools shall be subject to concrete measures to be promulgated by the provincial, autonomous regional or municipal government. In addition, private schools are entitled to tax preferential policies and land policies in accordance with the PRC laws, with the emphasis that Non-Profit Private Schools shall enjoy the tax preferential policies and land policies equivalent to those applicable to public schools.

In addition, where an organization or individual establishes or operates a private school without authorization, it/he shall be ordered by the relevant administrative department of the government to cease operation of the school and return the fees collected, and shall be fined not less than one time but not more than five times of the illegal gains. If a sponsor's act is found to violate the administration of public security, the sponsor shall be subject to a penalty imposed by the public security authority according to the law. If a sponsor's act constitutes a crime, the sponsor shall be subject to criminal liabilities according to the law.

Several Opinions on Encouraging Private Entities and Individuals to Operate Schools and Promote the Healthy Development of Private Education

According to the Several Opinions on Encouraging Social Groups to Engage in Education and Promote the Healthy Development of Private Education (關於鼓勵社會力量興辦教育促進民辦教育健康發展的若干意見), which was issued by the State Council on December 29, 2016, innovative institutional mechanisms shall be implemented in the field of private education, which include but are not limited to: (i) classification registration and management shall be applicable to private schools and the sponsors of private schools shall, at their own discretion, choose to run non-profit or for-profit private schools; (ii) different government support policies shall be applicable to private schools. The government at all levels is responsible for formulating and perfecting support policies for non-profit private schools including but not limited to incentives and land allocation. At the same time, the government at all levels may support the development of for-profit private schools by ways including but not limited to government procurement services and preferential tax treatments in accordance with the economic and social development and the request for public service; and broaden the financing channels for private schools, encourage and attract private funds to enter into the field of private education. Financial institutions are encouraged to provide loans to private schools with the pledge of the schools' operating income in the future or intellectual property rights, while individual persons or entities are encouraged to make donations to non-profit private schools.

Local people's government at various levels should perfect support policies for private schools, which include but are not limited to implementing the same subsidy policies for private schools, implementing incentive policies regarding taxes and fees for private schools and different land supply policies.

On February 22, 2018, the provincial government of Jiangsu Province promulgated the Implementation Opinion on Encouraging Social Groups to Engage in Education and Promote the Healthy Development of Private Education (江蘇省政府關於鼓勵社會力量興辦教育促進民辦教育健康發展的實施意見) (the "**Jiangsu Opinion**"). According to the Jiangsu Opinion, school sponsors may freely elect to establish for-profit schools or non-profit schools. Sponsors of non-profit private schools do not obtain school operating income, and operating balances are all used for running schools; for-profit private schools sponsors can obtain school operating income, and distribution of the school balances are based on relevant state regulations. Private schools approved for establishment before September 1, 2017, can freely elect to establish for-profit schools or non-profit schools. In principle, the registration will be completed by December 31, 2020, and if necessary, may be extended to December 31, 2022.

Implementing Measures on Classification Registration of Private Schools

The Implementing Measures on Classification Registration of Private Schools (民辦學校分類登記實施細則) (the "**Classification Registration Rules**"), were issued jointly by the MOE, the Ministry of Human Resources and Social Security, the MCA, the State Commission Office of Public Sectors Reform and the SAIC on December 30, 2016.

The Classification Registration Rules are also applicable to Existing Private Schools. If an Existing Private School chooses to register as a non-profit private school, it shall amend its articles of association in accordance with the relevant laws, continue its school operation, and complete the new registration formalities. If an Existing Private School chooses to register as a for-profit private school, it shall make financial settlement, clarify the ownership of the schools' land, buildings and accumulations with the consent of the relevant taxes and fees, obtain new school permits, carry out their re-registration and continue their school operation. The provincial people's government is responsible for formulating the detailed measures on the alteration of the registration of the private schools in accordance with national laws and the local circumstances.

Jiangsu Province issued its own rules on classification registration of private schools on May 8, 2018, which mostly repeats provisions contained in the Classification Registration Rules.

Implementing Measures for the Supervision and Administration of For-profit Private Schools

On December 30, 2016, the MOE, the SAIC and the Ministry of Human Resources and Social Security jointly issued the Implementation Rules on the Supervision and Administration of For-profit Private Schools (營利性民辦學校監督管理實施細則), which detail the supervision and administration of for-profit private schools regarding the establishment of schools, the organization structure, the education and teaching activities, finance and assets, the information publication, the change and termination of schools and the penalties for violation.

Jiangsu Province issued its own rules on the supervision and administration of for-profit private schools on May 10, 2018, which resembles the rules at state level to a large extent.

According to the Notice of the SAIC and the MOE on the Registration and Administration of the Name of For-Profit Private Schools (工商總局、教育部關於營利性民辦學校名稱登記管理有關工作的通知), which was issued jointly by the MOE and the SAIC on August 31, 2017 and became effective on September 1, 2017, the private school shall be registered as a limited liability company or a joint stock limited company according to the Company Law of the PRC (中華人民共和國公司法) and the Law for Promoting Private Education (中華人民共和國民辦教育促進法) and its name shall comply with relevant laws and regulations on company registration and education.

Notice on the Cancelation of the Fee Charge Permit System and Strengthening the Supervision

According to the Notice on the Cancelation of the Fee Charge Permit System and Strengthening the Interim and Ex Post Supervision (國家發展和改革委員會、財政部關於取消收費許可證制度加強事中事後監管的通知), which was jointly promulgated by the NDRC and the Ministry of Finance on January 9, 2015, the annual review system of Fee Charge Permit Certificate shall be abolished nationwide from January 1, 2015, and the system of Fee Charge Permit Certificate shall be abolished nationwide from January 1, 2016.

On October 12, 2015, the State Council and the Central Committee of the Communist Party of China jointly issued the Certain Opinions of the Central Committee of the Communist Party of China and the State Council on Promoting the Price Mechanism Reform (中共中央、國務院關於推進價格機制改革的若干意見), which allows For-Profit Private Schools to set their tuition fees, while the tuition-collecting policies of Non-Profit Private Schools shall be determined by the provincial governments in a market-oriented manner, taking into account of the local conditions. However, as the laws and regulations applicable to our University in relation to tuition fees have not been amended to reflect the Several Opinions of the Central Committee of the Communist Party of China and the State Council on Promoting the Price Mechanism Reform, tuition fees of our University are and will continue to be subject to review and approval by or filing with the relevant governmental pricing authorities in accordance with the applicable regulations in Jiangsu Province.

According to the Guiding Opinions of Price Bureau of Jiangsu Province, Department of Education of Jiangsu Province, Department of Human Resources and Social Security of Jiangsu Province on Promoting the Fee Collection Reform of Private Schools (江蘇省物價局、江蘇省教育廳、江蘇省人力資源和社會保障廳關於推進民辦教育收費改革的指導意見) issued on May 18, 2018, for-profit private schools in Jiangsu Province are entitled to determine tuition and fees collection standard at their own discretion while the tuition and fees collection standard of non-profit private schools shall be made by competent pricing authority at provincial level. A private school established with approval prior to September 1, 2017 is regarded as a non-profit private school before its completing the classification registration in term of the fee collection supervision.

According to the Notice on the Charge Standard of Private Higher School (江蘇省物價局、江蘇省教育廳、江蘇省財政廳關於民辦高等學校收費標準等有關問題的通知), which was jointly promulgated by the Price Bureau of Jiangsu Province, Jiangsu Education Department, and the Department of Finance of Jiangsu Province on April 27, 2013, the private schools may determine the specific tuition standards within the prescribed scope according to the conditions of running the school, the cultivation cost and the student source, and report to the provincial price bureau, education department and finance department for the record. The sponsor of a private school may not divide the income of tuition fees initially. In addition to the awards and grants granted by the government, 3% of the tuition fees shall be fully withdrawn from the income of tuition fees to be used for tuition fee reduction and exemption for students in need, on-campus scholarships, grants and subsidies for special difficulties.

Regulations on safety and health protection of schools

Pursuant to the Food Safety Law of the PRC (中華人民共和國食品安全法), which was amended on April 24, 2015 and further amended on December 29, 2018, collective canteens of schools shall obtain licenses in accordance with the laws and strictly abide by the laws, regulations and food safety standards. Schools and kindergartens should only order meals from off-site providers that have obtained the relevant food production licenses and should conduct regular inspections on the meals provided.

According to Administrative Measures on License of Catering Industry (餐飲服務許可管理辦法), which was promulgated on March 4, 2010 and became effective on May 1, 2010, a licensing system for the catering industry is implemented. A catering service provider shall obtain food service license and take responsibility for the food safety in accordance with the laws. Pursuant to Administrative Measures for Food Operation Licensing (食品經營許可管理辦法) promulgated on August 31, 2015 and amended on November 17, 2017 with effect from the same day, a food operation license shall be obtained in accordance with the law to engage in food selling and catering services within the territory of the PRC. The principle of one license for one site shall apply to the licensing for food operation, and classified licensing for food operation according to food operators' types of operation and the degree of risk of their operation projects is implemented.

Pursuant to Administrative Measures for the Supervision of Food Safety in Catering Service (餐飲服務食品安全監督管理辦法), which was promulgated on March 4, 2010 and became effective on May 1, 2010, catering service providers shall carry out catering service activities in accordance with the laws, regulations, food safety standards and relevant requirements, be responsible for society and the general public, ensure food safety, accept social supervision, and take responsibilities for food safety in catering service.

According to the Regulations on the Management of Food Safety, Nutrition and Health (學校食品安全與營養健康管理規定) promulgated by the MOE, State Administration for Market Regulation and the National Health Commission on February 20, 2019 and came into force on April 1, 2019, the supply of foods by schools to students, teachers and employees through canteens or by ordering food from off-site providers is regulated. Schools shall attach great importance to food safety and the principle of a school is responsible for the food safety. The school canteens shall obtain the license for food operations.

REGULATIONS OVER REAL PROPERTY IN THE PRC

Pursuant to the Real Right Law of the PRC (中華人民共和國物權法) (the "**Real Right Law**") which was promulgated on March 16, 2007 and came into effect from October 1, 2007, educational, medical and health and other public welfare facilities of institutions and social groups with the aim of benefiting the public such as schools, kindergartens, hospitals, etc. and other properties that cannot be mortgaged as prescribed by law or administrative regulation may not be mortgaged. On May 28, 2020, the Civil Code of the PRC (中華人民共和國民法典) (the "**Civil Code**") was adopted by the third session of the 13th the National People's Congress of the PRC, which will become effective from January 1, 2021. The Civil Code amalgamates and replaces a series of specialized laws in civil law area, including the Real Right Law. The Civil Code provides that non-profit legal persons established for public welfare such as schools, kindergartens and medical institutions shall not mortgage their educational facilities, health care facilities and other public welfare facilities.

According to the Real Right Law and the Civil Code, transferable fund units and equity, property right in intellectual property rights of transferable exclusive trademark rights, patent rights, copyrights, etc., accounts receivable and other property rights that can be pledged as stipulated by any law or administrative regulation may be pledged.

REGULATIONS OVER INTELLECTUAL PROPERTY IN THE PRC

Copyright

The Copyright Law of the PRC (中華人民共和國著作權法) (the "**Copyright Law**") was amended on February 26, 2010 and came into effect on April 1, 2010. Copyrights include personal rights such as the right of publication and that of attribution, as well as property rights such as the right of production and that of distribution. Reproducing, distributing, performing, projecting, broadcasting or compiling a work or communicating the same to the public via an information network without permission from the owner of the copyright therein, unless otherwise provided in the Copyright Law, shall constitute infringements of copyrights. The infringer shall, according to the circumstances of the case, undertake to cease the infringement, take remedial action, and offer an apology, pay damages, etc.

The copyright in a film or a work piece produced shall be owned by the producer, provided that the script producer, director, photographer and writer of music and lyrics shall be entitled to the relevant rights of authorship on such work piece and have the right to enjoy the return as provided in the contracts with the producer. The authors of work products therein that can be separately used, such as scripts and music, can separately exercise their own copyrights. Where an audio-visual producer uses another's work to produce an audio-visual product, the authorization shall be obtained from, and remuneration shall be paid to, the copyright owner. Where a television station broadcasts another's film or work piece produced in a similar way, or audio-visual product, the authorization shall be obtained from, and remuneration shall be paid to, the producer thereof.

Trademark

Pursuant to the Trademark Law of the PRC (中華人民共和國商標法) (the "**Trademark Law**"), which was revised on August 30, 2013 and April 23, 2019 and came into effect on November 1, 2019, the right to exclusive use of a registered trademark shall be limited to trademarks which have been approved for registration and to goods for which the use of trademark has been approved. The period of validity of a registered trademark shall be ten years, counted from the day the registration is approved. According to the Trademark Law, using a trademark that is identical with or similar to a registered trademark in connection with the same or similar goods without the authorization of the owner of the registered trademark constitutes an infringement of the exclusive right to use a registered trademark. The infringer shall, in accordance with the regulations, undertake to cease the infringement, take remedial action, and pay damages, etc.

Patent

Pursuant to the Patent Law of the PRC (中華人民共和國專利法) (the "**Patent Law**"), which was revised on December 27, 2008 and came into effect on October 1, 2009, after the grant of the patent right for an invention or utility model, except where otherwise provided for in the Patent Law, no entity or individual may, without the authorization of the patent owner, exploit the patent, that is, make, use, offer to sell, sell or import the patented product, or use the patented process, or use, offer to sell, sell or import any product which is a direct result of the use of the patented process, for production or business purposes.

Domain name

Pursuant to the Measures for the Administration of Internet Domain Names (互聯網域名管理辦法), which was promulgated on August 24, 2017 and came into effect on November 1, 2017, "domain name" shall refer to the character mark of hierarchical structure, which identifies and locates a computer on the internet and corresponds to the internet protocol (IP) address of that computer. The principle of "first come, first serve" is followed for the domain name registration service.

REGULATIONS OVER FOREIGN EXCHANGE IN THE PRC

The principal regulation governing foreign currency exchange in China is the Foreign Exchange Administration Rules of the PRC (中華人民共和國外匯管理條例) (the "**Foreign Exchange Administration Rules**"). The Foreign Exchange Administration Rules were promulgated by the State Council on January 29, 1996, came into effect on April 1, 1996 and were amended on January 14, 1997 and August 5, 2008. Under these rules, Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as capital transfer, direct investment, investment in securities or derivative products or loans unless the prior approval by the competent authorities for the administration of foreign exchange is obtained.

Under the Foreign Exchange Administration Rules, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE for paying dividends by providing certain evidencing documents (board resolutions, tax certificates, etc.), or for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency (subject to a cap approval by SAFE) to satisfy foreign exchange liabilities. In addition, foreign exchange transactions involving overseas direct investment or investment and trading in securities, derivative products abroad are subject to registration with the competent authorities for the administration of foreign exchange and approval or filings with the relevant governmental authorities (if necessary).

According to the Circular of the SAFE on Foreign Exchange Administration of Overseas Investment and Financing and Round-Trip Investments by Domestic Residents via Special Purpose Vehicles (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (the "**SAFE Circular 37**"), which was promulgated on July 4, 2014 and with effect from the same day, before a domestic resident contributes its legally owned onshore or offshore assets and equity into an SPV, the domestic resident shall conduct foreign exchange registration for offshore investment with the local branch of the SAFE, and in the event of change of basic information such as the individual shareholder, name, operation term, etc., or if there is a capital increase, decrease, equity transfer or swap, merge, spin-off or other amendment of the material items, the domestic resident shall complete foreign exchange alteration registration formality for offshore investment. The SPV is defined as an "offshore enterprise directly established or indirectly controlled by the domestic resident (including domestic institution and individual resident) with their legally owned assets and equity of the domestic enterprise, or legally owned offshore assets or equity, for the purpose of investment and financing"; "Round Trip Investments" refer to "the direct investment activities carried out by a domestic resident directly or indirectly via an SPV, i.e., establishing a foreign-invested enterprise or project within the PRC through a new entity, merger or acquisition and other ways, while obtaining ownership, control, operation and management and other rights and interests". In addition, according to the procedural guidelines as attached to SAFE Circular 37, the principle of review has been changed to "the domestic individual resident is only required to register the SPV directly established or controlled (first level)".

Pursuant to the Circular of the SAFE on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (關於進一步簡化和改進直接投資外匯管理政策的通知), which was promulgated on February 13, 2015 and implemented June 1, 2015 and amended on December 30, 2019, the initial foreign exchange registration for establishing or taking control of an SPV by domestic residents can be conducted with a qualified bank, instead of the local foreign exchange bureau.

SAFE Regulations on Employee Share Options

In February 2012, the SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Share Incentive Plans of Overseas Publicly-Listed Companies (國家外匯管理局關於境內個人參與境外上市公司股權激勵計畫外匯管理有關問題的通知) (the "**Share Option Rules**"). Under the Share Option Rules, PRC residents, who participate in a share incentive plan in an overseas publicly-listed company are required to register with SAFE or its local branches and complete certain other procedures as required by the authorities. Participants of a share incentive plan, who are PRC residents, must retain a qualified PRC agent, which could be a PRC subsidiary of such overseas publicly-listed company or another qualified institution selected by such PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the share incentive plan on behalf of its participants. Such participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of share options, the purchase and sale of corresponding shares or interests and fund transfers. In addition, the PRC agent is required to update the SAFE registration with respect to the share incentive plan if there is any material change to the share incentive plan, change in the PRC agent or the overseas entrusted institution or any other material changes.

Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors

Under the Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (Revised in 2009) (關於外國投資者並購境內企業的規定) (the "**M&A Rules**"), a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity in a domestic non-foreign invested enterprise thereby converting it into a foreign-invested enterprise, or subscribes for new equity in a domestic enterprise via an increase of registered capital thereby converting it into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise. According to Article 11 of the M&A Rules, where a domestic company or enterprise, or a domestic natural person, through an overseas company established or controlled by it/him, acquires a domestic company which is related to or connected with it/him, approval from MOFCOM is required.

REGULATIONS OVER LABOR PROTECTION IN THE PRC

According to the Labor Law of the PRC (中華人民共和國勞動法) (the "**Labor Law**"), which was promulgated by the Standing Committee of the National People's Congress on July 5, 1994, came into effect on January 1, 1995 and was amended on August 27, 2009 and December 29, 2018, an employer shall develop and improve its rules and regulations to safeguard the rights of its workers. An employer shall develop and improve its labor safety and health system, stringently implement national protocols and standards on labor safety and health, conduct labor safety and health education for workers, guard against labor accidents and reduce occupational hazards. Labor safety and health facilities must comply with relevant national standards. An employer must provide workers with the necessary labor protection gear that complies with labor safety and health conditions stipulated under national regulations, as well as provide regular health checks for workers that are engaged in operations with occupational hazards. Laborers engaged in special operations shall have received specialized training and obtained the pertinent qualifications. An employer shall develop a vocational training system. Vocational training funds shall be set aside and used in accordance with national regulations, and vocational training for workers shall be carried out systematically based on the actual conditions of the company.

The Labor Contract Law of the PRC (中華人民共和國勞動合同法), which was promulgated by the State Council on June 29, 2007, came into effect on January 1, 2008, and was subsequently amended on December 28, 2012 and came into effect on July 1, 2013, and the Implementation Regulations on Labor Contract Law (勞動合同法實施條例), which was promulgated on September 18, 2008 and became effective on the same date, regulate both parties through a labor contract, namely the employer and the employee, and contain specific provisions involving the terms of the labor contract. It is stipulated under the Labor Contract Law and the Implementation Regulations on Labor Contract Law that a labor contract must be made in writing. An employer and an employee may enter into a fixed-term labor contract, an un-fixed term labor contract, or a labor contract that concludes upon the completion of certain work assignments, after reaching agreement upon due negotiations. An employer may legally terminate a labor contract and dismiss its employees after reaching agreement upon due negotiations with the employee or by fulfilling the statutory conditions. Labor contracts concluded prior to the enactment of the Labor Contract Law and subsisting within the validity period thereof shall continue to be honored. Where a labor relationship has already been established but no formal contract has been made, a written labor contract shall be entered into within one month from the effective date of the Labor Contract Law.

According to the Interim Regulations on the Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例), the Regulations on Work Injury Insurance (工傷保險條例), the Regulations on Unemployment Insurance (失業保險條例) and the Trial Measures on Employee Maternity Insurance of Enterprises (企業職工生育保險試行辦法), enterprises in the PRC shall provide benefit plans for their employees, which include basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance. An enterprise must provide social insurance by processing social insurance registration with local social insurance agencies, and shall pay or withhold relevant social insurance premiums for or on behalf of employees. The Law on Social Insurance of the PRC (中華人民共和國社會保險法), which was promulgated on October 28, 2010 and amended on December 29, 2018, has consolidated pertinent provisions for basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance, and has elaborated in detail the legal obligations and liabilities of employers who do not comply with relevant laws and regulations on social insurance.

According to the Regulations on the Administration of Housing Provident Fund (住房公積金管理條例) (Order No. 262 of the State Council), which was promulgated and became effective on April 3, 1999, and was amended on March 24, 2002 and March 24, 2019, housing provident fund contributions by an individual employee and housing provident fund contributions by his or her employer shall belong to the individual employee.

The employer shall timely pay up and deposit housing provident fund contributions in full amount and late or insufficient payments shall be prohibited. The employer shall process housing provident fund payment and deposit registrations with the housing provident fund administration center. With respect to companies who violate the above regulations and fail to process housing provident fund payment and deposit registrations or open housing provident fund accounts for their employees, such companies shall be ordered by the housing provident fund administration center to complete such procedures within a designated period. Those who fail to process their registrations within the designated period shall be subject to a fine ranging from RMB10,000 to RMB50,000. When companies breach these regulations and fail to pay up housing provident fund contributions in full amount as due, the housing provident fund administration center shall order such companies to pay up within a designated period, and may further apply to the People's Court for mandatory enforcement against those who still fail to comply after the expiry of such period.

REGULATIONS OVER TAX IN THE PRC

Income Tax

According to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the "**EIT Law**"), which was promulgated on March 16, 2007, last amended on December 29, 2018 and became effective on the same date, and the Implementation Rules to the EIT Law (中華人民共和國企業所得稅法實施條例) (the "**Implementation Rules**"), which was promulgated on December 6, 2007 and amended on April 23, 2019 by the State Council, enterprises are divided into resident enterprises and non-resident enterprises. A resident enterprise shall pay 25% enterprise income tax on its income deriving from both inside and outside China. A non-resident enterprise that has an establishment or place of business in the PRC shall pay 25% enterprise income tax on its income deriving from inside China and obtained by such establishment or place of business, and on its income which derives from outside China but has actual relationship with such establishment or place of business. A non-resident enterprise that does not have an establishment or place of business in China, or has an establishment or place of business in China but the income has no actual relationship with such establishment or place of business, shall pay enterprise income tax on its income deriving from inside China at the reduced rate of enterprise income tax of 10%.

According to Notice of the Ministry of Finance and the State Administration of Taxation on Tax Policies Relating to Education (財政部國家稅務總局關於教育稅收政策的通知) (the "**Circular 39**") and Notice of the Ministry of Finance and the State Administration of Taxation on Issues Concerning Strengthening the Administration over the Collection of Business Tax on Educational Services (財政部、國家稅務總局關於加強教育勞務營業稅徵收管理有關問題的通知) (the "**Circular 3**"), schools are not required to pay enterprise income tax on fees they have collected upon approval and have incorporated under the fiscal budget management or the special account management of the funds outside the fiscal budget. Schools are not required to pay enterprise income tax on the financial allocations they have received and special subsidies they have obtained from their administrative departments or institutions at higher levels.

According to the Law of PRC for Promoting Private Education (中華人民共和國民辦教育促進法), a private school enjoys preferential tax policies. In particular, a non-profit private school enjoys the same preferential tax treatment given to public schools.

Income Tax in Relation to Dividend Distribution

The PRC and the government of Hong Kong entered into the Arrangement between the Mainland of China and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排) (the "**Arrangement**") on August 21, 2006. According to the Arrangement, the 5% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident, provided that such Hong Kong resident directly holds at least 25% of the equity interests in the PRC company. The 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident if such Hong Kong resident holds less than 25% of the equity interests in the PRC company.

Pursuant to the Circular of the State Administration of Taxation on Relevant Issues Relating to the Implementation of Dividend Clauses in Tax Agreements (國家稅務總局關於執行稅收協定股息條款有關問題的通知), which was promulgated by the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局) (the "**State Administration of Taxation**") and became effective on February 20, 2009, all of the following requirements shall be satisfied where a fiscal resident of the other party to a tax agreement needs to be entitled to such tax agreement treatment as being taxed at a tax rate specified in the tax agreement for the dividends paid to it by a Chinese resident company: (i) such a fiscal resident who obtains dividends should be a company as provided in the tax agreement; (ii) owner's equity interests and voting shares of the Chinese resident company directly owned by such a fiscal resident reaches a specified percentage; and (iii) the equity interests of the Chinese resident company directly owned by such a fiscal resident, at any time during the twelve months prior to the obtainment of the dividends, reach a percentage specified in the tax agreement.

Value-added Tax

According to the Temporary Regulations on Value-added Tax (增值稅暫行條例) (Order No. 538 of the State Council), which was promulgated by the State Council on December 13, 1993, came into effect on January 1, 1994, and was amended on November 10, 2008, February 6, 2016 and November 19, 2017, and the Detailed Implementing Rules of the Temporary Regulations on Value-added Tax (增值稅暫行條例實施細則) (Order No. 65 of the MOF), which was promulgated by the MOF and came into effect on December 25, 1993, and was amended on December 15, 2008 and October 28, 2011, all taxpayers selling goods, providing processing, repairing or replacement services or importing goods within the PRC shall pay value-added tax. The tax rate of 17% shall be levied on general taxpayers selling or importing various goods; the tax rate of 17% shall be levied on the taxpayers providing processing, repairing or replacement service; and the applicable rate for the export of goods by taxpayers shall be nil, unless otherwise stipulated.

Furthermore, according to the Trial Scheme for the Conversion of Business Tax to Value-added Tax (營業稅改徵增值稅試點方案) (Cai Shui 2011 No. 110), which was promulgated by the MOF and the SAT, the State began to launch taxation reforms in a gradual manner with effect from January 1, 2012, whereby the collection of value-added tax in lieu of business tax items was implemented on a trial basis in regions showing significant radiating effects in economic development and providing outstanding reform examples, beginning with production service industries such as transportation and certain modern service industries.

In accordance with the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (關於全面推開營業稅改徵增值稅試點的通知) (Cai Shui [2016] No. 36), which was promulgated on March 23, 2016, came into effect on May 1, 2016, and was amended on July 1, 2017 and April 1, 2019. Upon approval of the State Council, the pilot program of the collection of value-added tax in lieu of business tax shall be promoted nationwide in a comprehensive manner as of May 1, 2016, and all taxpayers of business tax engaged in the building industry, the real estate industry, the financial industry and the life service industry shall be included in the scope of the pilot program with regard to payment of value-added tax instead of business tax. Formal educational services provided by schools that provide formal education are exempted from value-added tax.

Other Tax Exemptions

According to Circular 39 and Circular 3, the real properties and land used by schools, nurseries and kindergartens established by enterprises shall be exempt from house property tax and urban land use tax. Schools that expropriate arable land upon approval shall be exempt from arable land use tax. Schools and educational institutions established by any enterprises, government affiliated institutions, social groups or other social organizations or individuals and citizens with non-state fiscal funds for education and open to the public upon the approval of the administrative department for education or for labor of the relevant people's government at the county level or above which has also issued the relevant school running license, shall be exempted from deed tax on their ownerships of land and houses used for teaching activities.

OUR CONTROLLING SHAREHOLDERS

Immediately after the completion of the Global Offering (assuming the Over-allotment Option is not exercised, no Shares are awarded under the Post-IPO Share Award Scheme, and no options are granted under the Post-IPO Share Option Scheme), Mr. Pu through Cathay Media Holding Inc. will control an aggregate of 72.19% of the issued share capital of our Company. Therefore, Mr. Pu and Cathay Media Holding Inc. will be our Controlling Shareholders.

CCTV Shopping

CCTV Home Shopping Co. Ltd. (中視購物有限公司) ("**CCTV Shopping**") is a company established in the PRC on April 17, 1998. Mr. Pu currently holds an indirect 11.25% equity interest in CCTV Shopping, while the remaining 88.75% is held by Independent Third Parties. CCTV Shopping is in the business of operating an online retail platform selling home appliances, clothing, accessories and luxury goods.

Our Directors believe that the business operations of CCTV Shopping is delineated from, do not and will not compete with, our principal business of TV/film production business and media and arts higher education operation.

Jiangsu Yingmai

Jiangsu Yingmai Culture Media Co. Ltd. (江蘇英邁文化傳媒有限公司) ("**Jiangsu Yingmai**") is a company established in the PRC. Mr. Pu currently holds a 12.5% equity interest in Jiangsu Yingmai, while the remaining 87.5% is held by Mr. Zhao Xiaochun (趙曉春), who is also supervisor of Nanjing Meiya. Jiangsu Yingmai is in the business of providing advertising services including the design, production, distribution and publishing of newspaper, magazine, radio, print and film advertisements.

Our Directors believe that the business operations of Jiangsu Yingmai is delineated from, do not and will not compete with, our principal business of TV/film production business and media and arts higher education operation.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Management independence

Our business is managed and conducted by our Board and senior management. Our Board comprises four executive Directors and three independent non-executive Directors. Mr. Pu, our Controlling Shareholder, is also one of our executive Directors.

Each Director is aware of his fiduciary duties as a director which require, among others, that he acts for the benefit and in the interest of our Company and does not allow any conflict between his duties as a Director and his personal interests. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall not vote and shall not be counted in the quorum in respect of such transactions. See "– Corporate governance measures" for other corporate governance measures we have adopted to manage conflicts of interest, if any, between our Group and our Controlling Shareholders.

Based on the above, our Directors believe that our business is managed independently of our Controlling Shareholders.

Operational independence

Our Group holds all relevant licenses and owns all relevant intellectual properties and research and development facilities necessary to carry on our business of TV/film production and media and arts higher education. We have sufficient capital, facilities, equipment and employees to operate our business independently from our Controlling Shareholders. We also have independent access to our customers and an independent management team to operate our business.

We have been and will continue to lease premises from Mr. Pu (and/or his associates) to use as office space, as set out in "Connected transactions – Summary of our continuing connected transactions – Leasing Framework Agreement". However, our business remains distinct from that of Mr. Pu's other businesses and we believe we would be able to find suitable alternative premises if required.

Based on the above, our Directors believe that our business is operationally independent of our Controlling Shareholders.

Financial independence

Our Group has an independent financial system and makes financial decisions according to our Group's own business needs. We have independent internal control and accounting systems and also have an independent finance department responsible for discharging the treasury function. We are capable of obtaining financing from third parties, if necessary, without reliance on our Controlling Shareholders.

During the Track Record Period, we had certain advances to and from related parties. See note 40 to the Accountant's Report in Appendix I. We will settle all outstanding balances with related parties prior to the Listing. There will be no financial assistance, security and/or guarantee provided by our Controlling Shareholders or their associates in favor of our Group or vice-versa (as the case may be) upon Listing.

Based on the above, our Directors believe that our business is financially independent of our Controlling Shareholders.

CORPORATE GOVERNANCE MEASURES

Our Directors recognize the importance of good corporate governance in protecting our Shareholders' interests. We would adopt the following measures to safeguard good corporate governance standards and to avoid potential conflict of interests between our Group and our Controlling Shareholders:

(a) under the Articles, where a Shareholders' meeting is held to consider proposed transactions in which our Controlling Shareholders or any of their associates has a material interest, our Controlling Shareholder(s) shall not vote and shall not be counted in the quorum in respect of such transactions;

(b) our Company has established internal control mechanisms to identify connected transactions, and we will comply with the applicable Listing Rules if we enter into connected transactions with our Controlling Shareholders or any of their associates after Listing;

(c) the independent non-executive Directors will review, on an annual basis, whether there is any conflict of interests between the Group and our Controlling Shareholders (the "**Annual Review**") and provide impartial and professional advice to protect the interests of our minority Shareholders;

(d) our Controlling Shareholders will undertake to provide all information necessary or requested by the independent non-executive Directors for the Annual Review, including all relevant financial, operational and market information;

(e) where our Directors reasonably request the advice of independent professionals, such as financial advisers, the appointment of such independent professionals will be made at our Company's expense; and

(f) we have appointed SPDB International Capital Limited as our compliance adviser to provide advice and guidance to us in respect of compliance with the applicable laws and regulations, as well as the Listing Rules, including various requirements relating to corporate governance.

Based on the above, our Directors believe that sufficient corporate governance measures have been put in place to manage conflicts of interest between our Group and our Controlling Shareholders, and to protect minority Shareholders' interests after the Listing.

OUR CONNECTED PERSONS

We have entered into certain transactions that will constitute continuing connected transactions under Rule 14A.31 of the Listing Rules upon Listing. Those transactions are entered into with the following connected persons and their associates:

Name	Relationship with connected person
Mr. Pu	our Controlling Shareholder and our executive Director

SUMMARY OF OUR CONTINUING CONNECTED TRANSACTIONS

			Proposed annual cap for the years ending December 31, (RMB'000)		
Transactions	Applicable Listing Rules	Waiver	2020	2021	2022
Partially-exempt continuing connected transactions					
Leasing Framework Agreement	Rule 14A.35 Rule 14A.76(2) Rule 14A.105	Announcement requirement	16,000	16,000	16,000
Non-exempt continuing connected transactions					
Contractual Arrangements	Rule 14A.35 Rule 14A.36 Rule 14A.52 Rule 14A.53 Rule 14A.105	Announcement, independent shareholders' approval, annual cap, and three year term requirements	N/A	N/A	N/A

1. Leasing Framework Agreement

On June 23, 2020 we (for ourselves and our associates) entered into the Leasing Framework Agreement with Mr. Pu (for himself and his associates) pursuant to which we will lease from Mr. Pu and his associates various office spaces. The term of the Leasing Framework Agreement is from the Listing Date to December 31, 2022. As at the Latest Practicable Date, the premises we currently lease are:

(a) 1263.69 square meters of office space at units 2201, 2202, 2203, 2205, 2207, 2208, and 2209, 22/F, Block 12, Wanda Plaza, No. 93 Jianguo Road, Chaoyang District, Beijing, PRC; and

(b) 97.81 square meters of office space at unit 2206, 22/F, Block 12, Wanda Plaza, No. 93 Jianguo Road, Chaoyang District, Beijing, PRC.

In accordance with HKFRS, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased property is available for use by our Group. Moreover, pursuant to guidance issued by the Stock Exchange, a lease recognized as a right-of-use asset is regarded as an acquisition of assets and the annual cap should be set for the total value of right-of-use assets relating to the leases to be entered into by our Company in each year under the framework agreement.

Historical amount, annual cap, and basis for annual cap

Historical amount (RMB'000) For the year ended December 31,			Annual cap (RMB'000) For the year ending December 31,		
2017	**2018**	**2019**	**2020**	**2021**	**2022**
23,218	19,348	15,478	16,000	16,000	16,000

When estimating the annual caps, our Directors have taken into consideration (i) the historical amounts, (ii) the value of right-of-use assets arising under existing contracts, (iii) the expected total gross floor area to be leased by us, and (iv) an estimate of the market rate of the properties including rent and management fees.

Cushman & Wakefield Limited, an independent property valuer, has confirmed that it is of the view that the terms and conditions (including the rental rates) of the leases contemplated under the Leasing Framework Agreement are fair, reasonable and consistent with the prevailing market rentals of similar properties.

Reasons for the transactions

Our Company leases office space from Mr. Pu for office purposes and we expect that we will continue to lease these properties after the Listing. We believe that it would save our Group administrative costs and time that would otherwise be spent on negotiating and entering into contracts with third party lessors.

Pricing policies

The rental rates under the Leasing Framework Agreement shall be determined based on arm's length discussions with reference to the prevailing market rates for the leasing of similar properties from Independent Third Parties in the same or adjacent area on normal commercial terms.

Listing Rules implications

The transactions under the Leasing Framework Agreement are conducted in the ordinary and usual course of business on normal commercial terms or better that are fair and reasonable, and one or more of the applicable percentage ratios on an annual basis under Chapter 14A of the Listing Rules will exceed 0.1% but will be lower than 5%. Pursuant to Rule 14A.76(2)(a) of the Listing Rules, these transactions will be exempt from the circular and shareholders' approval requirements under Chapter 14A of the Listing Rules, but will still be subject to the reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

2. Contractual Arrangements

Background

As disclosed in the section headed "Contractual Arrangements", due to regulatory restrictions on foreign ownership in China, we conduct a portion of our business through our Consolidated Affiliated Entities in China. We do not hold any equity interests in our Consolidated Affiliated

Entities. Rather, through the Contractual Arrangements, we effectively control these Consolidated Affiliated Entities and are able to derive substantially all of their economic benefits, and expect to continue to do so. See "Contractual Arrangements" for details.

Listing Rule implications

Mr. Pu is a party to the Contractual Arrangements and is also our Controlling Shareholder and executive Director. Therefore the transactions contemplated under the Contractual Arrangements are continuing connected transactions of our Company. The highest applicable percentage ratios (other than the profits ratio) under the Listing Rules in respect of the transactions associated with the Contractual Arrangements are expected to be more than 5%. As such, the transactions will be subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Reasons for the transaction and the waiver application

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated therein are fundamental to our legal structure and business operations. Our Directors also believe that our structure, whereby the financial results of our Consolidated Affiliated Entities are consolidated into our financial statements as if they were our Company's wholly-owned subsidiaries, and all the economic benefits of their business flows to our Group, places our Group in a special position in relation to the connected transactions rules. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements or renewal of existing transactions, contracts and agreements to be entered into, among others, by our Consolidated Affiliated Entities and any member of our Group from time to time (including Consolidated Affiliated Entities) (the "**New Intergroup Agreements**") technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, our Directors consider that it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company, for all such transactions to be subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among other things, the announcement and independent shareholders' approval requirements.

WAIVERS

1. Leasing Framework Agreement

In respect of the partially-exempt continuing connected transactions set out above, we have applied for, and the Stock Exchange has granted us, waivers from strict compliance with the announcement requirements under the Listing Rules.

2. Contractual Arrangements

In respect of the Contractual Arrangements and New Intergroup Agreements, we have applied for, and the Stock Exchange has granted us, waivers from strict compliance with (i) the announcement, circular and independent shareholders' approval requirements pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement to set annual caps under Rule 14A.53 of the Listing Rules, and (iii) the requirement to limit the term to three years or less under Rule 14A.52 of the Listing Rules, for so long as our Shares are listed on the Stock Exchange subject to the following conditions.

No change without independent non-executive Directors' approval

Save as described below, no change to the Contractual Arrangements (including with respect to any fees payable to the WFOEs thereunder) will be made without the approval of our independent non-executive Directors.

No change without independent Shareholders' approval

Save as described below, no change to the agreements governing the Contractual Arrangements will be made without the approval of our independent Shareholders. Once independent Shareholders' approval of any change has been obtained, no further announcement or approval of the independent Shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company will however continue to be applicable.

Economic benefits and flexibility

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the Consolidated Affiliated Entities through (i) our Group's options (if and when so allowed under the applicable PRC laws) to acquire, all or part of the equity interests in the Consolidated Affiliated Entities for nil consideration or the minimum amount of consideration permitted by applicable PRC laws and regulations, (ii) the business structure under which the profit generated by the Consolidated Affiliated Entities is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to the WFOEs by our Consolidated Affiliated Entities under the Contractual Arrangements, and (iii) our Group's right to control the management and operation of, as well as, in substance, a substantial portion of the voting rights of the Consolidated Affiliated Entities.

Renewal and reproduction

On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between, on the one hand, our Company and the subsidiaries in which our Company has direct shareholding and, on the other hand, the Consolidated Affiliated Entities, this framework may be renewed and/or reproduced without an announcement, circular, or obtaining the approval of our Shareholders (i) upon the expiry of the existing arrangements, (ii) in connection with any changes to the shareholders or directors of, or of their shareholdings in, the Consolidated Affiliated Entities, or (iii) in relation to any existing, new or acquired wholly foreign-owned enterprise or operating company (including branch company) engaging in a business similar or relating to those of our Group.

The directors, chief executive or substantial shareholders of any existing, new or acquired wholly foreign-owned enterprise or operating company (including branch company) engaging in a business similar or relating to those of our Group will, upon renewal and/or reproduction of the Contractual Arrangements, be treated as connected persons of our Group and transactions between these connected persons and our Group other than those under similar Contractual Arrangements shall comply with Chapter 14A of the Listing Rules.

This condition is subject to relevant PRC laws, regulations and approvals. Any such renewed or reproduced agreements will be on substantially the same terms and conditions as the existing Contractual Arrangements.

Ongoing reporting and approvals

We will disclose details relating to the Contractual Arrangements on an ongoing basis:

- the Contractual Arrangements in place during each financial period will be disclosed in our Company's annual report and accounts in accordance with the relevant provisions of the Listing Rules;

- our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Company's annual report that for the relevant year (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements, (ii) no dividends or other distributions have been made by our Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group, and (iii) any new contracts entered into, renewed or reproduced between our Group and the Consolidated Affiliated Entities are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of our Shareholders as a whole;

- our Company's auditors will carry out review procedures annually on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to our Directors with a copy to the Stock Exchange, confirming that the transactions have been approved by our Board, have been entered into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions have been made by our Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group;

- for the purpose of Chapter 14A of the Listing Rules, and in particular the definition of 'connected person', our Consolidated Affiliated Entities will be treated as our Company's subsidiaries, but at the same time, the directors, chief executives or substantial shareholders of the Consolidated Affiliated Entities and its associates will be treated as connected persons of our Company as applicable under the Listing Rules (excluding for this purpose, the Consolidated Affiliated Entities themselves), and therefore transactions between these connected persons and our Group (including for this purpose, the Consolidated Affiliated Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules; and

- our Consolidated Affiliated Entities will, for so long as our Shares are listed on the Stock Exchange, provide our Group's management and our Company's auditors with full access to its relevant records for the purpose of reporting on the connected transactions.

CONFIRMATION FROM THE DIRECTORS

Our Directors (including independent non-executive Directors) are of the view that: (i) the continuing connected transactions set out above have been and will be entered into in our ordinary and usual course of business on normal commercial terms or better, on terms that are fair and reasonable, and in the interests of our Company and our Shareholders as a whole; (ii) the proposed annual caps (if any) of the continuing connected transactions are fair and reasonable and in the interests of our Company and our Shareholders as a whole; and (iii) it is normal business practice for the Contractual Arrangements to be of a term greater than three years.

CONFIRMATION FROM THE JOINT SPONSORS

The Joint Sponsors are of the view that: (i) the continuing connected transactions set out above have been and will be entered into in the Company's ordinary and usual course of business on normal commercial terms or better, on terms that are fair and reasonable, and in the interest of the Company and its Shareholders as a whole; (ii) the proposed annual caps (if any) of the continuing connected transactions are fair and reasonable and in the interest of the Company and the Shareholders as a whole; and (iii) it is normal business practice for the Contractual Arrangements to be of a term greater than three years.

DIRECTORS

Upon Listing, our Board will consist of seven Directors, including four executive Directors and three independent non-executive Directors, namely:

Name	Age	Position	Roles and responsibilities	Date of joining the Group	Date of appointment as Director
Mr. Pu Shulin (蒲樹林)	64	Executive Director, Chairman and Chief Executive Officer	Overall strategic planning business direction, and management of the Company	December 2001	January 4, 2017
Mr. Sun Haitao (孫海濤)	35	Executive Director, Vice President	Investments, corporate finance, investor relations, financial strategy, and accounting of the Company	October 2016	August 27, 2019
Mr. Wu Ye (吴曄)	41	Executive Director, Chief production officer	Management of TV and film production	December 2003	August 27, 2019
Mr. Yan Xiang (嚴翔)	60	Executive Director, Vice-chancellor of CUCN	Overall management and operation of CUCN	October 2006	August 27, 2019
Mr. Zhang Jizhong (張紀中)	68	Independent non-executive Director	Supervising and providing independent judgment to our Board	June 2020	June 30, 2020
Mr. Lee Cheuk Yin Dannis (李卓然)	49	Independent non-executive Director	Supervising and providing independent judgment to our Board	June 2020	June 30, 2020
Mr. Huang Yu (黃煜)	63	Independent non-executive Director	Supervising and providing independent judgment to our Board	June 2020	June 30, 2020

Saved as disclosed below (and their respective interests or short positions (if any) as set out in "Statutory and general information – Further information about our Directors" in Appendix V), there are no other matters in respect of each of our Directors that is required to be disclosed pursuant to Rule 13.51(2)(a) to (v) of the Listing Rules and there is no other material matter relating to our Directors that needs to be brought to the attention of our Shareholders.

Save as disclosed below, none of the Directors have held directorships in any listed company over the past three years and none of our Directors and members of senior management are related to other Directors or members of senior management.

Executive Directors

Mr. Pu Shulin (蒲樹林), aged 64, is our founder, executive Director, Chairman and Chief Executive Officer of our Company, and chair of the nomination committee and member of remuneration committee of the Board. Mr. Pu founded our Group and serves as a director and chairman of Dongyang Huaxia, Huaxia Audio-Visual, Huaxia Online, Nanjing Lanchou, Nanjing Meiya, and CUCN. Mr. Pu graduated from Shenyang Conservatory of Music (瀋陽音樂學院) in Shenyang, Liaoning Province, China in 1983.

Mr. Pu founded Beijing Pushengda Advertising Co., Ltd. (北京普聖達廣告有限公司) in December 1998 and Huaxia Online in December 2001 to invest in TV series production, and founded Nanjing Meiya in January 2003 to invest in private higher education services and has continued to serve as its chairman since then, going on to co-found CUCN and now serves as its chairman. Mr. Pu served as the film and TV program center director of Heilongjiang TV Series Production Center (黑龍江電影電視劇製作中心) from 1989 to 1993, and the deputy director of the Heilongjiang International Culture Association (黑龍江省對外文化交流協會) from 1993 to the end of 1996.

Mr. Sun Haitao (孫海濤), aged 35, is our executive Director, a vice president of our Company. He has served as vice president of Huaxia Audio-Visual since joining our Group in October 2016. Mr. Sun received his bachelor's degree of business administration in accountancy from Yokohama National University (橫濱國立大學) in Yokohama, Japan, in March 2009.

Mr. Sun worked at BNP Paribas Securities (Japan) Limited from April 2009 to October 2011. He then went on to serve a vice president of ORIX Corporation from December 2011 to February 2016 and a senior vice-president of ORIX Asia Capital from October 2014 to February 2016. He has remained a consultant for ORIX Asia Capital since February 2016.

Mr. Wu Ye (吳曄), aged 41, is our executive Director and chief production officer, and a director of Huaxia Audio-Visual. He joined our Group in December 2003 and has served as technology director (2003-2007), chief technology officer (2007-2012) and chief production officer (2013-Present) of Huaxia Audio-Visual. Mr. Wu received his associate degree in economic management from Nanjing University (南京大學) in Nanjing, Jiangsu Province, China, in July 2000.

Mr. Wu worked in the production and technology department of China Television Media, Ltd (中視傳媒股份有限公司) (stock code: 600088.SH) from 1998 to 2001. He also served as the technology director of China Media North Television Productions Ltd (中視北方影視製作有限公司) from 2001 to 2003.

Mr. Yan Xiang (嚴翔), aged 60, is our executive Director, the Vice-chancellor (校長) and a director of our University, and joined our Group in October 2006. Mr. Yan has been a professor at CUCN since October 2006 and a vice-president of CUCN from 2013 to 2016. Mr. Yan was the dean of the broadcasting and art institute of CUCN from October 2007 to October 2016.

Mr. Yan received his bachelor's degree in arts, majoring in broadcasting, from the Beijing Broadcasting Institute (北京廣播學院), the predecessor of the CUC, in January 1982 and completed postgraduate studies in journalism at Hebei University (河北大學) in Hebei Province, China in 2004.

Mr. Yan served in various capacities at Hebei Radio and TV Station from January 1982 to June 2019, including as broadcaster, advertising manager and producer. He is a broadcasting instructor accredited by the title reform office of Hebei Province (河北省職改辦) since November 2001.

Independent non-executive Directors

Mr. Zhang Jizhong (張紀中), aged 68, is our independent non-executive Director and a member of audit and nomination committee of the Board. He completed his certificate in drama and literature, majoring in television drama directing, from The Central Academy Of Drama (中央戲劇學院) in Beijing, China in January 1990.

Mr. Zhang has extensive experience as a TV series producer, including producing:

- *The People's Policeman* (有這樣一個民警), which was awarded First-Class TV Special at the 10th Flying Apsaras Awards (飛天獎) in 1990;

- *The Legend of the Condor Heroes* (射雕英雄傳), which won the Gold Prize for Sina's 2003 Most Popular TV Series;

- *Demi-Gods and Semi-Devils* (天龍八部), which won the Feature TV Series Excellence Award (長篇連續劇(優秀獎)) at the 22nd China TV Golden Eagle Awards (中國電視金鷹獎), Best Period Drama (最佳古裝電視劇) at the 1st TV Fengyun Celebrations (首屆電視劇風雲盛典), each in 2004; and

- *The Return of the Condor Heroes* (神鵰俠侶), for which he was awarded Best Producer at the 3rd TV Drama Fengyun Festival (第三屆電視劇風雲盛典) in 2007.

Mr. Zhang's personal contributions and achievements have also been recognized with his receipt of an Outstanding Contributions Award (突出貢獻人物) at the China TV Drama Industry 20th Industry Heroes Celebrations (中國電視劇產業20年群英盛典) in 2011, the Special Contributions Award (特殊貢獻獎) at the 5th Shanghai University Student TV Festival Award Ceremony (五屆上海大學生電視節頒獎典禮) in 2012 and the National Deyi Shuangxin Lifetime Achievement Award (全國德藝雙馨終身成就獎) at the 11th Deyi Shaugnxin Award Ceremony (第11屆德藝雙馨頒獎盛典) in 2015.

Mr. Zhang previously produced or directed our TV series, each of which were completed before 2010, and currently, or within the past year, has not had any material interest in our principal business activities or material business dealings with our Group.

Mr. Lee Cheuk Yin Dannis (李卓然), aged 49, is our independent non-executive Director, and chair of the audit committee and member of the remuneration and nomination committees of the Board. Mr. Lee received a bachelor of business administration from Texas A&M University, United States in August 1992, and has been a member of the American Institute of Certified Public Accountants since April 1995 and an associate member of the Hong Kong Institute of Certified Public Accountants since June 1996.

Mr. Lee has served as the managing director of DLK Advisory Limited, a company engaged in financial advisory and investment consulting services, since October 2009. He was an executive director of BeijingWest Industries International Limited (stock code: 2339.HK) from September 2003 to August 2005 (remaining as a non-executive director until January 2009), of AMVIG Holdings Limited (stock code: 2300.HK) from March 2004 to March 2010, and of AMCO United Holdings Limited (stock code: 630.HK) from October 2010 to October 2011.

Mr. Lee has been an independent non-executive director of Geely Automobile Holdings Limited (stock code 175.HK) since June 2002, of Tiangong International Company Limited (stock code 826.HK) since September 2010 and of CMBC Capital Holdings Limited (stock code 1141.HK) since June 2017. He was also an independent non-executive director of Southern Energy Holdings Group Limited (stock code 1573.HK) from June 2016 to October 2019.

Mr. Lee was a non-executive director of Norstar Founders Group Limited ("**Norstar**") (stock code: 2339.HK) from August 19, 2005 to January 15, 2009, during which as a non-executive director, at all relevant times he had no involvement in the day-to-day operation or management of Norstar. Norstar is incorporated in the Cayman Islands, and was then principally engaged in the manufacture and sale of auto parts and construction decorative hardware products. Norstar was the subject of a winding up petition and a provisional liquidator was appointed on February 6, 2009. The winding up petition was dismissed and provisional liquidator was discharged in January 2014. According to the announcements published by Norstar, it was the subject of a scheme of arrangement to restructure its debts whereby certain rights and claims of Norstar were assigned to administrators of the scheme of arrangement on behalf of Norstar's creditors. A writ of summons (the "**Writ**") was issued by the assignees of the rights and claims of Norstar as plaintiffs on June 24, 2014 against several former directors of Norstar, including Mr. Lee as a defendant. The Indorsement of Claim in the Writ alleged, among other things, various breaches of duties, contracts and applicable laws and regulations but it did not set out the basis or the specific incidents supporting the allegations therein. The Joint Sponsors have made enquiries with Mr. Lee regarding the Writ and he has confirmed that (i) he was not aware of the matters alleged in the Indorsement of Claim, and (ii) he was never served any notice of proceedings or the Writ. The Joint Sponsors obtained a letter from the plaintiff's solicitor to Mr. Lee's solicitors informing them that the Writ has been extended until June 25, 2016 and has expired without further application for extension. In view of (i) his lack of involvement in the day-to-day operation and management in Norstar during his time as non-executive director of Norstar, (ii) the fact that the plaintiff has not served the Writ on Mr. Lee and the Writ has expired without further application, and (iii) Mr. Lee's continuing engagement as director of other companies listed on the Stock Exchange, the Joint Sponsors are of the view that Mr. Lee remains suitable to be an independent non-executive Director under Rules 3.08 and 3.09 of the Listing Rules.

Mr. Huang Yu (黃煜), aged 63, is our independent non-executive Director, and the chair of the remuneration committee and member of the audit committee of the Board. Mr. Huang received his bachelor degree in journalism from the Renmin University of China in July 1986 and his PhD in communications from the University of Westminster in London, United Kingdom in June 1993.

Mr. Huang was appointed dean of the School of Communication of Hong Kong Baptist University in April 2013, where he has taught since 1994. During this time, he has taken up numerous leadership roles including head of the Department of Journalism (2006-2011), associate and acting dean of the School of Communication (2010-2013), and director of the Institute for Journalism and Society (2007-2014). Mr. Huang was awarded the HKBU President's Award for Outstanding Performance in Service in 2011.

SENIOR MANAGEMENT

The senior management team of our Group comprises the following:

Name	Age	Position	Roles and responsibilities	Date of joining our Group
Mr. Pu Shulin (蒲樹林)	64	Executive Director, Chairman and Chief Executive Officer	Overall strategic planning business direction, and management of the Company	December 2001
Mr. Sun Haitao (孫海濤)	35	Executive Director, Vice President	Investments, corporate finance, investor relations, financial strategy, and accounting of the Company	October 2016
Mr. Wu Ye (吳曄)	41	Executive Director, Chief production officer	Management of TV and film production	December 2003
Mr. Yan Xiang (嚴翔)	60	Executive Director, Vice-chancellor of CUCN	Overall management and operation of CUCN	October 2006
Mr. Cui Xiong (崔雄)	64	Pro-vice-chancellor of CUCN	General management of CUCN	March 2019
Mr. Chen Simeng (陳思蒙)	38	Pro-vice-chancellor and secretary of the party committee of CUCN	Management of CUCN's personnel, organization and students recruitment	August 2005

Mr. Pu Shulin, Mr. Sun Haitao, Mr. Wu Ye and Mr. Yan Xiang are executive Directors. See "– Directors – Executive directors" for their biographies.

Mr. Cui Xiong (崔雄), aged 64, is pro-vice-chancellor and director of CUCN. He received his bachelor's degree in oil painting in 1980 and his masters' degree in fine arts in June 2009, both from the Nanjing University of the Arts (南京藝術學院).

Mr. Cui has served in numerous roles at the Nanjing University of the Arts since 1993, including as director of the finance department from 1993 to 1994, director of the office of college affairs (院務辦公室主任) from 1994 to 2004, vice-president from 2004-2016, member of the party committee from 2004-2014 and secretary of the party committee from 2014-2016. He also has been vice-president (副會長) of the Jiangsu Contemporary Art Research Association (江蘇省當代藝術研究會) since December 2018, and a director (理事) of the Jiangsu Oil Painting Association (江蘇省油畫學會) since August 2019.

Mr. Chen Simeng (陳思蒙), aged 38, is secretary of the party committee, pro-vice-chancellor and director of CUCN. Mr. Chen has served a number of other positions at CUCN, including as deputy-secretary of the party committee from October 2016 to April 2018, secretary of the party committee of the school of animation and digital art from September 2015 to October 2016, a director of the student recruitment office from October 2010 to September 2015, assistant to the director of the department of academic affairs and a director of the graduate employment and career counseling center from September 2008 to October 2010 and an officer of the department of academic affairs, responsible for student management from August 2005 to September 2008.

Mr. Chen received his bachelor's degree in management in June 2005 and his master's degree in radio and television arts in July 2010, both from CUC in Beijing, China. He was awarded his Teacher Qualification Certificate by the Department of Education of Jiangsu Province (江蘇省教育廳) in June 2006 and was recognized as a professional instructor by the Human Resources and Social Security Department of Hubei Province (湖北省人力資源和社會保障廳) in September 2010. He was named an assistant researcher by CUC in November 2010.

JOINT COMPANY SECRETARIES

Mr. Sun Haitao is one of our joint company secretaries and an executive Director of our Company. See "– Directors – Executive directors" for his biography.

Ms. Yuk Yin Ivy Chow (周玉燕), aged 49, is one of our joint company secretaries. She has over 20 years of experience in the corporate secretarial field. Since January 2003, she has worked in the group companies of Tricor Services Limited (a global professional services provider specializing in integrated business, corporate and investor services), with her latest and present position as Director, Corporate Services Division (responsible for the provision of professional corporate secretarial services to companies listed on the Stock Exchange and other multinational, private and offshore companies). Ms. Chow previously worked at PricewaterhouseCoopers Limited in various positions within the company secretarial section of the tax services department from March 1994 to January 2003.

Ms. Chow is a member (since April 1998) and a fellow (since December 2012) of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. She has also been an ordinary member of the Hong Kong Securities and Investment Institute since November 2012. Ms. Chow obtained her bachelor of arts degree in business studies from The Hong Kong Polytechnic University (formerly known as the Hong Kong Polytechnic) in October 1992.

Ms. Chow is presently company secretary for Samsonite International S.A. (stock code 1910.HK), Top Education Group Ltd (stock code 1752.HK) and Grand Talents Group Holdings Limited (stock code 8516.HK).

MANAGEMENT AND CORPORATE GOVERNANCE

Board Committees

Audit committee

We have established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group, review and approve connected transactions and provide advice and comments to the Board. The audit committee comprises three members, being Mr. Lee Cheuk Yin Dannis, Mr. Zhang Jizhong and Mr. Huang Yu, with Mr. Lee Cheuk Yin Dannis (being our independent non-executive Director with the appropriate professional qualifications) as chair of the audit committee.

Remuneration committee

We have established a remuneration committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to review and make recommendations to the Board on the terms of remuneration packages, bonuses and other compensation payable to our Directors and other senior management. The remuneration committee comprises three members, being Mr. Huang Yu, Mr. Pu Shulin and Mr. Lee Cheuk Yin Dannis, with Mr. Huang Yu as chair of the remuneration committee.

Nomination committee

We have established a nomination committee with written terms of reference in compliance with the Code on Corporate Governance in Appendix 14 of the Listing Rules. The primary duties of the nomination committee are to make recommendations to our Board on the appointment of Directors and management of Board succession. The nomination committee comprises three members, being Mr. Pu Shulin, Mr. Zhang Jizhong and Mr. Lee Cheuk Yin Dannis, with Mr. Pu Shulin as chair of the nomination committee.

Corporate Governance Code

We aim to achieve high standards of corporate governance which are crucial to our development and safeguard the interests of our Shareholders. In order to accomplish this, we expect to comply with the Corporate Governance Code set out in Appendix 14 of the Listing Rules after the Listing save for the below.

Code provision A.2.1 of the Corporate Governance Code and Corporate Governance Report in Appendix 14 to the Listing Rules, recommends, but does not require, that the roles of chairman and chief executive should be separate and should not be performed by the same person. The Company deviates from this provision because Mr. Pu performs both the roles of the Chairman of the Board and the chief executive officer of the Company. Mr. Pu is the founder of the Group and has extensive experience in the business operations and management of our Group. Our Board believes that vesting the roles of both chairman and chief executive officer to Mr. Pu has the benefit of ensuring consistent leadership within our Group and enables more effective and efficient overall strategic planning. This structure will enable our Company to make and implement decisions promptly and effectively.

Our Board considers that the balance of power and authority will not be impaired due to this arrangement. In addition, all major decisions are made in consultation with members of the Board, including the relevant Board committees, and three independent non-executive Directors. Our Board will reassess the division of the roles of chairman and the chief executive officer from time-to-time, and may recommend dividing the two roles between different people in the future, taking into account the circumstances of our Group as a whole.

Board diversity

Our Company has adopted a board diversity policy which sets out the approach to achieve diversity of the Board. Our Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level, including gender diversity, as an essential element in maintaining the Company's competitive advantage and enhancing its ability to attract, retain and motivate employees from the widest possible pool of available talent. Pursuant to the board diversity policy, in reviewing and assessing suitable candidates to serve as a director of the Company, the nomination committee will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge, and industry and regional experience. Pursuant to the board diversity policy, the nomination committee will discuss periodically and when necessary, agree on the measurable objectives for achieving diversity, including gender diversity, on the Board and recommend them to the Board for adoption.

Going forward, we will continue to work to enhance gender diversity of the Board. Our nomination committee will use its best endeavors and on suitable basis to, within three years after Listing, identify and recommend at least one female candidate to our Board for its consideration on appointment of a Director. We will also ensure that there is gender diversity when recruiting staff at mid to senior level so that we will have a pipeline of female senior management and potential successors to our Board in due time to ensure gender diversity of the Board.

Management presence

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have a sufficient management presence in Hong Kong. This will normally mean that at least two of its executive directors must be ordinarily resident in Hong Kong. We do not have sufficient management presence in Hong Kong for the purposes of Rule 8.12 of the Listing Rules.

Accordingly, we have applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 8.12 of the Listing Rules. See "Waivers from strict compliance with the Listing Rules" for further details.

REMUNERATION

Our Directors receive remuneration, including salaries, allowances and benefits in kind, including our contribution to the pension plan on their behalf.

The aggregate amount of remuneration (including basic salaries, housing allowances, other allowances and benefits in kind, contributions to pension plans and discretionary bonuses) for our Directors for the years ended December 31, 2017, 2018 and 2019 was approximately RMB1.94 million, RMB1.96 million and RMB2.02 million, respectively. None of our Directors waived any remuneration during the aforesaid years.

The five highest paid individuals of our Group for the year ended December 31, 2017, 2018 and 2019 included 4, 4 and 4 Directors respectively. The aggregate amount of remuneration (including basic salaries, housing allowances, other allowances and benefits in kind, contributions to pension plans and discretionary bonuses) for the remaining highest paid individual for the years ended December 31, 2017, 2018 and 2019 was approximately RMB0.79 million, RMB0.34 million and RMB0.38 million, respectively.

Save as disclosed above, no other payments have been paid or are payable, in respect of the years ended December 31, 2017, 2018 and 2019 by our Company to our Directors.

No remuneration was paid to our Directors or the five highest paid individuals as an inducement to join, or upon joining, our Group. No compensation was paid to, or receivable by, our Directors or past directors for the Track Record Period for the loss of office as director or any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the same period.

COMPLIANCE ADVISER

We have appointed SPDB International Capital Limited as our Compliance Adviser pursuant to Rule 3A.19 of the Listing Rules. The Compliance Adviser will provide us with guidance and advice as to compliance with the requirements under the Listing Rules and applicable Hong Kong laws. Pursuant to Rule 3A.23 of the Listing Rules, the Compliance Adviser will advise our Company, among others, in the following circumstances:

(a) before the publication of any regulatory announcement, circular, or financial report;

(b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;

(c) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this document or where the business activities, development or results of our Group deviate from any forecast, estimate or other information in this document; and

(d) where the Stock Exchange makes an inquiry to our Company regarding unusual movements in the price or trading volume of its listed securities or any other matters in accordance with Rule 13.10 of the Listing Rules.

The term of appointment of the Compliance Adviser shall commence on the Listing Date and is expected to end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised, no Shares are awarded under the Post-IPO Share Award Scheme, and no options are granted under the Post-IPO Share Option Scheme) the following persons will have an interest or short position in our Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the issued voting shares of our Company or any other member of our Group:

Substantial shareholder of our Company

Name of Shareholder	Capacity/Nature of interest	Number of Shares held	Approximate percentage of interest in our Company as at the date of this document	Approximate percentage of interest in our Company after the Global Offering[1]
Mr. Pu[2]	Interest in a controlled corporation	1,155,000,000	96.25%	72.19%
Cathay Media Holding Inc.[2]	Beneficial owner	1,155,000,000	96.25%	72.19%

Notes:

(1) It is assumed that the Over-allotment Option is not exercised, no Shares are awarded under the Post-IPO Share Award Scheme, and no options are granted under the Post-IPO Share Option Scheme.

(2) Cathay Media Holding Inc. is wholly-owned by Mr. Pu, who is also a director of Cathay Media Holding Inc..

Except as disclosed above, our Directors are not aware of any other person who will, immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised, no Shares are awarded under the Post-IPO Share Award Scheme, and no options are granted under the Post-IPO Share Option Scheme), have an interest or short position in our Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the issued voting shares of our Company or any other member of our Group.

THE CORNERSTONE PLACING

We have entered into cornerstone investment agreements (each a "**Cornerstone Investment Agreement**", and together the "**Cornerstone Investment Agreements**") with the cornerstone investors set out below (each a "**Cornerstone Investor**", and together the "**Cornerstone Investors**"), pursuant to which the Cornerstone Investors have agreed to, subject to certain conditions, subscribe for such number of Offer Shares which may be purchased with an aggregate amount of approximately US$72.5 million (approximately HK$561.9 million) at the Offer Price (the "**Cornerstone Placing**").

The Cornerstone Placing will form part of the International Offering, and the Cornerstone Investors will not acquire any Offer Shares under the Global Offering (other than pursuant to the Cornerstone Investment Agreements). The Offer Shares to be subscribed by the Cornerstone Investors will rank *pari passu* in all respects with the fully paid Shares in issue and will be counted towards the public float of our Company under Rule 8.24 of the Listing Rules. Immediately following the completion of the Global Offering, the Cornerstone Investors will not have any Board representation in our Company, nor will they become substantial shareholders of our Company. To the best knowledge of our Company, each of the Cornerstone Investors is an Independent Third Party, is independent of other Cornerstone Investors, is not an existing Shareholder, is not financed by us, our Directors, chief executive, existing Shareholders, substantial Shareholders, Controlling Shareholders or any of its subsidiaries or their respective close associates, and is not accustomed to take instructions from us, our Directors, chief executive, existing Shareholders, substantial Shareholders, Controlling Shareholders or any of its subsidiaries or their respective close associates. There are no side arrangements between us and the Cornerstone Investors. We became acquainted with each of the Cornerstone Investors through introduction by the Joint Global Coordinators. As confirmed by each Cornerstone Investor, their subscription under the Cornerstone Placing would be financed by their own internal financial resources and/or the financial resources of its shareholders.

If there is over-allocation in the International Offering, there may be delayed delivery of the Offer Shares to be subscribed by the Cornerstone Investors under the Cornerstone Placing. If there is delayed delivery, the Cornerstone Investors have agreed that they shall nevertheless pay for the relevant Offer Shares on the Listing Date, therefore there will be no deferred settlement. If there is no over-allocation in the International Offering, delayed delivery will not take place. The Offer Shares to be subscribed by the Cornerstone Investors may be affected by reallocation in the event of over-subscription under the Hong Kong Public Offering, as described in "Structure of the Global Offering – The Hong Kong Public Offering – Reallocation". Details of the actual number of Offer Shares to be allocated to the Cornerstone Investors will be disclosed in the allotment results announcement to be issued by us on or around July 14, 2020.

The table below sets forth details of the Cornerstone Placing:

		Assuming a final Offer Price of HK$2.86 per Share (being the low-end of the indicative Offer Price range)				
Cornerstone Investor	Subscription amount	Number of Offer Shares(1)	Assuming the Over-Allotment Option is not exercised		Assuming the Over-Allotment Option is fully exercised	
	(US$ in millions)		Approximate % of the Offer Shares	Approximate % of the issued share capital(2)	Approximate % of the Offer Shares	Approximate % of the issued share capital(2)
Orchid Asia	40.0	108,391,000	27.1%	6.8%	23.6%	6.5%
Snow Lake Funds	20.0	54,195,000	13.5%	3.4%	11.8%	3.3%
Foresight Orient Global Superior Choice SPC	10.0	27,097,000	6.8%	1.7%	5.9%	1.6%
Oceanic	2.5	6,774,000	1.7%	0.4%	1.5%	0.4%
Total	*72.5*	*196,457,000*	*49.1%*	*12.3%*	*42.7%*	*11.8%*

Cornerstone Investor	Subscription amount	Number of Offer Shares[1]	Assuming a final Offer Price of HK$2.98 per Share (being the mid-point of the indicative Offer Price range) — Assuming the Over-Allotment Option is not exercised		Assuming the Over-Allotment Option is fully exercised	
	(US$ in millions)		Approximate % of the Offer Shares	Approximate % of the issued share capital[2]	Approximate % of the Offer Shares	Approximate % of the issued share capital[2]
Orchid Asia	40.0	104,026,000	26.0%	6.5%	22.6%	6.3%
Snow Lake Funds	20.0	52,013,000	13.0%	3.3%	11.3%	3.1%
Foresight Orient Global Superior Choice SPC	10.0	26,006,000	6.5%	1.6%	5.7%	1.6%
Oceanic	2.5	6,501,000	1.6%	0.4%	1.4%	0.4%
Total	*72.5*	*188,546,000*	*47.1%*	*11.8%*	*41.0%*	*11.4%*

Cornerstone Investor	Subscription amount	Number of Offer Shares[1]	Assuming a final Offer Price of HK$3.10 per Share (being the high-end of the indicative Offer Price range) — Assuming the Over-Allotment Option is not exercised		Assuming the Over-Allotment Option is fully exercised	
	(US$ in millions)		Approximate % of the Offer Shares	Approximate % of the issued share capital[2]	Approximate % of the Offer Shares	Approximate % of the issued share capital[2]
Orchid Asia	40.0	100,000,000	25.0%	6.3%	21.7%	6.0%
Snow Lake Funds	20.0	50,000,000	12.5%	3.1%	10.9%	3.0%
Foresight Orient Global Superior Choice SPC	10.0	25,000,000	6.3%	1.6%	5.4%	1.5%
Oceanic	2.5	6,250,000	1.6%	0.4%	1.4%	0.4%
Total	*72.5*	*181,250,000*	*45.3%*	*11.3%*	*39.4%*	*10.9%*

Notes:

(1) Subject to rounding down to the nearest whole board lot of 1,000 Shares. Calculated based on the exchange rate set out in the section headed "Information about this document and the Global Offering – Exchange rate".

(2) Immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised, no Shares are awarded under the Post-IPO Share Award Scheme and no options are granted under the Post-IPO Share Option Scheme.

THE CORNERSTONE INVESTORS

The information about our Cornerstone Investors set forth below has been provided by the Cornerstone Investors in connection with the Cornerstone Placing.

Orchid Asia

Highland Pines Limited has agreed to acquire such number of Offer Shares (rounded down to the nearest whole board lot) which may be purchased with US$40.0 million at the Offer Price.

Highland Pines Limited, a limited liability company incorporated under the laws of the British Virgin Islands, is an entity beneficially owned by Orchid Asia VII, L.P. as to 93% and Orchid Asia VII Co-Investment, Limited as to 7%. Orchid Asia VII, L.P. is in turn ultimately controlled by Orchid Asia V Group Management, Limited ("**Orchid Asia**"). Orchid Asia is wholly-owned by Orchid Asia V Group, Limited, which is in turn wholly-owned by Ms. Lam Lai Ming, and is controlled by Mr. Li Gabriel by virtue of his directorship therein. Orchid Asia is a private equity group with an investment focus on China and Asia. Mr. Li Gabriel is the managing partner and an investment committee member of Orchid Asia Group Management, Limited. He is currently also a director of Trip.com Group Limited (stock code: TCOM.NQ) and Qeeka Home (Cayman) Inc. (stock code: 1739.HK). Ms. Lam Lai Ming is the spouse of Mr. Li Gabriel.

Snow Lake Funds

The Snow Lake Funds (as defined below) have agreed to acquire such number of Offer Shares (rounded down to the nearest whole board lot) which may be purchased with US$20.0 million at the Offer Price.

Snow Lake China Master Fund, Ltd. and Snow Lake China Master Long Fund, Ltd. (the "**Snow Lake Funds**") are exempted companies established under the laws of the Cayman Islands. Snow Lake Capital (HK) Limited ("**Snow Lake Capital**"), a Hong Kong incorporated company that is beneficially owned by Mr. Sean Ma, serves as the investment manager of the Snow Lake Funds. Mr. Sean Ma is the founder of Snow Lake Capital and its Chief Investment Officer since 2009. He served as a member of the Listing Committee of the Stock Exchange from 2017 to 2019. Prior to Snow Lake, Mr. Sean Ma was a member of the China team at a New York based Asia focused fund and was a member of the global equity long/short team at Ziff Brothers Investment.

Snow Lake Capital, together with its affiliates, is an Asian alternative investment management firm founded in 2009. The firm employs a long-term fundamental investment approach, leveraging its in-house proprietary research capabilities and disciplined investment process in selecting high quality businesses with forward-thinking management. Snow Lake Capital mainly invests in leading companies in the TMT, consumer, healthcare, financial services and real estate sectors. Snow Lake Capital manages capital, predominately from institutional clients globally, including university endowments, foundations, family offices, sovereign wealth funds and pensions.

Foresight Orient Global Superior Choice SPC

The GSC Fund 1 and Vision Fund 1 (as defined below) have together agreed to acquire such number of Offer Shares (rounded down to the nearest whole board lot) which may be purchased with US$10.0 million at the Offer Price.

Foresight Orient Global Superior Choice SPC – Global Superior Choice Fund 1 SP ("**GSC Fund 1**") and Foresight Orient Global Superior Choice SPC – Vision Fund 1 SP ("**Vision Fund 1**") are both segregated portfolios of Foresight Orient Global Superior Choice SPC, which is a segregated portfolio company incorporated in the Cayman Islands and managed by Orient Asset Management (Hong Kong) Limited. Orient Asset Management (Hong Kong) Limited is a subsidiary of Orient Finance Holdings (Hong Kong) Limited, and a licensed corporation as defined under the SFO for type 9 (asset management) regulated activities as defined under the SFO. Orient Finance Holdings (Hong Kong) Limited is a wholly owned subsidiary of DFZQ (東方證券股份有限公司), which is listed on the Stock Exchange (stock code: 3958.HK) and Shanghai Stock Exchange (stock code: 600958.SH). DFZQ's shareholders' approval is not required for the subscription of the Offer Shares by GSC Fund 1 and Vision Fund 1 pursuant to their Cornerstone Investment Agreement. Foresight Fund Management Co., Ltd, an asset management company based in Shanghai founded by Mr. Guangming Chen, is the investment advisor of GSC Fund 1 and Vision Fund 1. The GSC Fund 1 and Vision Fund 1 have raised capital from over six dozen high net worth individuals as well as around half a dozen institutional and corporate investors.

Oceanic

Oceanic Wisdom Limited ("**Oceanic**") has agreed to acquire such number of Offer Shares (rounded down to the nearest whole board lot) which may be purchased with US$2.5 million at the Offer Price.

Oceanic, an exempted company incorporated in the Cayman Islands, is an entity indirectly wholly-owned by Mr. Li Tzar Kai, Richard. Mr. Li Tzar Kai, Richard is the founder and chairman of Pacific Century Group, an Asia-based long-term private investment group founded in 1993 with interests in financial services, technology, media & telecommunications, and property.

CLOSING CONDITIONS

The subscription obligation of each Cornerstone Investor under the respective Cornerstone Investment Agreement is subject to, among other things, the following closing conditions:

(a) the underwriting agreements for the Hong Kong Public Offering and the International Offering being entered into and having become effective and unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in the Hong Kong Underwriting Agreement and the International Underwriting Agreement, and neither of the aforesaid underwriting agreements having been terminated;

(b) the Offer Price having been agreed upon between our Company and the Joint Global Coordinators (on behalf of the underwriters of the Global Offering);

(c) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Shares (including the Shares subscribed for by the Cornerstone Investors) as well as other applicable waivers and approvals, and such approval, permission or waiver having not been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;

(d) no Laws shall have been enacted or promulgated by any governmental authority which prohibits the consummation of the transactions contemplated in the Global Offering or in the respective Cornerstone Investment Agreement and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions; and

(e) the representations, warranties, undertakings and confirmations of such Cornerstone Investor under the respective Cornerstone Investment Agreement are accurate and true in all respects and not misleading and that there is no material breach of such Cornerstone Investment Agreement on the part of such Cornerstone Investor.

RESTRICTIONS ON DISPOSALS BY THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors has agreed that it will not, whether directly or indirectly, at any time during the period of six months following the Listing Date (the "**Lock-up Period**"), dispose of any of the Offer Shares they have purchased pursuant to the relevant Cornerstone Investor Agreement, save for certain limited circumstances, such as transfers to any of its wholly-owned subsidiaries who will be bound by the same obligations of such Cornerstone Investor, including the Lock-up Period restriction.

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of our authorized and issued share capital in issue and to be issued as fully paid or credited as fully paid immediately before and after completion of the Global Offering.

	Number of Shares	Aggregate nominal value
Authorized share capital	5,000,000,000	US$50,000
– Shares in issue as of the date of this document	1,200,000,000	US$12,000
– Shares to be issued pursuant to the Global Offering	400,000,000	US$4,000
Total issued share capital on completion of the Global Offering	1,600,000,000	US$16,000

Assumptions

The above table (i) assumes that the Global Offering becomes unconditional and Shares are issued pursuant to the Global Offering, (ii) does not take into account any Shares that may be issued or canceled or any other potential change to the share capital as described in "– Potential changes to share capital" below, (iii) assumes the Over-allotment Option is not exercised, no Shares are awarded under the Post-IPO Share Award Scheme, and no options are granted under the Post-IPO Share Option Scheme.

Ranking

The Shares are ordinary shares in our share capital and rank equally with all Shares currently in issue and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this document.

POTENTIAL CHANGES TO SHARE CAPITAL

Circumstances under which general meeting and class meeting are required

A general meeting is required for the Company to, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so canceled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorized and subject to any conditions prescribed by law. See "Summary of the constitution of the Company and Cayman Islands company law – Articles of Association – Shares – Alteration of capital" in Appendix IV for further details.

Subject to the Cayman Companies Law, if at any time the share capital of our Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. See "Summary of the constitution of the Company and Cayman Islands company law – Articles of Association – Shares – Variation of rights of existing shares or classes of shares" in Appendix IV for further details.

General mandate to issue Shares

Subject to the Global Offering becoming unconditional, our Directors were granted a general mandate to allot, issue and deal with any Shares or securities convertible into Shares of not more than the sum of:

(i) 20% of the total number of Shares in issue immediately following completion of the Global Offering (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option); and

(ii) the total number of Shares repurchased by our Company pursuant to the authority referred to in "– General mandate to repurchase Shares" below.

This general mandate to issue Shares will remain in effect until the earliest of:

(i) the conclusion of the next annual general meeting of our Company unless, by ordinary resolution passed at that meeting, the authority is renewed, either unconditionally or subject to condition;

(ii) the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws of the Cayman Islands or the memorandum and the articles of association of our Company; and

(iii) the passing of an ordinary resolution by our Shareholders in a general meeting revoking or varying the authority.

General mandate to repurchase Shares

Subject to the Global Offering becoming unconditional, our Directors were granted a general mandate to repurchase our own Shares up to 10% of the total number of Shares in issue immediately following completion of the Global Offering (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option).

This mandate only relates to repurchases on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, and in accordance with all applicable laws and the requirements under the Listing Rules or equivalent rules or regulations of any other stock exchange as amended from time to time.

This general mandate to repurchase Shares will remain in effect until the earliest of:

(i) the conclusion of the next annual general meeting of our Company unless, by ordinary resolution passed at that meeting, the authority is renewed, either unconditionally or subject to condition;

(ii) the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws of the Cayman Islands or the memorandum and the articles of association of our Company; and

(iii) the passing of an ordinary resolution by our Shareholders in a general meeting revoking or varying the authority.

See "Statutory and general information – Further information about our Group – Explanatory statement on repurchase of our own securities" in Appendix V for further details of this general mandate to repurchase Shares.

Share schemes

We adopted the Post-IPO Share Award Scheme and Post-IPO Share Option Scheme on June 22, 2020. See "Statutory and general information – Share schemes" in Appendix V for further details.

You should read the following discussion and analysis with our audited consolidated financial information, including the notes thereto, included in the Accountant's Report in Appendix I to this document. Our consolidated financial information has been prepared in accordance with Hong Kong Financial Reporting Standards, which may differ in material aspects from generally accepted accounting principles in other jurisdictions, including the United States.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in this document, including the sections titled "Risk factors" and "Business".

For the purpose of this section, unless the context otherwise requires, references to 2017, 2018 and 2019 refer to our financial years ended December 31 of such years.

OVERVIEW

We are a media group, built on twin pillars of a leading TV/film production business and a higher education business focused on media and performing arts. We create a variety of content for distribution through cable network, internet and on silver screens in our TV/film production business, and additionally our higher education business includes the operation of 南京傳媒學院 (Pinyin: Nanjing Chuanmei Xueyuan, formerly known as Communication University of China, Nanjing), a leading private university in the field of media and arts.

Our total revenue was RMB556.9 million, RMB368.3 million and RMB747.2 million, and our profit was RMB180.6 million, RMB148.8 million and RMB194.5 million, for 2017, 2018 and 2019, respectively. Our higher education business had experienced stable growth over the Track Record Period. The revenue derived from our higher education business increased from RMB256.3 million in 2017 to RMB276.9 million in 2018 and further to RMB311.7 million in 2019. Our TV/film production business, on the other hand, fluctuated during the Track Record Period due to our limited number of productions each year, and unexpected changes in industry policies that delayed our production and delivery. Our TV/film production business generated revenue of RMB300.6 million, RMB91.4 million and RMB435.5 million in 2017, 2018 and 2019, respectively.

BASIS OF PRESENTATION

Pursuant to the Reorganization as more fully explained under the section heading "History, reorganization and corporate structure – The Reorganization", our Company became the holding company of the companies now comprising our Group in August 2019. The Reorganization represents business combinations involving entities under common control of the Controlling Shareholders. Therefore, the Reorganization has been accounted for as a business combination under common control. The consolidated financial statements of our

Group for the Track Record Period include the consolidated financial position, results, cash flows and changes in equity of the companies now comprising our Group as if the existing Group structure had been in existence throughout the Track Record Period or since their respective dates of incorporation/establishment or acquisition, whichever is the shorter period. Intra-group transactions, balances and unrealized gains/losses on transactions between our Group companies are eliminated on combination.

During the Track Record Period, due to regulatory restrictions on foreign ownership in private universities and media business in the PRC, our operations were carried out by our Consolidated Affiliated Entities in the PRC. The wholly-owned subsidiaries of our Company, or WFOEs, have entered into the Contractual Arrangements with, among others, our Consolidated Affiliated Entities and their respective equity holders. As a result of the Contractual Arrangements, the WOFEs have rights to exercise power over the Consolidated Affiliated Entities, receive variable returns from its involvement with the Consolidated Affiliated Entities, and have the ability to affect those returns through their power over the Consolidated Affiliated Entities. Consequently, we regard the Consolidated Affiliated Entities as the indirect subsidiaries under HKFRS. We have included the financial positions and financial results of the Consolidated Affiliated Entities in the Historical Financial Information (as defined in Appendix I) during the Track Record Period.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, affected by a number of factors, many of which are outside of our control, including the following:

Significant fluctuation of revenue from TV/film production

Producing a TV series or a film that satisfies evolving industry policies and audience's changing preferences is a lengthy process and, by its nature, a challenging task.

TV/film production is intensely regulated in China. Restrictions extend to almost every aspect of the production process, from casting and content, to distribution. We may have to incur additional costs to further edit or even remake part of our programs or films, in the event that the production is considered improper for distribution under unexpected new regulations or industry polices. Additionally, audience acceptance is also rapidly evolving and extremely difficult to predict.

We only pursue high quality productions and make selected and limited productions each year. The difficulties arising from changing industry policies or evolving audience preferences directly and significantly affect our results of operations. Any failure or delay of one production may directly lead to a significant fluctuation of revenue from our TV/film production business.

Historically, we have been required by regulators to remove or further edit content, and release of our production has been delayed because our customers were asked by government authorities to promote a different genre of content. As a recent example, we started the production of *The Gods (封神)* in 2016, but had to remake part of the show due to unexpected industry policy on casting, and only managed to deliver the final series to our customer and to start to realize revenue in 2018.

We recently started producing web series and films that typically have shorter production cycles and are subject to less stringent regulations. We expect this strategy, coupled with our release of a portfolio of multiple productions each year, can help mitigate the fluctuation of revenue in the future.

Demand for higher education, especially in media and arts majors

During the Track Record Period, 50.5% of our total revenue was generated by our higher education business, and we expect this business to continue to drive our future growth. As a result, our results of operations are significantly affected by the demand for higher education, especially in media and arts majors in China. This demand in turn is dependent on many factors, such as:

- The development of the media industry – Many students enrolled in our University are studying majors related to media and arts, so the development of the media industry and its employment demand significantly affect students' willingness to apply to our University.

- The growth of China's university-age population – Starting from 2011, the Chinese government started to relax the country's one-child policy and in 2015 implemented a new policy, allowing each family to have two children. Although the effect of such new policy on the growth of the university-age population in China will take time to be manifested, we anticipate the demand for higher education in China will continue to grow over the long term.

- Wealth of Chinese families and their willingness to invest in education – Our business has benefited from the growth of China's economy and urban households' increasing expenditure on education. Chinese parents place a high value on their children's education, and they are willing to invest heavily for their children to receive high quality education. This, together with the increasing PRC urban household income and wealth, has played a significant role in the increase in demand for private higher education in China.

There is a huge gap between these high demands and the limited supply of higher education in China, as this industry requires heavy investment and is subject to stringent regulations on market entry, and is therefore by nature slow in responding to the changing demands.

Regulatory environment for private higher education

Higher education is currently heavily regulated in China. For example, the enrollment quota, tuition fees as well as the boarding fees of students enrolled in our undergraduate programs are all subject to approval from local government authorities. During the Track Record Period, the student enrollment quota of our University increased from 3,770 in the school year 2016/2017 to 4,150 in the school year 2019/2020, while we did not raise tuition fees during the Track Record Period.

It is expected that the stringent regulations on the higher education industry will be gradually relaxed under the new regulatory regime for private education. Private universities might be granted more flexibility to set their own tuition fee levels or determine the numbers of students to enroll. As a substantial portion of our revenue in our higher education business is from the tuition fees we charge our students, this positive change in the regulatory environment is expected to significantly affect our result of operations.

On the other hand, the new regulatory regime on the higher education industry may negatively affect the tax position of our University. Our University is currently exempted from income tax. We will lose this preferential income tax exemption if we choose to categorize our University as a for-profit school in the future.

Please see "Risk factors – Risks relating to our business and industries – We are subject to significant uncertainties brought by recent regulation in private higher education industry" for more information.

Our customers' demand and ability to pay for high quality broadcasting content

We generate a large portion of our revenue from licensing the broadcasting rights of our TV series to TV stations and online video platforms in China. These customers, in turn, mainly rely on advertising income as their revenue source.

The advertising industry in China has been changing over the past few decades. It has witnessed the gradual move of focus from traditional, paper-base advertisements to multimedia and online advertising. Among the online advertising segment, business models and advertising formats are also evolving. Various websites and mobile applications compete for users' time and advertising spending. The success of our customers, namely major TV stations and online video platforms, to retain and increase their market share in advertising spending will have a direct effect on how much they are willing to pay for each TV series or film, which will consequently affect our results of operations.

Our ability to source and obtain Media IP at reasonable prices

Adaptation from popular novels and plays has been important and successful in our TV/film product business to date. We plan to continue with this approach, and therefore our ability to source and obtain the adaptation rights of suitable novels and plays at reasonable prices will affect our ability to continue to deliver high quality TV series/film. This might become especially challenging as more TV series/film production companies are starting to adopt a similar strategy, which would lead to rising prices for acquiring Media IP.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgments relating to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and operating results. Our management continually evaluates such estimates, assumptions and judgments based on past experience and other factors, including industry practices and expectations of future events that are believed to be reasonable under the circumstances. There has not been any material deviation between our management's estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes in these estimates and assumptions in the foreseeable future.

Our significant accounting policies, which are important for an understanding of our financial condition and results of operations, are set forth in detail in Note 4 to the Accountant's Report in Appendix I to this document. Our critical accounting estimates and judgments that were used in the preparation of our consolidated financial statements are set forth in Note 6 to the

Accountant's Report in Appendix I to this document. Below, we set forth some of our accounting policies that are essential to understand our operations or require us to apply estimates and assumptions as well as complex judgments relating to accounting items.

Revenue from contracts with customers

Revenue is recognized when or as the control of the goods or services is transferred to a customer. Depending on the terms of the contracts and the laws that apply to the contract, revenue may be recognized over time or at a point in time.

If a customer who pays consideration to us has a right to an amount of consideration that is unconditional, before we transfer a good or service to the customer, we present the contract liability when the payment is made or a receivable is recorded (whichever is earlier). A contract liability is our obligation to transfer goods or services for which we have received consideration (or an amount of consideration is due from the customer) to a customer.

Revenue from license of TV series and film rights

Pursuant to the agreements between us and the customers of our TV/film production business, which are TV stations and online video platforms, we license our customers the right to broadcast our TV series and film for a period of two to eight years. Based on the terms and conditions of the agreements, we generally are obligated to deliver certain key materials to our customers, such as basic documents relating to us and the TV series or films under production, TV Series Distribution Permits, and master tapes, among others. Upon the delivery of TV Series Distribution Permits, master tapes and other materials to the customers, the customers obtain the right to broadcast the TV series and films according to their own schedules subject to regulation and policies of the NRTA.

Revenue from the licensing and sub-licensing of TV series and film rights is recognized when or as the control of the asset is transferred to the customer. Control of the assets is transferred to the customers, when an agreement has been signed with a customer, and a broadcast license, master tapes and materials have been delivered in accordance with the terms of the underlying contracts, and the customer can obtain substantially all of the remaining benefit from the assets. Revenue is recognized at a point in time when the customer obtains control of the assets.

Revenue from provision of higher education

Higher education services income mainly includes tuition and boarding fees from our University.

Tuition and boarding fees are generally received prior to the commencement of each school year, and are initially recorded as contract liabilities. Tuition and boarding fees are recognized as revenue proportionately over the relevant period of the applicable program or the beneficial period for the students, when applicable. The portion of tuition and boarding fees received from students but not earned is recorded as contract liabilities.

Revenue from services of admission exams is recognized when the services have been transferred to customers, at which time the performance obligations are satisfied. Revenue from certain services, including international preparatory programs and continuing education programs, is recognized over time by reference to the relevant period of the applicable programs.

Inventory

Inventory includes the television series and film rights produced for sale. Inventories are stated at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

TV series and film rights

Adaptation rights and scripts

Cost includes all direct costs associated with the purchase of adaptation rights and payments for scripts.

TV series and film rights under production

TV series and film rights under production are carried as cost, less any identified impairment loss.

Cost includes all direct costs associated with the production of TV series and film rights, including production costs, costs of services, direct labor costs, facilities and raw materials consumed in the creation of TV series and films, as well as rental of camera equipment and other facilities. For the co-produced TV series and films under joint operation agreement, the related production costs in relation to its interests in a joint operation.

TV series and film rights under production are transferred to "TV series and film rights completed production" upon completion of production.

TV series and film right completed production

TV series and film rights completed production are stated at cost, less accumulated amortization and identified impairment losses, if any.

These TV series and film rights are expensed in accordance with the expected consumption pattern by usage through various channels, such as television release, theatrical release or internet release, and other licensing arrangements.

Impairment of non-financial assets

Television series and film rights under production, intangible assets that have an indefinite useful life, and intangible assets not available to use, are not subject to amortization and are tested annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Property, plant and equipment

Property, plant and equipment comprise mainly buildings, furniture and fixtures, motor vehicles, education equipment and office equipment and are stated at historical cost less accumulated depreciation and accumulated impairments losses (if any). Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to our Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statements of profit or loss during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Buildings and facilities 40-50 years
- Furniture and fixtures 5-15 years
- Motor vehicles 5 years
- Education equipment 5 years
- Office equipment 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'Other (losses)/gains – net' in the consolidated statements of comprehensive income.

Construction-in-progress ("**CIP**") represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses (if any). Cost includes the costs of construction and acquisition and capitalized borrowing costs. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to the respective categories of property, plant and equipment and depreciated in accordance with the policy as stated above.

Investments and other financial assets

Classification

We classify our financial assets in the following categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss); and

- those to be measured at amortized cost.

The classification depends on the our business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether we have made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

We reclassify debt investments when and only when its business model for managing those assets changes.

Recognition and measurement

At initial recognition, we measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on our business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which we classify our debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income (FVOCI) are measured at fair value through profit or loss (FVPL). A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss is recognized in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

We subsequently measures all equity investments at fair value. Where we elect to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when our right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

Financial assets at fair value through profit or loss

During the Track Record Period, our investment in wealth management products were designated as financial assets measured at fair value through profit or loss, and the fair values of such assets are set out in Note 25 to the Accountant's Report in Appendix I. As these instruments are not traded in an active market, their fair values have been determined by using discounted cash flow method. The details of fair value measurement and the significant unobservable inputs are set out in Note 5.3 to the Accountant Report in Appendix I.

The valuation of our investments in wealth management products was performed by our management, who in the view of our Directors, have sufficient experience and expertise. The valuation of wealth management products was determined based on cash flows discounted assuming the expected return will be obtained upon maturity. Our Directors consider the level of estimation and judgement required is limited and the calculations involved are not complex given that the valuation does not require complex technical knowledge. As such, our Directors consider that the management possess sufficient experience and expertise to perform the valuation internally.

Details of the fair value measurement of the financial assets measured at fair value through profit or loss, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of unobservable inputs to fair value and reconciliation of level 3 measurements are disclosed in Note 5.3 to the Accountant's Report issued by the Reporting Accountant in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Report on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants in Appendix I. The Reporting Accountant's opinion on our Historical Financial Information (as defined in Appendix I) for the Track Record Period as a whole is set out on page I-2 of Appendix I.

In respect of the valuation analysis performed by our Directors on financial assets measured at fair value through profit or loss categorized within level 3 of fair value measurements under the fair value hierarchy, the Joint Sponsors conducted relevant due diligence work, including but not limited to, (i) review of relevant notes in the Accountant's Report as set out in Appendix I; and (ii) discussed with our Directors and the Reporting Accountant, when appropriate, about the key basis and assumptions for the valuation of financial assets measured at fair value through profit or loss. Having considered the work done by our Directors and Reporting

Accountant and the relevant due diligence done as stated above, nothing has come to the Joint Sponsors' attention that would cause the Joint Sponsors to question the valuation analysis performed by our Directors, when appropriate, on the financial assets measured at fair value through profit or loss.

IMPACT OF ADOPTION OF NEW AND AMENDMENTS TO CERTAIN ACCOUNTING POLICIES

Adoption of HKFRS 9 "Financial Instruments"

HKFRS 9

Our historical consolidated financial information has been prepared based on our underlying financial statements, in which HKFRS 9, "Financial Instruments" ("**HKFRS 9**") has been adopted and applied consistently since the beginning of, and throughout, the Track Record Period. We have to adopt HKFRS 9, in lieu of HKAS 39 in the preparation of our underlying financial statements, such that our historical consolidated financial information under HKFRS 9 is comparable on a period-to-period basis and allows the investors to better understand our financial performance and position. Accordingly, we have prepared and maintained only one set of consolidated financial statements adopting HKFRS 9 for the Track Record Period. Neither we had prepared, nor the Reporting Accountant had audited or reviewed, our consolidated financial statements for the Track Record Period based on HKAS 39.

Nonetheless, in order to provide additional information to investors, we have carried out internal assessments with our best efforts based on the principles set out in HKAS 39, and set forth below certain estimated key impact as if HKAS 39 was adopted instead.

HKAS 39 requires the recognition of impairment provisions of financial assets measured at amortized cost based on incurred loss model, while HKFRS 9 requires expected credit losses ("**ECLs**") model. In case our Group performed estimation for impairment provision based on incurred loss model, there was no significant difference compared with the results as estimated based on the ECLs prescribed by HKFRS 9.

Therefore, we consider that the adoption of HKFRS 9, as compared to the requirements of HKAS 39, does not have any significant impact on our financial position, results of operations and key financial ratios.

Adoption of HKFRS 15 "Revenue from Contracts with Customers"

Our historical consolidated financial information has been prepared based on our underlying financial statements, in which HKFRS 15, "Revenue from Contracts with Customers" ("**HKFRS 15**") has been adopted and applied consistently since the beginning of, and throughout, the Track Record Period. We have to adopt HKFRS 15, in lieu of HKAS 18, HKAS 11 and related interpretations in the preparation of our underlying financial statements, such that our historical consolidated financial information under HKFRS 15 is comparable on a period-to-period basis and allows the investors to better understand our financial performance and position. Accordingly, we have prepared and maintained only one set of consolidated financial statements adopting HKFRS 15 for the Track Record Period. Neither we had prepared, nor the Reporting Accountant had audited or reviewed, our consolidated financial statements for the Track Record Period based on HKAS 18, HKAS 11 and related interpretations.

Nonetheless, in order to provide additional information to investors, we have carried out internal assessments with our best efforts based on the principles set out in HKAS 18, HKAS 11 and related interpretations, and set forth below certain estimated key impact as if HKAS 18, HKAS 11 and related interpretations were adopted instead.

HKFRS 15 establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18, HKAS 11 and related interpretations.

HKFRS 15 requires separate presentation of contract assets and contract liabilities in the consolidated statements of financial position. By applying HKFRS 15, our Group recognized contract liabilities of RMB241.0 million, RMB352.9 million and RMB191.7 million as of December 31, 2017, 2018 and 2019, respectively. These contract liabilities are primarily relating to our unsatisfied performance obligations for television and film rights and the receipts in advance of tuition fees and boarding fees from students, while under HKAS 18 such unsatisfied performance obligations should be classified and presented as "Advances from customers" or "Receipts in advance" within other payables.

We considered that the adoption of HKFRS 15 has no significant impact on our financial position, results of operation and key financial ratios as the impact as described above only affects the classification of balance sheet items within current liabilities.

Adoption of HKFRS 16 "Leases"

Our historical consolidated financial information has been prepared based on our underlying financial statements, in which HKFRS 16, "Leases" ("**HKFRS 16**") has been adopted and applied consistently since the beginning of, and throughout, the Track Record Period. We have to adopt HKFRS 16, in lieu of HKAS 17, "Leases" ("**HKAS 17**") in the preparation of our underlying financial statements, such that our historical consolidated financial information under HKFRS 16 is comparable on a period-to-period basis and allows the investors to better understand our financial performance and position. Accordingly, we have prepared and maintained only one set of consolidated financial statements adopting HKFRS 16 for the Track Record Period. Neither we had prepared, nor the Reporting Accountant had audited or reviewed, our consolidated financial statements for the Track Record Period based on HKAS 17.

Nonetheless, in order to provide additional information to investors, we have carried out internal assessments with our best efforts based on the principles set out in HKAS 17, and set forth below certain estimated key impact as if HKAS 17 was adopted instead.

Under HKAS 17, operating lease commitments are only disclosed separately in notes to the consolidated financial statements and will not be recognised in the statement of financial position. Under HKFRS 16, assets (the rights to use the leased items) and financial liabilities to pay rentals have to be recognized in the statement of financial position as "Right-of-use assets" and "Lease liabilities" respectively (except for those leases with lease term of less than 12 months or of low value) at the commencement of respective leases.

By applying HKFRS 16, as of December 31, 2017, 2018 and 2019, our Group recognized right-of-use assets amounted to RMB68.9 million, RMB119.0 million and RMB112.6 million (of which RMB49.6 million, RMB103.5 million and RMB101.0 million was originally presented as prepayment of land use rights), respectively. Our Group also recognized lease liabilities of RMB21.7 million, RMB18.9 million and nil as of December 31, 2017, 2018 and 2019, respectively. We considered that the adoption of HKFRS 16, as compared to the requirements of HKAS 17, would increase both of our consolidated assets and consolidated liabilities as described above, but would not result in any significant impact on our results of operation and key financial ratios.

CONSOLIDATED STATEMENT OF INCOME

The following table presents our consolidated statement of income items in absolute amount and as a percentage of our total revenue for the years indicated:

	Year ended December 31,					
	2017		2018		2019	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except percentages)					
Revenue	556,878	100.0	368,318	100.0	747,186	100.0
Cost of revenue	(275,733)	(49.5)	(163,387)	(44.4)	(374,361)	(50.1)
Gross profit	281,145	50.5	204,931	55.6	372,825	49.9
Selling expenses	(30,620)	(5.5)	(8,124)	(2.2)	(8,999)	(1.2)
Administrative expenses	(68,675)	(12.3)	(62,356)	(16.9)	(74,212)	(9.9)
Other income	13,234	2.4	12,474	3.4	17,504	2.3
Other (losses)/ gains – net	4,113	0.7	(730)	(0.2)	(72,871)	(9.8)
Operating profit	199,197	35.8	146,195	39.7	234,247	31.3
Finance income	7,727	1.4	8,087	2.2	6,705	0.9
Finance costs	(2,741)	(0.5)	(1,056)	(0.3)	(621)	(0.1)
Finance income – net	4,986	0.9	7,031	1.9	6,084	0.8
Profit before income tax	204,183	36.7	153,226	41.6	240,331	32.1
Income tax expense	(23,621)	(4.3)	(4,401)	(1.2)	(45,814)	(6.1)
Profit for the year	180,562	32.4	148,825	40.4	194,517	26.0

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

Revenue of our TV/films production business is derived from the licensing fees of broadcasting rights of the TV series, TV shows and films we produced while the revenue of our higher education segment comes from the tuition and boarding fees that our University charges.

The following table sets forth a breakdown of our revenue by segment for the years indicated:

	Year ended December 31,					
	2017		2018		2019	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except percentages)					
Segment revenue:						
TV/film production	300,601	54.0	91,396	24.8	435,529	58.3
Higher education	256,277	46.0	276,922	75.2	311,657	41.7
Total	556,878	100.0	368,318	100.0	747,186	100.0

The fluctuation of revenue from our TV/film production business was related to the limited number of our productions each year and the timing for us to complete and deliver our TV series. We delivered *Untouchable Lovers (鳳囚凰)* in 2017, and recorded revenue of RMB296.6 million in 2017, and RMB7.3 million in 2018. *The Gods (封神)* was completed and delivered in 2018 and earned us revenue of RMB61.2 million in 2018 for cable release mainly on Hunan TV, and RMB28.1 million in 2019 for online broadcasting mainly via Mango TV. We delivered *The Heaven Sword and Dragon Saber (倚天屠龍記)* for cable release in Hong Kong in 2018 and recorded revenue of RMB13.5 million, and for cable release in 2019 and recorded revenue of RMB400.9 million.

Cost of revenue

The following table sets forth a breakdown of cost of revenue by segment for the years indicated:

	Year ended December 31,					
	2017		2018		2019	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except percentages)					
Segment cost:						
TV/film production	158,951	57.6	45,592	27.9	232,210	62.0
Higher education	116,782	42.4	117,795	72.1	142,151	38.0
Total	275,733	100.0	163,387	100.0	374,361	100.0

Cost of revenue of our TV/film production business is primarily comprised of amortization of TV series and film rights.

We incur various costs to produce a TV series or film, including the purchase of original story ideas, engagement of scriptwriters, actors and chief producers as well as all kinds of costs incurred on the production site. We capitalize these costs as TV and film rights till completion. Then the TV and film rights are amortized and recognized as a cost in our income statement upon revenue recognition and at a rate based on our expectation of TV series and film rights consumption patterns.

Cost of revenue of our higher education business consists of the annual fee to CUC for the licensing of their brand and various services, amortization of the land use rights for the campus land, employee benefits, student training and scholarship expenses as well as school consumables.

The table below sets forth the breakdown of our cost of revenue for the years indicated:

	Year ended 31 December		
Cost of revenue	**2017**	**2018**	**2019**
	(in thousands of RMB)		
Employee benefit expenses	42,902	44,565	57,851
Amortisation			
– Television series and film rights	157,073	45,588	232,187
– Licensing rights	15,000	–	7,500
Depreciation			
– Property, plant and equipment	17,142	17,657	18,047
– Right-of-use assets	1,436	2,575	2,519
Annual fee for education related services	5,000	–	–
Office expenses and utilities fee	10,625	14,202	18,308
Licensing fee	–	15,000	7,500
Property management and maintenance expenses	13,587	10,209	10,814
Student activities and training expenses	8,058	10,245	16,991
Other expenses	4,910	3,346	2,644
Total	275,733	163,387	374,361

Gross profit and gross margin

The following table sets forth our gross profit and gross margin by segment for the years indicated:

	Year ended December 31,					
	2017		**2018**		**2019**	
	Gross profit (RMB)	*Gross margin (%)*	*Gross profit (RMB)*	*Gross margin (%)*	*Gross profit (RMB)*	*Gross margin (%)*
	(in thousands of RMB, except percentages)					
TV/film production	141,650	47.1	45,804	50.1	203,319	46.7
Higher education	139,495	54.4	159,127	57.5	169,506	54.4
Total	281,145	50.5	204,931	55.6	372,825	49.9

The gross margin of our higher education business is driven by two forces working in different directions. On the one hand, we are endeavoring to provide high quality education to our students with improved faculty and facilities, which both require additional expense. On the other hand, we are also actively exploring new education and training business opportunities, such as international preparatory programs and performing arts training, the price of which is not restricted by the government thus can have a higher gross margin. Our core undergraduate programs had a relatively stable gross margin during the Track Record Period, while the overall gross margin of our higher education business was affected by the mixture of our core undergraduate programs and our new higher-margin programs.

Selling expenses

Our selling expenses are primarily comprised of the distribution fee of our TV series/films, employee benefits relating to sales and marketing personnel as well as other promotion expenses for our TV/film production business. Among all components, employee benefits and promotion expenses had been insignificant in the Track Record Period, constantly below 1.0% of our total revenue in aggregate. We only target premier customers such as major TV stations and leading online video platforms who can afford and are willing to purchase the high quality content that we produce, so we only need to maintain a small team of sales personnel for our TV/film production business. For our higher education operation, student recruitment cost is recorded as part of cost of revenue instead of selling expenses, and we historically have not conducted large-scale promotion activities for our University.

The table below sets forth the breakdown of our selling expenses for the years indicated:

Selling expenses	Year ended December 31, 2017	2018	2019
	(in thousands of RMB)		
Employee benefit expenses	1,353	1,033	1,153
Promotion expenses	–	865	3,815
Distribution expenses	28,723	5,500	2,730
Other expenses	544	726	1,301
Total	30,620	8,124	8,999

Administrative expenses

Our administrative expenses are primarily comprised of employee benefit expenses relating to administrative personnel, depreciation of property, plant and equipment and right-of-use asset, amortization of intangible assets, office expenses and other expenses primarily relating to professional services in connection with our business operations and the Global Offering.

Our administrative expenses included RMB18.4 million, RMB7.7 million and RMB11.2 million of listing expenses for 2017, 2018 and 2019, respectively. In 2019, our employee benefit expenses increased significantly, mainly due to the recruitment of administrative staff for our higher education business. Excluding these impacts, our administrative expenses would have demonstrated a moderate increase in terms of total amounts across the Track Record Period, as our headquarter function gradually expanded.

The table below sets forth the breakdown of our administrative expenses for the years indicated:

Administrative expenses	Year ended 31 December		
	2017	2018	2019
	(in thousands of RMB)		
Employee benefit expenses	23,559	25,816	33,710
Amortization			
– Intangible assets	106	64	242
Depreciation			
– Property, plant and equipment	9,057	8,794	9,060
– Right-of-use assets	3,824	3,814	3,870
Office expenses and utilities fee	11,584	13,486	13,982
Professional fee	18,420	7,665	11,223
Others	2,125	2,717	2,125
Total	68,675	62,356	74,212

Other income

Other income primarily comprises governmental grants and subsidies, as well as donation income. The governmental grants and subsidies are mostly related to the tax refund by the local government for our TV/film production business, and the amount each year is proportionate to various taxes we historically paid.

The following table sets forth a breakdown of our other income for the years indicated:

	Year ended December 31,		
	2017	2018	2019
	(in thousands of RMB)		
Government grants and subsidies	1,314	2,575	6,250
Interest income on short-term investments measured at amortized cost	364	1,176	64
Donation income	9,587	6,429	9,200
Others	1,969	2,294	1,990
Total	13,234	12,474	17,504

Other gains (losses)

Other gains and losses consist primarily of the gains or losses derived of certain financial assets we held, disposal of property, plant and equipment. We had other gains of RMB4.1 million in 2017, while recorded other losses of RMB0.7 million in 2018 and other losses of RMB72.9 million in 2019, respectively. The large fluctuation between 2018 and 2019 was mainly attributable to the payment of a termination fee of RMB95.0 million to CUC in the third quarter of 2019.

The table below sets forth the breakdown of our other gains (losses) for the years indicated.

	Year ended December 31, 2017	2018	2019
	(in thousands of RMB)		
Changes in fair value of financial assets at fair value through profit or loss			
– Trading listed equity securities	(2,460)	(13,421)	6,351
– Wealth management products purchased from banks	8,551	12,136	25,164
Termination fee to CUC	–	–	(95,000)
Net loss from the renegotiation for the early repayment of loans from Mr. Pu	–	–	(9,667)
(Losses)/gains on disposal of property, plant and equipment	–	(142)	66
Others	(1,978)	697	215
	4,113	(730)	(72,871)

Finance income/(costs)

Finance income consists of the interest income of our bank deposits or our lending to others, while finance costs are primarily comprised of the interest payment to banks arising from a construction loan of our University, and interest on lease liabilities.

The following table sets forth a breakdown of our finance income and finance costs for the years indicated:

	Year ended December 31, 2017	2018	2019
	(in thousands of RMB)		
Finance income			
Interest income from a related party	6,791	6,790	4,527
Exchange gain – net	–	131	21
Interest income from cash at bank and term deposits with initial term of over three months	936	1,166	2,157
	7,727	8,087	6,705
Finance costs			
Interest expenses on bank borrowings	(907)	–	–
Interest on lease liabilities	(1,178)	(1,056)	(621)
Exchange loss – net	(656)	–	–
	(2,741)	(1,056)	(621)
Finance income – net	4,986	7,031	6,084

NON-HKFRS MEASURE

In order to supplement our consolidated financial statements, which are presented in accordance with HKFRS, we also use Adjusted Net Profit (defined below) as an additional financial measure. We present this financial measure because it is used by our management to evaluate our financial performance by eliminating the impact of certain items that we do not consider to be indicative of the performance during the Track Record Period. We also believe that this non-HKFRS measure provides additional information to investors and others in their understanding and evaluating our results of operations in the same manner as they help our management and in comparing financial results across accounting periods and to those of our peer companies. We also believe the adjustments – adding back listing expenses and one-off payment to CUC – are non–recurring in nature and provide an unbiased presentation for the investors to understand our results of operations. However, this non-HKFRS measure does not have a standardized meaning prescribed by HKFRS and therefore, it may not be comparable to similar measures presented by other companies listed on the Stock Exchange.

The adjusted net profit, which is unaudited in nature, represents profit for the year adding back listing expenses and the termination fee payment to CUC (the "**Adjusted Net Profit**"). For the years ended December 31, 2017, 2018 and 2019, our Adjusted Net Profit was RMB199.0 million, RMB156.5 million and RMB300.7 million, respectively.

The following table reconciles our Adjusted Net Profit to the most directly comparable financial measure calculated and presented in accordance with HKFRS (profit for the year).

	Year ended December 31,		
	2017	**2018**	**2019**
	(in thousands of RMB)		
Revenue	556,878	368,318	747,186
Profit before income tax	204,183	153,226	240,331
Income tax expense	(23,621)	(4,401)	(45,814)
Profit for the year	180,562	148,825	194,517
Add: Listing expenses	18,420	7,665	11,223
Add: One-off payment to CUC	–	–	95,000
Adjusted net profit	198,982	156,490	300,740

The Adjusted Net Profit is not a measure of performance under HKFRS. As a non-HKFRS measure, the Adjusted Net Profit is presented because our management believes such information will be helpful for investors in assessing the level of our net profit by eliminating the effects of professional fees (being our listing expenses) and termination fee payment to CUC. The use of the Adjusted Net Profit has material limitations as an analytical tool, as it does not include all items that impact our profit for the relevant period.

SENSITIVITY ANALYSIS

We present below a sensitivity analysis of the effect of the fluctuations of tuition fees income during the Track Record Period. The sensitivity analysis involving tuition fees income is hypothetical in nature, and we assume that all other variables remain constant. The following sensitivity analysis is for illustrative purposes only, which indicates the potential impact on our profitability during the Track Record Period if the relevant variables increase or decrease to the extent illustrated. To illustrate the potential effect on our financial performance, the sensitivity analysis below shows the potential impact on our profit for the year with a 5% and 10% increase or decrease in tuition fees income. While none of the hypothetical fluctuation ratios applied in the sensitivity analysis equals the historical fluctuations of the tuition fees income, we believe that the application of hypothetical fluctuations of 5% and 10% in the tuition fees income presents a meaningful analysis of the potential impact of changes in the tuition fees income on our revenue and profitability.

The following tables set forth the sensitivity of our profit for the year to the hypothetical reasonable changes in our tuition fees income for the years indicated:

	Year ended December 31,		
	2017	**2018**	**2019**
	(in thousands of RMB)		
Sensitivity analysis of tuition fees income			
Tuition fees income (decrease)/increase	**Impact on our profit for the year**		
(10)%	(21,552.8)	(22,600.8)	(25,502.1)
(5)%	(10,776.4)	(11,300.4)	(12,751.1)
5%	10,776.4	11,300.4	12,751.1
10%	21,552.8	22,600.8	25,502.1

TAXATION

Cayman Islands

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands, and accordingly, is not subject to income tax.

Hong Kong

Hong Kong profits tax rate is 16.5% up to April 1, 2018 when the two-tiered profits tax regime took effect, under which the tax rate is 8.25% for assessable profits on the first HK$2.0 million and 16.5% for any assessable profits in excess.

The PRC

Corporate income tax in the PRC is calculated based on the statutory profit or loss of our subsidiaries incorporated in the PRC in accordance with the PRC tax laws and regulations, after adjusting certain income and expense items, which are not assessable or deductible for income tax purposes. According to the Enterprise Income Tax Law of the PRC, the tax rate for our PRC subsidiaries is 25%.

According to the Implementation Rules for the Law for Promoting Private Education (中華人民共和國民辦教育促進法實施條例), private schools, whether the school sponsors require reasonable returns or not, are eligible to enjoy the preferential tax treatment. During the Track Record Period and up to the Latest Practicable Date, no regulations have been promulgated by such authorities in this regard. In accordance with the historical tax returns filed to the relevant tax authorities and an interview with the local tax bureau which confirmed, among other things, that our University is exempt from PRC income tax, our University has been granted enterprise income tax exemption. As a result, no income tax expense was recognized in respect of our higher education business during the Track Record Period.

Following the execution of the Contractual Arrangements, our WFOE-Education is subject to a PRC enterprise income tax rate of 25% and value-added tax of 6% in respect of the service fees it receives from our Consolidated Affiliated Entities. Such tax rates are subject to change and may have a significant impact on our profitability. If the structure of the Contractual Arrangements had been in effect during the Track Record Period, we estimate, based on the current laws and regulations, that in the worst case scenario our net profit would decrease 10.6%, 15.3% and 17.2% for 2017, 2018 and 2019, respectively, after taking into consideration the following factors: (i) 25% of our University's net profit should be retained for its working capital; and (ii) WFOE-Education is subject to 25% enterprise income tax and 6.7% value-added tax and surcharges. However, such impact is estimated without taking into consideration potential tax reductions with respect to factors such as the costs and expenses that would be incurred by WFOE-Education as such mitigating factors cannot be estimated accurately at present. The actual impact on our financial results during the Track Record Period, therefore, may not have been as significant as set out above.

As a brief but effective summary, our TV/film production business is subject to an income tax rate of 25% for its profit and our higher education business is exempted from income tax. The effective tax rate of our Group is therefore determined by the proportion of revenues derived from these two segments. Our Group's effective tax rate was 11.6%, 2.9% and 19.1% for 2017, 2018 and 2019, respectively.

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after January 1, 2008 are generally subject to a 10% withholding tax. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong and the relevant approval by the provincial tax authority is obtained, the relevant withholding tax rate will be reduced from 10% to 5%.

During the Track Record Period, we had distributed a certain portion of our PRC subsidiaries' retained earnings to owners. However, in the foreseeable future, we do not have any plan to distribute their retained earnings and intend to retain them to operate and expand our business in the PRC. Accordingly, no deferred income tax liability on withholding tax was accrued as at the end of each reporting period during the Track Record Period.

SEGMENT INFORMATION

Our operation can be divided into two segments, namely TV/film production and higher education. Our chief executive officer and executive Directors review internal reporting, evaluate performance and allocate resources between these two segments.

The below tables set forth the statements of income of our two segments for the years indicated. The fluctuation of key performance items of each segment are further explained in the period to period comparison that follows.

	TV/film production	Higher education	Unallocated	Inter-segment elimination	Total
			(in thousands of RMB)		
Year ended December 31, 2017					
Revenue	300,601	256,277	–	–	556,878
Cost of Revenue	(158,951)	(116,782)	–	–	(275,733)
Gross profit	141,650	139,495	–	–	281,145
Selling expenses	(30,248)	(372)	–	–	(30,620)
Administrative expenses	(13,740)	(30,435)	(24,500)	–	(68,675)
Other income	500	12,734	–	–	13,234
Other (losses)/gains – net	(2,743)	6,856	–	–	4,113
Operating profit	95,419	128,278	(24,500)	–	199,197
Year ended December 31, 2018					
Revenue	91,396	276,922	–	–	368,318
Cost of revenue	(45,592)	(117,795)	–	–	(163,387)
Gross profit	45,804	159,127	–	–	204,931
Selling expenses	(7,725)	(399)	–	–	(8,124)
Administrative expenses	(13,541)	(38,355)	(10,460)	–	(62,356)
Other income	2,277	10,197	–	–	12,474
Other (losses)/gains – net	(3,775)	3,045	–	–	(730)
Operating profit	23,040	133,615	(10,460)	–	146,195
Year ended December 31, 2019					
Revenue	435,529	311,657	–	–	747,186
Cost of Revenue	(232,210)	(142,151)	–	–	(374,361)
Gross profit	203,319	169,506	–	–	372,825
Selling expenses	(8,407)	(592)	–	–	(8,999)
Administrative expenses	(17,079)	(38,106)	(19,027)	–	(74,212)
Other income	5,952	11,552	–	–	17,504
Other gains/(losses) – net	2,262	(75,133)	–	–	(72,871)
Operating profit	186,047	67,227	(19,027)	–	234,247

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year ended December 31, 2019 compared to year ended December 31, 2018

Revenue

TV/film production

Our revenue from the TV/film production business increased significantly from RMB91.4 million for the year ended December 31, 2018 to RMB435.5 million for the year ended December 31, 2019, mainly due to the licensing fee revenue from the first round broadcasting and overseas distribution of *The Heaven Sword and Dragon Saber (倚天屠龍記)* in early 2019 as well as the online broadcasting of *The Gods (封神)*. As a comparison, our revenue for the year ended December 31, 2018 mainly comprised the licensing fee revenue from the first round broadcasting and overseas distribution of *The Gods (封神)* as well as licensing of our library titles. We were the sole producer of *The Heaven Sword and Dragon Saber (倚天屠龍記)* and our investment in the TV Series was 100% while we co-produced *The Gods (封神)* and our investment was only 39%. The difference of investment and thus entitlement to economic benefit also contributed to the increase of revenue.

Higher education

Our revenue from the higher education segment increased by 12.5% from RMB276.9 million for the year ended December 31, 2018 to RMB311.7 million for the year ended December 31, 2019, mainly attributable to the growth of our total student enrollment from 13,074 in the school year 2017/2018 to 13,702 in the school year 2018/2019, and further to 14,256 in the school year 2019/2020. Moreover, the students enrolled in our international preparatory programs increased three times from 41 students for the school year 2017/2018 to 166 students for the school year 2018/2019, and further to 410 students for the school year 2019/2020, which also contributed to the increase of revenue.

Cost of revenue

TV/film production

The cost of revenue of our TV/film production segment increased significantly from RMB45.6 million for the year ended December 31, 2018 to RMB232.2 million for the year ended December 31, 2019. The large amount of cost of revenue for the year ended December 31, 2019 included amortization of the TV series *The Heaven Sword and Dragon Saber (倚天屠龍記)* and *The Gods (封神)*. In the year ended December 31, 2018, we only amortized the cost related to *The Gods (封神)* that we co-invested and a relatively small amount of the cost of *Untouchable Lovers (鳳囚凰)* upon its overseas distribution, and recorded the costs related to the sale of our library titles.

Higher education

The cost of revenue of our higher education segment increased by 20.7% from RMB117.8 million for the year ended December 31, 2018 to RMB142.2 million for the year ended December 31, 2019, mainly because we raised the salaries of our teachers and recruited around 120 full-time teachers and administrative staff in 2019 in order to improve our teaching quality as well as our teacher-to-student ratio.

Gross profit and gross margin

As a result of the foregoing, our gross profit increased significantly by 81.9% from RMB204.9 million for the year ended December 31, 2018 to RMB372.8 million for the year ended December 31, 2019. Our gross margin decreased from 55.6% for the year ended December 31, 2018 to 49.9% for the year ended December 31, 2019.

TV/film production

The gross margin for our TV/film production business decreased from 50.1% for the year ended December 31, 2018 to 46.7% for the year ended December 31, 2019, mainly attributable to the relatively large amount of cost for the amortization of the TV series *The Heaven Sword and Dragon Saber (倚天屠龍記)* and *The Gods (封神)* in 2019 upon their first round of internet distribution.

Higher education

The gross margin for our higher education business decreased from 57.5% for the year ended December 31, 2018 to 54.4% for the year ended December 31, 2019, mainly due to the increased cost for recruiting new teachers and the increased salaries of our teachers.

Selling expenses

Our selling expenses increased by 10.8% from RMB8.1 million for the year ended December 31, 2018 to RMB9.0 million for the year ended December 31, 2019. The selling expenses for our higher education segment remained stable in 2018 and 2019, while the selling expenses increased slightly for our TV/film production business from RMB7.7 million for the year ended December 31, 2018 to RMB8.4 million for the year ended December 31, 2019, due to the additional promotion and distribution fee incurred to sell the TV series *The Gods (封神)* and *The Heaven Sword and Dragon Saber (倚天屠龍記)* in 2019.

Administrative expenses

Our administrative expenses for the year ended December 31, 2019 was RMB74.2 million, as compared to RMB62.4 million for the year ended December 31, 2018. The increase was mainly as a result of additional employee benefit expenses related to the recruitment of administrative staff of our University, the establishment of our art training business team and the expansion of our TV/film production business, as well as the increase of the listing expenses.

Other income

Our other income increased by 40.3% from RMB12.5 million for the year ended December 31, 2018 to RMB17.5 million for the year ended December 31, 2019. The increase was primarily attributable to the increase of government grants and subsidies for our TV/film production business.

Other losses, net

Our net other losses increased significantly from RMB0.7 million for the year ended December 31, 2018 to RMB72.9 million for the year ended December 31, 2019, mainly attributable to the payment of the termination fee of RMB95.0 million to CUC in the third quarter of 2019. Excluding that, our net other gains increased as a result of the improvement of the performance of our investments in certain financial assets, particularly wealth management products purchased from banks. Despite the positive result of our investments in certain financial assets, we plan to continue to adopt conservative strategies in managing our surplus cash and financial assets going forward, and expect the fluctuation of other gains/(losses) to decline in future years.

Finance income, net

Our net finance income was RMB6.1 million for the year ended December 31, 2019, as compared to RMB7.0 million for the year ended December 31, 2018.

Profit for the year

As a result of the foregoing, our profit for the year increased by 30.7% from RMB148.8 million for the year ended December 31, 2018 to RMB194.5 million for the year ended December 31, 2019.

Year ended December 31, 2018 compared to year ended December 31, 2017

Revenue

TV/film production

Our revenue from the TV/film production business decreased from RMB300.6 million in 2017 to RMB91.4 million in 2018.

We completed production of *The Heaven Sword and Dragon Saber (倚天屠龍記)* in 2018, but we only received the TV Series Distribution Permit and delivered the master tapes to Tencent in early 2019, therefore most revenue related to this series was recorded in 2019 instead of 2018.

In 2017, we recorded revenue of RMB296.6 million for completing and delivering *Untouchable Lovers (鳳囚凰)*. Revenue in 2018 mainly consisted of the licensing fee from (i) the first round broadcasting of *The Gods (封神)* from which we only invested 39% of the total production cost thus also only shared 39% of total profit, and (ii) from our library titles that we previously produced.

Higher education

Our revenue from the higher education segment increased from RMB256.3 million in 2017 to RMB276.9 million in 2018, mainly because the number of students enrolled in our University increased from 12,546 in the school year 2016/2017 to 13,074 in the school year 2017/2018 and further to 13,702 in the school year 2018/2019.

Cost of revenue

TV/film production

Cost of revenue of our TV/film production segment decreased significantly from RMB159.0 million in 2017 to RMB45.6 million in 2018 in line with our revenue change discussed above.

Higher education

Cost of revenue of our higher education business increased slightly from RMB116.8 million in 2017 to RMB117.8 million in 2018.

Gross profit and gross margin

As a result of the foregoing, our gross profit decreased by 27.1% from RMB281.1 million in 2017 to RMB204.9 million in 2018.

TV/film production

Gross margin for our TV/film production business increased from 47.1% in 2017 to 50.1% in 2018.

Higher education

Gross margin for our higher education business increased from 54.4% in 2017 to 57.5% in 2018 mainly as a result of economies of scale.

Selling expenses

Our selling expenses decreased from RMB30.6 million in 2017 to RMB8.1 million in 2018. Distribution fee incurred for our TV/film production business was the largest component for the selling expenses in 2017 and 2018. In 2017, the selling expenses included a distribution fee of RMB28.7 million for the TV series *Untouchable Lovers (鳳囚凰),* and it included a distribution fee of RMB5.5 million for the TV series *The Gods (封神)* for 2018.

Between our two segments, the selling expenses for our higher education segment remained stable in 2017 and 2018, while selling expenses decreased significantly for our TV/film production business from RMB30.2 million for 2017 to RMB7.7 million for 2018, primarily due to the difference in distribution fee discussed above.

Administrative expenses

Our administrative expenses decreased by 9.2% from RMB68.7 million in 2017 to RMB62.4 million in 2018. Excluding the listing expenses of RMB18.4 million and RMB7.7 million for 2017 and 2018, respectively, our administrative expenses increased moderately across both segments as our headquarters function expanded.

Other income

Other income decreased from RMB13.2 million in 2017 to RMB12.5 million in 2018. The decrease was primarily attributable to the decrease of donation to our University.

Other gains/(losses), net

We recorded net other gains of RMB4.1 million in 2017 as compared to net losses of RMB0.7 million in 2018. This difference was primarily due to the deterioration of performance of our investments in certain financial assets, particularly equity-related products. We plan to switch to more conservative strategies in managing our surplus cash and financial assets going forward, and expect the fluctuation of other gains/(losses) to decline in future years.

Finance income, net

Our net finance income increased from RMB5.0 million in 2017 to RMB7.0 million in 2018, as we fully repaid the construction loan for our University in 2017 and therefore reduced the interest expense.

Profit for the year

As a result of the foregoing, our profit for the year decreased from RMB180.6 million in 2017 to RMB148.8 million in 2018.

DISCUSSION OF CERTAIN KEY BALANCE SHEET ITEMS

The table below sets forth our consolidated balance sheets as of the dates indicated, which have been extracted from our audited consolidated financial statements included in Appendix I to this document:

	As of December 31,		
	2017	**2018**	**2019**
	(in thousands of RMB)		
Assets			
Non-current assets			
Right-of-use assets	68,918	119,006	112,617
Property, plant and equipment	493,658	480,593	539,960
Intangible assets	815	864	15,659
Deferred income tax assets	20,346	18,022	12,101
Prepayments, deposits and other receivables	144,069	144,380	–
	727,806	762,865	680,337
Current assets			
TV series and film rights	125,764	289,355	71,650
Inventory	–	–	3,820
Trade receivables	154,545	82,813	70,336
Prepayments, deposits and other receivables	32,431	22,209	22,616
Financial assets at fair value through profit or loss	310,986	656,118	799,516
Other current assets	86,900	7,000	–
Term deposits with initial term of over three months	–	15,000	–
Cash and cash equivalents	255,916	58,072	120,481
	966,542	1,130,567	1,088,419
Total assets	1,694,348	1,893,432	1,768,756

	As of December 31, 2017	2018	2019
	(in thousands of RMB)		
Equity and liabilities			
Equity attributable to owners of the Company			
Combined capital	247,627	247,627	–
Share capital	–	–	86
Other reserves	198,700	237,070	548,976
Retained earnings	657,432	755,329	703,516
	1,103,759	1,240,026	1,252,578
Non-controlling interests	110,582	123,392	124,175
Total equity	1,214,341	1,363,418	1,376,753
Liabilities			
Non-current liabilities			
Lease liabilities	16,346	–	–
Deferred income	2,157	1,859	1,561
Borrowings	–	–	32,000
	18,503	1,859	33,561
Current liabilities			
Trade payables	49,597	66,504	36,304
Other payables and accrual charges	78,993	82,716	104,253
Contract liabilities	240,978	352,868	191,707
Current income tax liabilities	28,465	1,980	4,574
Dividend payable	58,092	5,228	21,604
Lease liabilities	5,379	18,859	–
	461,504	528,155	358,442
Total liabilities	480,007	530,014	392,003
Total equity and liabilities	1,694,348	1,893,432	1,768,756

The table below sets forth key balance sheet items by segments as of the dates indicated.

	TV/film production	Higher education	Unallocated	Inter-segment elimination	Total
			(in thousands of RMB)		
As of December 31, 2017					
Key assets items					
Right-of-use assets	19,348	49,570	–	–	68,918
Property, plant and equipment	1,790	491,868	–	–	493,658
Prepayments, deposits and other receivables – non current	–	144,069	–	–	144,069
TV series and film rights	125,764	–	–	–	125,764
Trade receivables	152,434	2,111	–	–	154,545
Prepayments, deposits and other receivables	21,195	162,187	–	(150,951)	32,431
Cash and cash equivalents	209,314	46,602	–	–	255,916
Key liabilities items					
Trade payables	29,546	20,051	–	–	49,597
Contract liabilities	107,053	133,925	–	–	240,978
As of December 31, 2018					
Key assets items					
Right-of-use assets	15,478	103,528	–	–	119,006
Property, plant and equipment	1,293	479,300	–	–	480,593
Prepayments, deposits and other receivables – non current	–	144,380	–	–	144,380
TV series and film rights	289,355	–	–	–	289,355
Trade receivables	81,508	1,305	–	–	82,813
Prepayments, deposits and other receivables	6,983	146,177	–	(130,951)	22,209
Cash and cash equivalents	33,107	24,965	–	–	58,072
Key liabilities items					
Trade payables	30,993	35,511	–	–	66,504
Contract liabilities	211,071	141,797	–	–	352,868

	TV/film production	Higher education	Unallocated	Inter-segment elimination	Total
			(in thousands of RMB)		
As of December 31, 2019					
Key assets items					
Right-of-use assets	11,609	101,008	–	–	112,617
Property, plant and equipment	996	538,964	–	–	539,960
TV series and film rights	71,650	–	–	–	71,650
Inventory	3,820	–	–	–	3,820
Trade receivables	68,715	1,621	–	–	70,336
Prepayments, deposits and other receivables	9,083	141,149	3,761	(131,377)	22,616
Cash and cash equivalents	81,002	39,479	–	–	120,481
Key liabilities items					
Trade payables	35,680	624	–	–	36,304
Contract liabilities	9,206	182,501	–	–	191,707

Right-of-use assets

Right-of-use assets include office lease and land use rights, both of which are depreciated over the term of the assets' useful life and lease term on a straight-line basis. The estimated useful life for land use rights is 50 years, and for office lease is seven years. The below table sets forth the breakdown of our right-of-use assets by segments. Only our higher education business possesses land use rights, and the rapid increase in the balance of right-of-use assets as of December 31, 2017 to as of December 31, 2018 in the higher education segment was the result of our University's purchase of land use rights.

	As of December 31, 2017	2018	2019
		(in thousands of RMB)	
TV/film production	19,348	15,478	11,608
Higher education	49,570	103,528	101,009
Right-of-use assets	68,918	119,006	112,617

Prepayments, deposits and other receivables

This item covers various deposits, repayments and receivables other than trade receivables that happened during our operations. We make prepayments to scriptwriters, directors and actors for our TV/film production business before they start to work on our TV series/film projects from time to time, and record such payments as prepayments for TV series and film rights on our balance sheet.

The following table sets forth a breakdown of prepayments, deposits and other receivables as of the date indicated:

	As of December 31,		
	2017	2018	2019
	(in thousands of RMB)		
Prepayments			
Prepayment for television series and film rights	20,700	1,373	832
Prepayments for the professional fee	–	–	3,761
Prepayments for property, plant and equipment	2,978	–	–
Prepayment for teaching materials	–	–	3,109
Deductible value-added-tax	–	3,478	4,718
Others	384	579	1,612
Subtotal	24,062	5,430	14,032

	As of December 31,		
	2017	2018	2019
	(in thousands of RMB)		
Deposits and other receivables			
Loan to/amounts due from related parties	148,512	156,741	1,688
Payments of utilities on behalf of canteen operators and other third parties	2,369	2,518	4,661
Others	1,557	1,900	2,235
Subtotal	152,438	161,159	8,584
Non-current portion	144,069	144,380	–
Current portion	32,431	22,209	22,616

The table below sets forth a breakdown of prepayments, deposits and other receivables by segments.

	As at 31 December		
	2017	2018	2019
	(in thousands of RMB)		
TV film production	21,195	6,983	9,083
Higher education	306,256	290,557	141,149
Unallocated	–	–	3,761
Inter-segment elimination	(150,951)	(130,951)	(131,377)
Prepayments, deposits and other receivables	176,500	166,589	22,616

TV series and film rights

TV series and film rights only relate to our TV/film production segment. We had TV series and film rights of RMB125.8 million, RMB289.4 million and RMB71.6 million as of December 31, 2017, 2018 and 2019, respectively. We incurred costs to produce TV series, TV shows and films. Our prepayment to engage actors, principal producers and directors to produce TV series and films are recorded as TV and film rights when the actual production starts. Various costs on the production site are capitalized and recorded as TV and film rights until completion. When we license the broadcasting rights of a TV program or a film, we will then amortize and recognize a portion of the TV and film rights as costs in the income statements based on our estimation of consumption patterns.

We build our library of adaptation rights and scripts from a long-term perspective. Most of the adaptation rights and scripts aged over three years will not expire before December 31, 2023 and are under our normal production plan, and we are on track to utilize all the adaptation rights and scripts. Therefore, we do not see a recoverability issue for adaptation rights and scripts aged over three years.

As of December 31, 2019, TV series and film rights were RMB71.6 million, consisting of RMB48.7 million for our completed productions, RMB18.0 million from adaptation rights and scripts, and RMB4.9 million for TV series or web films under production. The below table sets forth a breakdown of adaptation rights and scripts and TV/film rights as of December 31, 2019 on a title-by-title basis:

	Carrying amount/ total amount capitalized	Budget	Percentage of completion
	(in thousands of RMB)		
Adaptation rights and scripts			
Novels from LIANG Xiaosheng	1,250	NA	NA
Copper Wedding (銅婚)	2,460	152,000	1.6%
Mrs. Qing (清夫人)	4,015	240,000	1.7%
Yongzheng Emperor (雍正大帝)	2,352	330,000	0.7%
Ashes of Time (東邪西毒)	2,606	215,000	1.2%
Qianlong Emperor (乾隆大帝)	238	330,000	0.1%
Others	5,067		
Completed production			
The Gods (封神)	3,747	NA	NA
Zhaoge (朝歌)	45,000	NA	NA
Under-production			
Kangxi Emperor (康熙大帝)	4,915	330,000	1.5%
Total	71,650		

We delivered the master tape of *Zhaoge (朝歌)* in May 2020, and RMB45.0 million of completed production of TV series and film rights was amortised to cost of revenue accordingly. As of the Latest Practicable Date, there had not been any other movement on the TV series and film rights since December 31, 2019.

The below table sets forth the aging analysis of our TV series and film rights as of the dates indicated.

	As of December 31,		
	2017	2018	2019
	(in thousands of RMB)		
Adaptation rights and scripts			
Less than 6 months	–	9,686	2,329
6 months to 1 year	–	–	1,696
1 to 2 years	4,797	–	9,686
2 to 3 years	–	3,831	–
Over 3 years	2,496	446	4,277
Total	7,293	13,963	17,988
TV series under-production			
Less than 6 months	22,559	3,964	–
6 months to 1 year	–	–	–
1 to 2 years	36,978	–	3,964
2 to 3 years	–	951	–
Over 3 years	–	–	951
Total	59,537	4,915	4,915
Completed TV series			
Less than 6 months	17	205,180	–
6 months to 1 year	–	45,000	–
1 to 2 years	58,917	–	45,000
2 to 3 years	–	20,297	–
Over 3 years	–	–	3,747
Total	58,934	270,477	48,747

Our management assesses impairment on TV series and film rights whenever events or changes in circumstances indicate the carrying amount may not be recoverable. The management mainly considers the following factors in assessing whether there is any indication that the TV series and film rights may be impaired:

- During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use; and

- Management's own forecasts of future net cash inflows or operating profits may show a significant decline from previous budgets and forecasts.

The assessment was made on a title-by-title basis. The recoverable amount of the TV series and film rights was determined by considering the current market environment to project cash flows expected to be received. If the recoverable amount is lower than the carrying amount, the carrying amount of the TV series and film rights will be written down to its recoverable amount.

As of December 31, 2019, RMB4.3 million of adaptation rights and scripts had been existing for over three years. They mainly relate to novels from LIANG Xiaosheng and *Ashes of Time (東邪西毒)*. We recorded no impairment loss from these adaptation rights and scripts because (i) these adaptation rights and scripts will not expire before April 30, 2021; and (ii) these works enjoy high popularity among Chinese readers and have a great potential to create successful TV series. Additionally we are on track to make TV series based on these works, and their remaining licensing terms are long enough for us to complete our production.

As of December 31, 2019, (i) RMB4.9 million of TV series under production had been outstanding for over one year, as a result of our early stage investment into the TV series *Kangxi Emperor (康熙大帝)*, which is expected to be released in 2021, (ii) RMB3.7 million of completed TV series had been outstanding for over three years, related to our TV series *The Gods (封神)* and (iii) RMB45.0 million of completed TV series had been outstanding for over one year, related to our TV series *Zhaoge (朝歌)*. We recorded no impairment loss from completed TV series or TV series under production because (i) the production of *Kangxi Emperor (康熙大帝)* is on track and we expect to receive revenue larger than the outstanding TV series under production; (ii) the production of *The Gods (封神)* was largely completed in 2016, and was premiered in 2019. The last few episodes of the series had not been aired, and consequently a small portion of TV and film rights for the completed TV series related to online platform remained as outstanding as of December 31, 2019, for an age of over three years. We understand that our customer still plans to broadcast the unaired episodes but the broadcasting time is not determined yet and we expect to recognize revenue and amortize TV and film rights accordingly when the unaired episodes are broadcasted and the expected cash flow is larger than the outstanding amount of this completed TV series; and (iii) we delivered the master tape of *Zhaoge (朝歌)* in May 2020, and the licensing fee that we are entitled to receive from our customer is significantly larger than the outstanding amount for this completed TV series.

Impairment tests for TV series and film rights have been performed, the result of which revealed that no impairment losses were required to be recognised as of December 31, 2017, 2018 and 2019. Such impairment tests have been performed on a title-by-title basis by using the discounted cash flow model. In determining the projected net cash inflows to be received, the management has made reference to the contracts signed with customers, the recent market prices for other similar productions and the prevailing production costs.

As of December 31, 2017, 2018 and 2019, we had ten (including six adaptation rights and scripts, three under production and one completed production), 17 (including 13 adaptation rights and scripts, one under production and three completed productions) and 19 (including 16 adaptation rights and scripts, one under production and two completed productions) TV series and film rights, respectively.

The key parameters used for value-in-use calculations for the carrying amounts of TV series and film rights for completed production and under production at the end of each year of the Track Record Period are as follows:

	As of December 31,		
	2017	**2018**	**2019**
	(in thousands of RMB, except for percentage)		
Zhaoge (朝歌)			
Price per episode	5,500	5,500	5,500
Pre-tax discount rate (%)	16.5%	22.6%	29.7%
Recoverable amount of CGU	45,787	48,676	50,096
Carrying amount of CGU	45,000	45,000	45,000
Headroom	787	3,676	5,096
The Heaven Sword and Dragon Saber (倚天屠龍記)			
Price per episode	8,500	8,500	N/A[1]
Pre-tax discount rate (%)	22.7%	29.3%	N/A[1]
Recoverable amount of CGU	102,566	300,881	N/A[1]
Carrying amount of CGU	13,586	205,180	N/A[1]
Headroom	88,980	95,701	N/A[1]
The Gods (封神)			
Price per episode	3,700	1,400	1,400
Pre-tax discount rate (%)	17.2%	22.2%	29.7%
Recoverable amount of CGU	61,868	22,836	4,175
Carrying amount of CGU	58,934	20,297	3,747
Headroom	2,934	2,539	428
Kangxi Emperor (康熙大帝)			
Price per episode	8,000	8,000	8,000
Pre-tax discount rate (%)	18.0%	23.8%	29.9%
Recoverable amount of CGU	31,496	23,257	16,723
Carrying amount of CGU	951	4,915	4,915
Headroom	30,545	18,342	11,808

Note:

(1) Completed and sold in 2019.

Up to the Latest Practicable Date and based on the information on hand, other than the potential risk in connection to the COVID-19 outbreak that might impact the repayment abilities of our debtors and the willingness of the customers to procure our TV series and films, we are not aware of other reasonably possible changes in the key parameters that would cause any impairment.

Trade receivables

The below table sets forth a breakdown of our trade receivables by segment as of the dates indicated:

	As of December 31,		
	2017	**2018**	**2019**
	(in thousands of RMB)		
TV/film production	152,434	81,508	68,715
Higher education	2,111	1,305	1,621
Trade receivables	154,545	82,813	70,336

The below table sets forth the aging analysis of our trade receivables as of the dates indicated:

	As of December 31,		
	2017	**2018**	**2019**
	(in thousands of RMB)		
Less than 6 months	150,886	82,591	1,694
6 months to 1 year	3,354	–	7,222
1 to 2 years	254	222	61,420
Over 3 years	51	–	–
	154,545	82,813	70,336

We generally receive tuition fees and boarding fees from students before the school year starts. The trade receivables in our higher education business mainly arise from deferred payment of tuition fees and boarding fees of certain students facing financial difficulties.

TV stations and online video platforms pay licensing fees for our TV series in installments. They generally pay the first installment of 20%-30% of the total price shortly after signing the broadcasting right licensing contracts and receiving certain basic documents, then another 30%-40% of the total price when we deliver master tapes, and the remaining amount after the TV programs are broadcast or become available online. It generally takes approximately one year to collect trade receivables from TV stations and online video platforms, which we believe is in line with industry practice. The trade receivables as of December 31, 2017 mainly consisted of the receivables from iQiyi for our TV series *Untouchable Lovers (鳳囚凰)*, the amount as of December 31, 2018 mainly consisted of receivables from Hunan TV for *The Gods (封神)*, and the amount as of December 31, 2019 mainly consisted of receivables from Hunan TV and Mango TV for *The Gods (封神)*. 13 out of the total 65 episodes of *The Gods (封神)* had not been aired as of the Latest Practicable Date, and we understand that our customer still plans to broadcast the unaired episodes but the broadcasting timing is not determined yet. As a result, approximately RMB6.7 million of expected revenue did not meet the revenue recognition criteria, therefore such revenue had not been recognized as of the Latest Practicable Date. RMB3.7 million of TV and film rights (completed TV series) remained outstanding as of December 31, 2019. We, however, do not consider that such delay materially affects our overall performance and financial condition.

Our trade receivables turnover days were 54, 116 and 37 for 2017, 2018 and 2019, respectively. The trade receivables turnover days for our TV/film production business were 97, 461 and 62 days for 2017, 2018 and 2019, respectively, and three, two, and two days for our higher education business. Trade receivables turnover days for a year equals the arithmetic mean of the beginning and ending trade receivables balances divided by the revenue for the relevant year and multiplied by 365 days. The significant fluctuation during the Track Record Period was because the ending balance of trade receivables of each year was greatly swayed by the timing of delivery and the total price of the limited number of TV series released – a total of three during the whole Track Record Period. For instance, we delivered *The Heaven Sword and Dragon Saber (倚天屠龍記)* to Tencent and realized a revenue of RMB400.9 million in early 2019. If the delivery had happened in the last month of 2018, the ending balance of trade receivables as of December 31, 2018 would have been reduced significantly. Because of the above, our management does not use the trade receivables turnover days to monitor the collection status as this number could not meaningfully demonstrate the time needed to collect cash in our TV/film production business.

We only cooperate with reputable customers such as major TV stations and leading online distribution channels. Historically we managed to collect substantially all of our trade receivables. Due to this good track record of collection, we determined that we did not need to record any provision for impairment of trade receivables as of December 31, 2017, 2018 and 2019.

The following table sets forth the amount and percentage of subsequent settlement of our trade receivables by segment until April 30, 2020:

As of December 31,		**Trade receivables**	**Subsequent settlement**	
		(in thousands of RMB)		
2017	TV/film production	152,434	152,434	100.0%
	Higher education	2,111	2,111	100.0%
	Total	**154,545**	**154,545**	**100.0%**
2018	TV/film production	81,508	20,245	24.8%
	Higher education	1,305	1,305	100.0%
	Total	**82,813**	**21,550**	**26.0%**
2019	TV/film production	68,715	381	0.6%
	Higher education	1,621	1,099	67.8%
	Total	**70,336**	**1,480**	**2.1%**

The uncollected trade receivables as of December 31, 2018 and 2019 mainly related to the amount due from Hunan TV for our TV series *The Gods (封神)*. Although the amount has been outstanding for more than one year, we do not see a recoverability issue because (i) Hunan TV is one of China's most popular and respectable TV stations and its capability and willingness to pay its suppliers are well-recognized within the industry; (ii) from the track record perspective, other than this outstanding amount, we have successfully collected all trade receivables from Hunan TV historically; and (iii) Hunan TV has paid 40% of the licensing fees to the joint production operation for *The Gods (封神)*, and we expect our co-production partner in charge of settlement to timely settle the payment to us. As of December 31, 2019, the uncollected trade receivables related to The Gods (封神) was RMB64.0 million. We expect to receive RMB23.4 million within one month and the majority of the remaining amount within 12 months, though we had not yet received payments as of the Latest Practicable Date.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are managed at our Group level only. We had financial assets at fair value through profit or loss of RMB311.0 million, RMB656.1 million, and RMB799.5 million as of December 31, 2017, 2018 and 2019, respectively. During the Track Record Period, we managed certain of our cash surplus generated from our operations through investments in wealth management products purchased from banks, which has relatively low-risk profile, as well as to a smaller portion in publicly traded securities. Publicly traded securities are the securities related to companies list in A-share Chinese domestic capital market, and wealth management products purchased from bank, which are issued by Chinese domestic banks and are rated as low risk, with floating interest rates and no guarantee on principal. The below table sets forth a breakdown of our financial assets at fair value through profit or loss as of the dates indicated:

	As of December 31,		
	2017	**2018**	**2019**
	(in thousands of RMB)		
Financial assets at fair value through profit or loss			
– Trading listed equity securities	48,511	33,552	9,344
– Wealth management products purchased from banks	262,475	622,566	790,172
Total	310,986	656,118	799,516

We believe these investments can create better returns than cash deposits at banks, and given that we can liquidate these financial assets quickly, we believe investments in these products will not interfere with our operations and capital expenditures. We follow a stringent internal process and policy in managing our financial assets. Our internal policy sets forth the selection criteria, investment strategy and internal control procedures with respect to risk management, record-keeping and reporting, approvals and monitoring in relation to our investments in financial assets. These procedures primarily consist of the following:

- *Keeping abreast of investment trends and maintaining liquidity through frequent turnover.* We purchase and redeem financial assets frequently. As a result, the aggregate volume of our purchases and redemptions within any period has been relatively high. For the years ended December 31, 2017, 2018 and 2019, our purchases of financial assets at fair value through profit or loss totaled RMB720.0 million, RMB686.2 million and RMB813.5 million, respectively, and our proceeds from redemption totaled RMB876.8 million, RMB339.7 million and RMB701.6 million, respectively. We determine the amount and timing of our purchases and redemptions based on our overall cash management objectives instead of short-term gains. Our frequent purchase and redemption and short holding period allows us to keep updated on pricing trends, which in turn helps us in our investment decision on other similar wealth management products.

- *Close monitoring, periodic review and reporting system.* Although real-time price information of wealth management products is limited to the public in China, we believe that we are able to effectively monitor and manage our wealth management product portfolio because: (i) we obtain updated information from our frequent turnover of wealth management products to monitor their performance, (ii) there has not been any material deviation in actual return of the wealth management products we purchased from the products' expected return at the time of purchase during the Track Record Period, which may be attributable to our short holding period and the relatively low risk of the products we purchase, and (iii) we also obtain updated information from customer relationship managers of the banks from which we purchase wealth management products portfolio based on their analysis of the fluctuations and trends and our investment objectives. We conduct annual internal audits on our ledgers, the results of which are reported to our management. We keep close track of the maturity dates for our wealth management products to ensure that such products are redeemed without delay.

The below table sets forth the changes in fair value of financial assets in the years indicated:

	Year ended December 31,		
	2017	**2018**	**2019**
	(in thousands of RMB)		
Changes in fair value of financial assets at fair value through profit or loss			
– Trading listed equity securities	(2,460)	(13,421)	6,351
– Wealth management products purchased from banks	8,551	12,136	25,164
	6,091	(1,285)	31,515

We plan to switch to a more conservative approach to manage our financial assets going forward, so as to reduce exposure to excessive fluctuation of the fair value of our financial assets. Our intended measures include investing in:

- financial assets only when we have surplus cash that is not required for our short-term working capital needs;

- low-risk products issued by reputable banks in the PRC, including principal-guaranteed financial products; and

- short-term products, generally, in order to maintain our liquidity and financial flexibility.

Contract liabilities

Our contract liabilities include prepayments from TV stations and online video platforms for our TV series and the tuition fees and boarding fees received from students at our University.

The table below sets out a breakdown of our contract liabilities as of the dates indicated.

	As of December 31, 2017	2018	2019
	(in thousands of RMB)		
Licensing income	107,053	211,071	9,206
Full-time formal higher education services			
– Tuition fees	113,440	119,024	126,908
– Boarding fees	12,921	13,524	13,596
Entrance examination fee income	3,962	–	21,135
International preparatory program	1,974	7,865	16,483
Continuing education services	–	–	2,536
Others	1,628	1,384	1,843
	240,978	352,868	191,707

Many customers sign contracts to purchase our TV series even before we finish production. Such prepaid purchase price of our TV series/films, recorded as licensing income under contract liabilities, was RMB107.1 million, RMB211.1 million and RMB9.2 million as of December 31, 2017, 2018 and 2019, respectively.

We record tuition and boarding fees collected initially as contract liabilities and recognize revenue proportionately over each school year. As a school year typically commences in September each year, the amounts of deferred revenue as of each of these dates generally represent the amount of tuition fees received but not yet recognized as revenue for the remainder of the applicable school year. Tuition fees and boarding fees recorded as contract liabilities at the end of each year increased steadily from 2017 to 2019 primarily due to the increase of student enrollment in our University.

Within our contract liabilities, licensing income is related to our TV/film production business, while full-time formal higher education services, entrance examination fee income, international preparatory programs and continuing education services are related to our higher education business. The table below sets forth a breakdown of contract liabilities by segments as of the dates indicated.

	As of December 31, 2017	2018	2019
	(in thousands of RMB)		
TV/film production	107,053	211,071	9,206
Higher education	133,925	141,797	182,501
Contract liabilities	240,978	352,868	191,707

Trade payables

Trade payables represent the amounts to be paid to suppliers for goods or services acquired in the ordinary course of business. The aging analysis of our trade payables based on their respective invoice and issue dates are as follows:

	As of December 31,		
	2017	2018	2019
	(in thousands of RMB)		
Less than 6 months	27,249	46,504	36,304
6 months to 1 year	18,458	–	–
1 to 2 years	3,890	20,000	–
	49,597	66,504	36,304

RMB20.0 million that had been outstanding for more than one year as of December 31, 2018 were trade payables due to CUC for the annual licensing fee and service fees in 2017. We ceased such payment temporarily after starting to negotiate the termination of cooperation with CUC in 2018. Such amount was included in and settled through the one-off payment of RMB160 million after signing the termination agreement in July 2019.

As of April 30, 2020, the trade payables balance was RMB36.5 million.

The trade payables turnover days are as follows:

	Year ended December 31,		
	2017	2018	2019
Trade payables turnover days(1)	33.1	57.5	25.1

Note:

(1) Trade payables turnover days for a year equals the arithmetic mean of the beginning and ending trade payables balances divided by the revenue for the relevant year and multiplied by 365 days.

The table below sets forth a breakdown of trade payables by segments as of the dates indicated.

	As of December 31,		
	2017	2018	2019
	(in thousands of RMB)		
TV/film production	29,546	30,993	35,680
Higher education	20,051	35,511	624
Trade payables	49,597	66,504	36,304

Other payables and accrual charges

This item covers various payables and accrual charges that occurred during our operation, including salary and welfare payables for our employees.

The following table sets forth a breakdown of our other payables and accrual charges as of the dates indicated.

	As of December 31,		
	2017	**2018**	**2019**
	(in thousands of RMB)		
Other payables and accrual charges			
Miscellaneous expenses received from students	10,940	13,996	15,354
Payables for teaching materials and other operating expenditure	5,092	5,945	7,134
Amount due to related parties	3,600	3,600	3,600
Payable for purchases of property, plant and equipment	2,524	1,106	2,094
Payables in relation to revenue sharing of joint operations	6,335	13,352	12,985
Payables for deposits	2,600	4,457	6,961
Payables for interest	–	–	547
Payables in relation to the professional service	8,915	15,382	24,451
Government subsidies payable to students	220	2,606	5,126
Others	6,319	6,396	8,388
Total financial liabilities	46,545	66,840	86,640
Salary and welfare payables	13,992	15,091	16,793
Other taxes payable	18,456	785	820
Total non-financial liabilities	32,448	15,876	17,613
Other payables and accrual charges	78,993	82,716	104,253

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period and up to the Latest Practicable Date, we have funded our cash requirements principally from cash generated from our operations and external borrowings. We had cash and cash equivalents of RMB255.9 million, RMB58.1 million and RMB120.5 million as of December 31, 2017, 2018 and 2019, respectively.

During the Track Record Period, our principal uses of cash have been for the funding of required working capital and other recurring expenses to support the expansion of our operations. Going forward, we believe our liquidity requirements will be satisfied by using funds from a combination of internally generated cash, external borrowings, proceeds from the Global Offering and other funds raised from capital markets from time to time.

Cash flows

The following table sets forth a summary of our cash flows for the years indicated:

	Year ended December 31,		
	2017	2018	2019
	(in thousands of RMB)		
Net cash generated from operating activities	173,980	207,417	275,489
Net cash generated from/(used in) investing activities	33,604	(348,856)	(59,850)
Net cash used in financing activities	(49,829)	(56,786)	(153,935)
Net increase/(decrease) in cash and cash equivalents	157,755	(198,225)	61,704
Cash and cash equivalents at the beginning of the reporting period	98,811	255,916	58,072
Exchange (loss)/gain on cash and cash equivalents	(650)	381	705
Cash and cash equivalents at end of the reporting period	255,916	58,072	120,481

Net cash generated from/(used in) operating activities

The net cash generated from operating activities is the result of the cash generated from operations and payment of income tax.

For the year ended December 31, 2019, cash generated from operations was RMB312.8 million, while profit before income tax was RMB240.3 million. The difference was primarily due to a decrease of RMB217.7 million in TV and film rights as we delivered TV series including The Heaven Sword and Dragon Saber (倚天屠龍記) in 2019, which was partially offset by a RMB161.2 million decrease in contract liabilities as a result of recognition of revenue from The Heaven Sword and Dragon Saber (倚天屠龍記) and tuition and boarding fees from our University. Tencent, our customer for the *The Heaven Sword and Dragon Saber (倚天屠龍記)*, prepaid half of the total license fee before we obtained the TV Series Distribution Permit, therefore when we completed the delivery in early 2019, we recognized a large amount of contract liabilities as revenue and at the same time amortized a large amount of TV and film right as cost of revenue.

For the year ended December 31, 2018, cash generated from operations was RMB236.0 million, while profit before income tax was RMB153.2 million. The difference was primarily due to a RMB71.7 million decrease in trade receivables because of the collection of trade receivables from *Untouchable Lovers (鳳囚凰)* in 2018, a RMB111.9 million increase in contract liabilities from *The Heaven Sword and Dragon Saber (倚天屠龍記)* and a RMB26.5 million adjustment for deprecation of property, plant and equipment, which was partially offset by a RMB163.6 million increase in TV and film rights. We paid out cash in producing our TV series, particularly *The Heaven Sword and Dragon Saber (倚天屠龍記)*, which increased our

TV and film rights. At the same time, we also received prepayment of licensing fee from customers, mainly Tencent, for the broadcasting right of *The Heaven Sword and Dragon Saber (倚天屠龍記)*. In 2018, we also managed to collect trade receivables from the licensing of *Untouchable Lovers (鳳囚凰)*.

For the year ended December 31, 2017, cash generated from operations was RMB184.2 million, while the profit before income tax was RMB204.2 million. The difference was primarily due to a RMB143.3 million increase in trade receivables as a result of recognition of revenue from *Untouchable Lovers (鳳囚凰)*, which was partially offset by a RMB79.6 million increase in contract liabilities, a RMB25.8 million increase in other payables and accrual charges, and a RMB26.2 million adjustment for depreciation of property, plant and equipment. We completed production and delivered master tapes of *Untouchable Lovers (鳳囚凰)* in December 2017, which led to a large amount of trade receivables recorded as of December 31, 2017 for this TV series. Contract liabilities increased by RMB79.6 million because we received part of the licensing fee for TV series *The Heaven Sword and Dragon Saber (倚天屠龍記)* prepaid by Tencent in 2017.

Net cash generated from/(used in) investing activities

The net cash generated from or used in investing activities were primarily to manage our surplus cash by financial assets and to purchase property, plant and equipment.

For the year ended December 31, 2019, net cash used in investing activities was RMB59.9 million, which was primarily attributable to RMB111.9 million used to purchase financial assets, net of disposal, and RMB66.0 million deposited into banks, partially offset by RMB150.0 million received from a related party for loan repayment.

For the year ended December 31, 2018, net cash used in investing activities was RMB348.9 million, which was primarily attributable to RMB346.4 million used to purchase financial assets, net of disposal, and RMB56.5 million used to purchase land use rights for the phase II expansion plan of our University.

For the year ended December 31, 2017, net cash generated from investing activities was RMB33.6 million, which was primarily attributable to RMB156.8 million from disposal of financial assets, net of purchase which was partially offset by RMB19.1 million used in purchase of property, plant and equipment for our University.

Net cash used in financing activities

We used RMB153.9 million in financing activities in 2019, mainly consisting of dividend payments.

We used RMB56.8 million in financing activities in 2018, mainly consisting of dividend payments.

We used RMB49.8 million in financing activities in 2017, mainly consisting of RMB37.0 million to repay bank loans by our University and RMB8.0 million of repayment to a former shareholder.

The below tables set forth a summary of our cash flows of our two segments for the years indicated:

	TV/film production	Higher education	Unallocated	Inter-segment elimination	Total
	(in thousands of RMB)				
For the year ended December 31, 2017					
Net cash inflow/(outflow) from operating activities	36,144	153,628	(15,792)	–	173,980
Net cash (outflow)/inflow from investing activities	(11,121)	(105,275)	–	150,000	33,604
Net cash inflow/(outflow) from financing activities	138,077	(37,906)	–	(150,000)	(49,829)
Net increase/(decrease) in cash and cash equivalents	163,100	10,447	(15,792)	–	157,755
For the year ended December 31, 2018					
Net cash inflow/(outflow) from operating activities	18,390	193,017	(3,990)	–	207,417
Net cash outflow from investing activities	(116,368)	(212,488)	–	(20,000)	(348,856)
Net cash (outflow)/inflow from financing activities	(76,786)	–	–	20,000	(56,786)
Net decrease in cash and cash equivalents	(174,764)	(19,471)	(3,990)	–	(198,225)
For the year ended December 31, 2019					
Net cash inflow/(outflow) from operating activities	170,589	110,387	(5,487)	–	275,489
Net cash inflow/(outflow) from investing activities	63,025	(122,875)	–	–	(59,850)
Net cash (outflow)/inflow from financing activities	(185,068)	32,000	(867)	–	(153,935)
Net increase/(decrease) in cash and cash equivalents	48,546	19,512	(6,354)	–	61,704

The material fluctuation of operating cash flow for our TV/film production business arised from the timing of our collection of licensing fees and spending of production costs. In 2017, we delivered *Untouchable Lovers (鳳囚凰)* and received licensing fee of RMB165.2 million and additionally received RMB73.0 million of prepayment for *The Heaven Sword and Dragon Saber (倚天屠龍記)*, while for the same year, we spent RMB140.5 million in producing *Untouchable Lovers (鳳囚凰)*. In 2018, we received additional licensing fee of RMB147.4 million for *Untouchable Lovers (鳳囚凰)* that we delivered in 2017 and RMB115.5 million of prepayment for *The Heaven Sword and Dragon Saber (倚天屠龍記)*, while for the same year, we spent RMB196.4 million in producing *The Heaven Sword and Dragon Saber (倚天屠龍記)*. In 2019, we delivered *The Heaven Sword and Dragon Saber (倚天屠龍記)* and received licensing fee of RMB236.6 million.

With respect to our higher education business, our income of tuition fees and boarding fees increased modestly during the Track Record Period. In 2017 we paid licensing fees and service fees to CUC, which was temporarily ceased in 2018 after we started to negotiate the termination of our cooperation with CUC. The significant drop of operating cash flow in 2019 was due to our payment of the termination fee to CUC.

The business of TV/film production is highly capital intensive, as it is demonstrated in our spending to produce TV series during the Track Record Period above. We believe the stable and healthy cash inflow from the operation of our higher education business has been and will continue to provide financial resources to support our capital-intensive TV/film production business.

We manage our investment and financing activities at the group level instead of within each segment. The significant changes of the amount used in or generated by financing and investment activities of each segment was only because we centralized planning of use of our cash balance.

Working capital

We intend to continue to finance our working capital with cash generated from our operations, external borrowings, the net proceeds from the Global Offering and other funds raised from capital markets from time to time. We will closely monitor the level of our working capital, particularly in view of our strategy to continue expanding the student enrollment capacity of our University and increase the volume of our TV series/film production.

Our future working capital requirements will depend on a number of factors, including, but not limited to, our operating income, the enrollment capacity of our University, the cost of expanding the campus of our University, maintaining and upgrading our University's facilities and equipment, the volume of our TV series/film production, and the salaries of actors and key creative crew of our TV series and films.

Based on our available cash balance, the anticipated cash flow from operations and the net proceeds from the Global Offering, our Directors are of the opinion that we will have sufficient funds to meet our working capital requirements for at least the next 12 months from the date of this document.

LIQUIDITY DISCLOSURE

Current assets and current liabilities

The following table sets forth our current assets and current liabilities as of the dates indicated:

	As of December 31,			As of April 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Current assets				
TV and film rights	125,764	289,355	71,650	103,787
Inventory	–	–	3,820	3,820
Trade receivables	154,545	82,813	70,336	70,607
Prepayments, deposits and other receivables	32,431	22,209	22,616	30,278
Financial assets at fair value through profit or loss	310,986	656,118	799,516	760,468
Cash and cash equivalents	255,916	58,072	120,481	71,790
Term deposits with initial terms of over three months	–	15,000	–	–
Other current assets	86,900	7,000	–	–
Total current assets	966,542	1,130,567	1,088,419	1,040,750
Current liabilities				
Trade payables	49,597	66,504	36,304	36,111
Other payables and accrual charges	78,993	82,716	104,253	117,097
Contract liabilities	240,978	352,868	191,707	98,489
Current income tax liabilities	28,465	1,980	4,574	2,180
Dividend payable	58,092	5,228	21,604	21,604
Lease liabilities	5,379	18,859	–	–
Total current liabilities	461,504	528,155	358,442	275,481
Net current assets	505,038	602,412	729,977	765,269

We have been maintaining healthy net current assets during the Track Record Period to avoid any potential liquidity risk. Net current assets were well above RMB300 million in our Track Record Period, and had grown steadily to RMB765.3 million as of April 30, 2020.

We expect our net current assets position will continue to remain healthy as our operation is expected to continue generating profits, as well as receiving the proceeds from this Global Offering. On the other hand, we are also making investments to expand the campus of our University, which we believe will in the long term generate additional net income, but will negatively affect our net current asset position for a short period. The expansion is planned prudentially, and our own financial resources without considering the proceeds of this Global Offering will be able to support the expansion project.

INDEBTEDNESS

The below table sets forth our indebtedness as of the dates indicated.

	As of December 31,			As of April 30,
	2017	2018	2019	2020
		(in thousands of RMB)		
Current liabilities				
Lease liabilities	5,379	18,859	–	–
	5,379	18,859	–	–
Non-current liabilities				
Borrowings	–	–	32,000	32,000
Lease liabilities	16,346	–	–	–
	16,346	–	32,000	32,000

Bank loans and borrowings

Our total borrowings as of December 31, 2019 were mainly comprised of a borrowing from an independent non-financial institution third party of RMB32.0 million in principal with an interest rate per annum of 5.0%. According to the loan agreement entered into between CUCN and the lender, the loan is for eight years without collateral and shall be used for the construction of dormitory buildings. There is no repayment on demand clause in the loan agreement. As of April 30, 2020, RMB32.0 million in principal was outstanding.

Except for the borrowing of RMB32.0 million, as of April 30, 2020, we did not have any other loans issued and outstanding or any loan agreed to be issued, bank overdrafts, loans and other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities. Our Directors confirm that as of the Latest Practicable Date, there was no material covenant on any of our outstanding debt and there was no breach of any covenants during the Track Record Period and up to the Latest Practicable Date. Our Directors further confirm that our Group did not experience any difficulty in obtaining bank loans and other borrowings, default in payment of bank loans and other borrowings or breach of covenants during the Track Record Period and up to the Latest Practicable Date.

As of April 30, 2020, we did not have any unutilized banking facilities.

FINANCIAL RATIOS

	As of/for the year ended December 31,		
	2017	2018	2019
Net profit margin(1)	32.4%	40.4%	26.0%
Asset turnover(2)	0.35	0.21	0.41
Financial leverage/equity multiplier(3)	1.37	1.39	1.34
Return on equity(4)	15.7%	11.5%	14.2%
Current ratio(5)	2.09	2.14	3.04

Notes:

(1) Net profit margin is calculated using net profit divided by revenue and multiplied by 100%.
(2) Asset turnover is calculated using total revenue divided by the average total assets.
(3) Financial leverage is calculated using average total assets divided by average equity.
(4) Return on equity is calculated using net profit divided by average equity and multiplied by 100%.
(5) Current ratio is calculated using current assets as of year end divided by current liabilities as of year end.

Analysis of key financial ratios

Please refer to "– Major factors affecting our results of operations" in this section for the reasons behind the changes of net profit margin during the Track Record Period.

Our total assets had grown gradually in the Track Record Period while the total revenue fluctuated significantly. This led to a significant changes of our asset turnover.

We have also been very conservative on taking leverages, either financially or from working capital. Therefore, we have also maintained a constant low financial leverage and a high current ratio.

As a result of the changes of our net profit margin, asset turnover, and financial leverage, our return on equity was 15.7%, 11.5% and 14.2% for 2017, 2018 and 2019 respectively. We believe the results of 2017 are more indicative of our normal and excepted return on our equity if we manage to complete and deliver TV series each year.

CONTINGENT LIABILITIES

As of April 30, 2020, we did not have any material contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened against any member of our Group. Our Directors have confirmed that there has not been any material change in the contingent liabilities of our Group since April 30, 2020.

CAPITAL EXPENDITURES AND INVESTMENT

Our capital expenditures mainly consisted of the additions of property, plant and equipment, and purchase of land use right, which were primarily related to the upgrade of facilities and expansion of the campus of our University. It also included a small amount to purchase adaptation rights or other intangible assets for the production of TV programs and films. For the years ended December 31, 2017, 2018 and 2019, our capital expenditures were RMB43.3 million, RMB69.7 million and RMB122.5 million, respectively.

The following table sets forth a breakdown of our capital expenditures for the years indicated:

	Year ended December 31, 2017	2018	2019
	(in thousands of RMB)		
Purchase of property, plant and equipment	19,076	13,086	84,939
Purchase of land use rights	9,057	56,477	–
Purchase of intangible assets	15,119	113	37,537
Total	43,252	69,676	122,476

In addition, we invested RMB162.9 million, RMB209.2 million and RMB14.5 million in producing our TV series in 2017, 2018 and 2019.

CONTRACTUAL OBLIGATIONS

We lease office premises under operating lease agreements for our TV/film production business. A majority of these lease agreements are renewable at the end of the lease at market rates.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we did not have any material off-balance sheet commitments or arrangements.

MATERIAL RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time.

We have historically extended loans to our Controlling Shareholder, Mr. Pu. We entered into loan agreements with Mr. Pu on December 4, 2015 and May 25, 2016, respectively, and granted RMB denominated loans with principal amounts of RMB70 million and RMB80 million, respectively, to Mr. Pu. The loans were fully repaid by Mr. Pu in August 2019. As a result, we had interest income of RMB6.8 million, RMB6.8 million, and RMB4.5 million in 2017, 2018 and 2019, respectively. The principal amount had been repaid as of the Latest Practicable Date, and we waived all unpaid interest due to our requested early repayment.

In addition to financing transactions, we leased certain offices from Mr. Pu and paid rental of RMB3.9 million, RMB3.9 million and RMB19.5 million in 2017, 2018 and 2019, respectively.

During the Track Record Period we had other advances to and from related parties. See note 40 to the Accountant's Report in Appendix I. We will settle all outstanding balances with related parties prior to the Listing.

Our Directors confirm that our transactions with related parties during the Track Record Period were conducted on an arm's length basis, and they did not distort our results of operations or make our historical results not reflective of our future performance.

FINANCIAL RISK DISCLOSURE

We are exposed to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk and price risk), credit risk and liquidity risk, which are set forth in detail in Note 5 to the Accountant's Report in Appendix I to this document. We regularly monitor our exposure to these risks. As of the Latest Practicable Date, we did not hedge or consider it was necessary to hedge any of these risks.

DIVIDEND POLICY

As we are a holding company, our ability to declare and pay dividends will depend on receipt of sufficient funds from our subsidiaries and, particularly, our combined affiliated entities, which are incorporated in the PRC. Our Consolidated Affiliated Entities must comply with their respective constitutional documents and the laws and regulations of the PRC in declaring and paying dividends to us. Pursuant to the laws applicable to the PRC's Foreign Investment Enterprises, our Company's subsidiaries and our Consolidated Affiliated Entities must make appropriations from after-tax profit to non-distributable reserve funds as determined by the board of directors of each relevant entity prior to payment of dividends. These reserves include a general reserve and a development fund. Subject to certain cumulative limits, the general reserve requires annual appropriations of 10% of after-tax profits as determined under PRC laws and regulations at each year-end until the balance reaches 50% of the relevant PRC entity's registered capital. PRC laws and regulations require private schools where the school sponsors require reasonable returns to make annual appropriations of 25% of after-tax income to its development fund prior to payments of dividends. Such appropriations are required to be used for the construction or maintenance of the school or for the procurement or upgrading of educational equipment. In the case of a private school where the school sponsors do not require reasonable returns, the school is required to make annual appropriations equivalent to no less than 25% of the annual increase of net assets of the school as determined in accordance with generally accepted accounting principles in the PRC. Our University does not require reasonable returns.

Any amount of dividends we pay will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors which our Directors consider relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Cayman Companies Law. Our Shareholders in a general meeting may approve any declaration of dividends, which must not exceed the amount recommended by our Board. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of the Board.

In December 2017 and August 2019, one Consolidated Affiliated Entity declared dividends of RMB58.1 million and RMB182.0 million, respectively, to its then shareholder. No dividend has been declared or paid by our Consolidated Affiliated Entities to our WFOEs after the consolidation of our Consolidated Affiliated Entities through the Contractual Arrangements, and there is no assurance that dividends of any amount will be declared to be distributed in any year.

LISTING EXPENSES

We expect to incur listing expenses of approximately RMB81.0 million (assuming an Offer Price of HK$2.98, being the mid-point of the indicative Offer Price range between HK$2.86 and HK$3.10, and assuming that the Over-allotment Option is not exercised) until the completion of the Global Offering, of which RMB58.0 million is expected to be charged to our consolidated statements of comprehensive income and RMB23.0 million is directly attributable to the issue of the Shares to the public and to be capitalized. Listing expenses represent professional fees and other fees incurred in connection with the Listing, including underwriting commissions but excluding discretionary bonus. The listing expenses above are the best estimate as of the Latest Practicable Date and for reference only and the actual amount may differ from this estimate.

MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this document save as disclosed in "Summary — Recent developments", there has been no material adverse change in our financial and trading positions or prospects since December 31, 2019 (being the date on which the latest audited consolidated financial information of our Group was prepared), and there has been no event since December 31, 2019 which would materially affect the information shown in our consolidated financial statements included in the Accountant's Report in Appendix I to this document.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, except as otherwise disclosed in this document, as at the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

PROPERTY INTERESTS AND PROPERTY VALUATION REPORT

Except for our properties located in Jiangning District, Nanjing, Jiangsu Province, the value of which is appraised in the Property Valuation Report set forth in Appendix III to this document, no single property we own has a carrying amount of 15% or more of our total assets.

Cushman & Wakefield, an independent property valuer, has valued our property interests as of April 30, 2020. Particulars of our property interests are set out in Appendix III to this document.

The table below sets out the reconciliation between the net book value of property as of December 31, 2019 as extracted from the Accountant's Report set out in Appendix I to this document and the market value of our properties as of April 30, 2020 as extracted from the Property Valuation Report set out in Appendix III to this document:

	(in thousands of RMB)
Net book value of our properties as of December 31, 2019	467,038
Additional capital expenditure	16,214
Depreciation	(5,303)
Valuation surplus	55,351
Market value of our properties as of April 30, 2020	533,300

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules, is for the purpose of illustrating the effect of the Listing on the consolidated net tangible assets of our Group attributable to the owners of the Company as at December 31, 2019 as if the Global Offering had taken place on December 31, 2019.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the net tangible assets of our Group as of December 31, 2019 or at any future dates following the Global Offering. It is prepared based on the consolidated financial information of our Group as of December 31, 2019 as set forth in the Accountant's Report, the text of which is set out in Appendix I to this document, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the Accountant's Report.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as of December 31, 2019	**Estimated net proceeds from the Global Offering**	**Unaudited pro forma adjusted net tangible assets attributable to owners of the Company as of December 31, 2019**	**Unaudited pro forma adjusted net tangible assets per share**	
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 5)*
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
Based on the Offer Price of HK$2.86 per share	1,238,328	1,004,177	2,242,505	1.40	1.53
Based on the Offer Price of HK$3.10 per share	1,238,328	1,090,250	2,328,578	1.46	1.59

Notes:

(1) The audited consolidated net tangible assets attributable to owners of the Company as of December 31, 2019 is extracted from the Accountant's Report set out in Appendix I to this document, which is based on the audited consolidated net assets of the Group attributable to owners of the Company as of December 31, 2019 of RMB1,252.6 million, with an adjustment for the intangible assets attributable to the owners of the Company as of December 31, 2019 of RMB14,250,000.

(2) The estimated net proceeds from the Global Offering are based on the individual Offer Price of HK$2.86 and HK$3.10 per share, being the lower end to higher end of the stated Offer Price range, respectively, and 400,000,000 shares expected to be issued under the Global Offering, after deduction of the underwriting fees and other related expenses payable by the Company (excluding listing expenses of approximately RMB37.5 million which have been accounted for in the Group's consolidated statement of comprehensive income prior to December 31, 2019), and takes no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option, any shares that may be awarded under the Post-IPO Share Award Scheme any options which may be granted under the Post-IPO Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company under the general mandate to issue Shares and general mandate to repurchase Shares as described in the section headed "Share capital" in this document.

(3) The unaudited pro forma adjusted net tangible assets per share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,600,000,000 shares are in issue, assuming the Global Offering had been completed on December 31, 2019, and no Over-allotment Option will be granted.

(4) No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to December 31, 2019.

(5) For the purpose of this unaudited pro forma statement of adjusted net tangible assets, the balance stated in Renminbi is converted into Hong Kong dollars at rate of HK$1.00 to RMB0.9150. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

FUTURE PLANS

See “Business – Our business strategies” for details of our future plans.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK$1,103.5 million (after deducting the underwriting fees and expenses related to the Global Offering), assuming the Over-allotment Option is not exercised and an Offer Price of HK$2.98 per Share, being the mid-point of the indicative Offer Price range of HK$2.86 to HK$3.10 per Share in this document.

We intend to use the net proceeds of the Global Offering for the following purposes:

- approximately 30%, or HK$331.1 million, for investment in the production of high quality content, including TV series, films, web films, web series and TV variety shows. We plan to produce six TV series (approximately 300 episodes in total) and at least three films in the years 2020, 2021 and 2022 (for those currently in our pipeline, see “Business – Products and services – TV/film production – TV series and films under production” for details) with proceeds from the Global Offering, prepayment from our customers and future retained earnings, allocated as follows:
    - approximately 28.0%, or HK$309.0 million, for scriptwriting, principal photography and post-production of four TV series currently under production;
    - approximately 0.7%, or HK$7.7 million, for principal photography and post-production of two web films currently under production; and
    - approximately 1.3%, or HK$14.4 million, to other aspects and projects of our TV/film production business;
- approximately 30%, or HK$331.1 million, to improve or expand the capacity, facilities and educational equipment of our University, in particular to expand our campus with more teaching buildings, dormitories, gymnasium and other necessary facilities to accommodate additional students, allocated as follows:
    - approximately 16.7%, or HK$184.2 million, to be spent on building 7 new dormitories that can accommodate an additional, and enable us to expand our school capacity by, 4,000 students;
    - approximately 11.9%, or HK$131.1 million, to construct a new gymnasium and a new international teaching facility building with a gross floor area of approximately 22,000 square meters; and
    - approximately 1.4%, or HK$15.5 million, to other aspects of our higher education business, including procuring educational equipment (such as the latest TV program/film production technology and virtual-reality equipment);

- approximately 30%, or HK$331.1 million, towards the acquisition of media and arts higher education institutions and/or training institutions to supplement our media and arts education business – in particular, we plan to focus on suitably established (typically being institutions with more than 5,000 students and RMB100 million in annual revenue) media and arts colleges and training institutions in East China and North China, taking into account, among other things, the area's average household income, socio-economic standard of the area in which a target institution is located and the level of demand for private media and arts higher education in such area – although we had not identified any definitive investment or acquisition target as of the Latest Practicable Date. The identification, selection and acquisition of such institutions will be led by Mr. Pu and Mr. Sun Haitao, each our executive Director; and

- approximately 10%, or HK$110.3 million, for working capital and other general corporate purposes.

If the Offer Price is fixed at the high or low end of the Offer Price range (and assuming the Over-allotment Option is not exercised), the net proceeds will increase or decrease by approximately HK$47.0 million (after deducting underwriting fees and expenses related to the Global Offering). We intend to apply the additional or reduced net proceeds to the above uses on a pro rata basis.

If the Offer Price is fixed at the high or low end of the Offer Price range and the Over-allotment Option is exercised in full, our Company will receive additional net proceeds of approximately HK$182.3 million and approximately HK$168.2 million. We intend to apply the additional net proceeds to the above uses on a pro rata basis.

If the net proceeds of the Global Offering are not immediately used for the purposes described above, they will be placed on short-term deposit with banks.

Joint Global Coordinators

Macquarie Capital Limited and China Merchants Securities (HK) Co., Limited

Joint Bookrunners

Macquarie Capital Limited, China Merchants Securities (HK) Co., Limited, China International Capital Corporation Hong Kong Securities Limited, CMB International Capital Limited, ICBC International Capital Limited, Huatai Financial Holdings (Hong Kong) Limited, Haitong International Securities Company Limited and Guotai Junan Securities (Hong Kong) Limited

Joint Lead Managers

Macquarie Capital Limited, China Merchants Securities (HK) Co., Limited, China International Capital Corporation Hong Kong Securities Limited, CMB International Capital Limited, ICBC International Securities Limited, Huatai Financial Holdings (Hong Kong) Limited, Haitong International Securities Company Limited and Guotai Junan Securities (Hong Kong) Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES FOR HONG KONG PUBLIC OFFERING

Hong Kong Underwriting Agreement

The Hong Kong Underwriting Agreement was entered into on June 29, 2020. Pursuant to the Hong Kong Underwriting Agreement, we are offering the Hong Kong Public Offer Shares for subscription by the public in Hong Kong at the Offer Price on the terms and subject to the conditions of this document and the Application Forms.

Subject to the Listing Committee granting the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned herein (including any additional Shares which may be made available pursuant to the exercise of the Over-allotment Option, the Shares to be issued pursuant to awards under the Post-IPO Share Award Scheme and the Shares to be issued pursuant to the exercise of options granted under the Post-IPO Share Option Scheme), and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally but not jointly or jointly and severally to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Public Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and subject to the conditions of this document, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for termination

The Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters) shall be entitled by notice in writing to our Company to terminate the Hong Kong Underwriting Agreement with immediate effect if at any time prior to 8:00 a.m. on the Listing Date:

(a) there has come to the notice of the Joint Global Coordinators or any of the Hong Kong Underwriters after the date of the Hong Kong Underwriting Agreement:

(i) any breach of, or any matter or event rendering untrue, incorrect, inaccurate or misleading in any respect, any of the warranties under the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or

(ii) any material breach of any of the obligations or undertakings imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than upon any of the Hong Kong Underwriters or the International Underwriters); or

(iii) that any statement contained in any of this document, the Application Forms and/or in any notices, announcements, application proof, post hearing information pack, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering or the Global Offering (including any supplement or amendment thereto) was, when it was issued, or has or may become, untrue, incorrect, inaccurate in any material respect or misleading, or that any estimate/forecast, expression of opinion, intention or expectation contained in any of this document, the Application Forms and/or any notices, announcements, application proof, post hearing information pack, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering or the Global Offering (including any supplement or amendment thereto) is not fair and honest and based on reasonable assumptions with reference to the facts and circumstances then subsisting; or

(iv) that any matter has arisen or has been discovered which would or could reasonably be expected to, had it arisen or been discovered immediately before the date of this document, constitute a material misstatement or omission from any of this document, the Application Forms, application proof, post hearing information pack and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering or the Global Offering (including any supplement or amendment thereto); or

(v) any matter, event, act or omission which gives or is likely to give rise to any liability of our Company or our Controlling Shareholders out of or in connection with any breach, inaccuracy and/or incorrectness of the warranties under the Hong Kong Underwriting Agreement or the International Underwriting Agreement and/or pursuant to the indemnities given by any of the indemnifying parties pursuant to the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or

(vi) any material adverse change, or any development involving a prospective material adverse change, in or affecting the assets, liabilities, business, management, prospects, shareholders' equity, revenue, profits, losses, results of operations, position or condition, financial or otherwise, or performance of our Company and the other members of our Group, taken as a whole, whether or not arising in the ordinary course of business, as determined by the Joint Global Coordinators in their absolute discretion; or

(vii) approval by the Listing Committee of the listing of, and permission to deal in, the Shares to be issued or sold (including any additional Shares that may be issued or sold pursuant to the exercise of the Over-allotment Option, awards under the Post-IPO Share Award Scheme or the exercise of options granted under the Post-IPO Share Option Scheme) under the Global Offering is refused or not granted on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

(viii) our Company withdraws this document (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or

(ix) PricewaterhouseCoopers as the reporting accountant, Commerce & Finance Law Offices as the legal advisors to our Company on PRC law, Walkers (Hong Kong) as the legal advisers to our Company on Cayman Islands law in relation to the Global Offering, Cushman & Wakefield Limited as the independent property valuer or Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. as the independent industry consultant, has withdrawn its respective consent to the issue of this document with the inclusion of its reports, letters, summaries of valuations and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears; or

(x) a material portion of the orders in the bookbuilding process or the investment commitments by any cornerstone investors after signing of agreements with such cornerstone investors, have been withdrawn, terminated or canceled, and the Joint Global Coordinators, in their absolute discretion, conclude that it is therefore inadvisable or inexpedient or impracticable to proceed with the Global Offering; or

(b) there shall have developed, occurred, happened or come into effect:

(i) any change or development involving a prospective change in, or any event or series of events resulting or likely to result in any change or development involving a prospective change or development, in local, national, regional or international financial, economic, political, military, industrial, fiscal, legal, regulatory, currency, credit or market conditions or exchange control or any monetary or trading settlement system (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets or a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or the Renminbi is linked to any foreign currency or currencies), in or affecting Hong Kong, the PRC, the United States, the United Kingdom, the European Union (or any member thereof), Japan, the Cayman Islands or any other jurisdiction relevant to any member of our Group (each a "**Relevant Jurisdiction**"); or

(ii) any new law or regulation or any change, development or announcement or publication involving a prospective change in existing law or regulations, or any change, development or announcement or publication involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any of the Relevant Jurisdictions; or

(iii) the imposition or declaration of:

  (i) any moratorium, suspension, restriction or limitation (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or

  (ii) any general moratorium on commercial banking activities or foreign exchange trading or securities settlement or clearance services in any Relevant Jurisdiction, or any disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services, procedures or matters in those places or jurisdictions; or

(iv) a change or development involving a prospective change in taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies), or the implementation of any exchange control, in any Relevant Jurisdiction; or

(v) any litigation, or claim, or investigation or actions being announced, threatened or instigated against any Group company or our Controlling Shareholders; or

(vi) a demand by any tax authority for payment for any tax liability for any member of our Group; or

(vii) any adverse change or development involving a prospective adverse change (whether permanent or not) in the assets, liabilities, conditions, business affairs, prospects (financial or otherwise), earnings, profits, losses or financial or trading position of our Group taken as a whole; or

(viii) the imposition of economic sanctions or withdrawal of trading privileges, in whatever form, directly or indirectly, by, or for, any Relevant Jurisdiction; or

(ix) a Director being charged with an indictable offense or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or

(x) the chairman, chief executive officer or any of the executive Directors of our Company vacating his or her office; or

(xi) the commencement by any administrative, governmental or regulatory commission, board, body, authority or agency, or any stock exchange, self-regulatory organization or other non-governmental regulatory authority, or any court, tribunal or arbitrator, in each case whether national, central, federal, provincial, state, regional, municipal, local, domestic, foreign or supranational of any investigation, claim, proceedings or other action, or announcing an intention to investigate or take such action, against any Director; or

(xii) a contravention by any Group company of the Listing Rules or applicable laws, rules or regulations; or

(xiii) a prohibition on our Company for whatever reason from offering, allotting, issuing or selling any of the Shares (including any additional Shares that may be issued under the Over-allotment Option) pursuant to the terms of the Global Offering; or

(xiv) non-compliance of this document (or any other documents used in connection with the contemplated offering, allotment, issue, subscription or sale of any of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law or regulation; or

(xv) the issue or requirement to issue by our Company of any supplement or amendment to this document (or to any other documents used in connection with the contemplated offering, allotment, issue, subscription or sale of any of the Shares) pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or

(xvi) any event or series of events in the nature of force majeure, including, without limitation, acts of government, declaration of a national or international emergency, calamity, crisis, labor disputes, strikes, lock-outs, riots, public disorder, fire, explosion, flooding, earthquake, civil commotion, acts of war, acts of God, acts of terrorism (whether or not responsibility has been claimed), outbreak of diseases or epidemics or pandemics including, but not limited to, Severe Acute Respiratory Syndromes (SARS), H1N1, H5N1 and Novel Coronavirus Pneumonia and such related/mutated forms or accident or interruption or delay in transportation, economic sanction and any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis; or

(xvii) any change or prospective change in, or a materialization of, any of the risks set out in the section headed "Risk factors" in this document; or

(xviii) any order or petition for the involuntary winding up or liquidation of any Group company or any composition, compromise or arrangement made by any Group company with its creditors or a scheme of arrangement entered into by any Group company or any resolution for the voluntary winding up or liquidation of any Group company is passed or the appointment of a provisional liquidator, receiver or manager over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group; or

(xix) a demand by any creditor for repayment or payment of any member of our Group's indebtednesses prior to its stated maturity;

which, individually or in the aggregate, in the absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters)

(i) has or will or is likely to result in a material adverse change, or any development involving a prospective material adverse change on the assets, liabilities, business, management, prospects, shareholders' equity, revenue, profits, losses, results of operations, position or condition, financial or otherwise, or performance of our Group taken as a whole; or

(ii) has or will or is likely to have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering or dealings in the Offer Shares in the secondary market; or

(iii) makes or will or is likely to make it inadvisable or inexpedient or impracticable for any material part of the Hong Kong Underwriting Agreement, or for any part of the Hong Kong Public Offering or the Global Offering to be performed or implemented or proceed as envisaged or to market the Global Offering or to deliver the Offer Shares on the terms and in the manner contemplated by this document; or

(iv) has or will or is likely to have the effect of making any material part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

Undertakings to the Stock Exchange pursuant to the Listing Rules

By our Company

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (the "**First Six-Month Period**") (whether or not such issue of Shares or securities will be completed within six months from the commencement of dealing), except pursuant to the Global Offering (including pursuant to the exercise of the Over-allotment Option), the Post-IPO Share Award Scheme and the Post-IPO Share Option Scheme) or any of the circumstances prescribed by Rule 10.08 of the Listing Rules.

By our Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange that, except pursuant to the Global Offering, he/it shall not and shall procure that the relevant registered holder(s) of the Shares will not:

(a) in the period commencing on the date by reference to which disclosure of his/its shareholding in our Company is made in this document and ending on the expiration date of the First Six-Month Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those Shares in respect of which he/it is shown by this document to be the beneficial owner; and

(b) in the period of six months commencing on the date on which the First Six-Month Period expires (the "**Second Six-Month Period**"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would cease to be our controlling shareholder (as defined in the Listing Rules).

Each of our Controlling Shareholders has also undertaken to the Stock Exchange and us that, within the period commencing on the date by reference to which disclosure of his/its shareholding in our Company is made in this document and ending on the date which is 12 months from the Listing Date, he/it will:

(a) when he/it pledges or charges any Shares or other securities of our Company beneficially owned by him/it in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform us of such pledge or charge together with the number of such Shares or other securities so pledged or charged; and

(b) when he/it receives any indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities will be disposed of, immediately inform us in writing of any such indications.

We will inform the Stock Exchange as soon as we have been informed of the above matters (if any) by any of our Controlling Shareholders and disclose such matters by way of an announcement published in accordance with Rule 2.07C of the Listing Rules as soon as possible after being so informed by any of our Controlling Shareholders.

Undertakings to the Hong Kong Underwriters

Pursuant to the Hong Kong Underwriting Agreement, our Company and our Controlling Shareholders have undertaken as follows.

Undertakings by our Company

Except for the offer and sale of the Offer Shares pursuant to the Global Offering (including pursuant to the Over-allotment Option, the Post-IPO Share Award Scheme and the Post-IPO Share Option Scheme), during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date of the expiry of the First Six-Month Period, we have undertaken to each of the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters not to, and to procure each Group company not to, without the prior written consent of the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

(a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create any mortgage, charge, pledge, lien, or other security interest or any option, restriction, right of first refusal, right of pre-emption, defect, or other third party claim, right, interest or preference or any other encumbrance of any kind ("**Encumbrance**") over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, as applicable), or deposit any Shares or other securities of our Company, as applicable, with a depositary in connection with the issue of depositary receipts; or

(b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, as applicable); or

(c) enter into any transaction with the same economic effect as any transaction specified in paragraphs (a) or (b) above.

(d) offer to or agree to or announce any intention to effect any transaction specified in paragraphs (a) or (b) or (c) above,

in each case, whether any of the transactions specified in paragraphs (a) or (b) or (c) above is to be settled by delivery of Shares or such other securities of our Company, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the First Six-Month Period). In the event that, at any time during the Second Six-Month Period, our Company enters into any of the transactions specified in paragraphs (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company. Each of our Controlling Shareholders has undertaken to each of the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters to procure our Company to comply with the undertakings in this paragraph.

Undertakings by our Controlling Shareholders

Except for any transfer of Shares pursuant to the Stock Borrowing Agreement, each of our Controlling Shareholders has undertaken to our Company, each of the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, without the prior written consent of the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, provided that nothing in this paragraph shall prevent our Controlling Shareholders from using securities in our Company in favour of an authorised institution (as defined in the Banking Ordinance (Cap. 155 of the Laws of Hong Kong), in a bona fide commercial loan, our Controlling Shareholders will not, and shall procure that any nominee holding such Shares or securities on its behalf will not:

(a) at any time during the First Six-Month Period,

(i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an Encumbrance over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of our Company), beneficially owned by it directly or indirectly through its nominees, or deposit any Shares or other securities of our Company with a depositary in connection with the issue of depositary receipts, or

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any interest therein in (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of our Company), or

(iii) enter into any transaction with the same economic effect as any transaction specified in paragraph (a)(i) or (ii) above, or

(iv) offer to or agree to or announce any intention to effect any transaction specified in paragraph (a)(i), (ii) or (iii) above, in each case, whether any of the transactions specified in paragraph (a)(i), (ii) or (iii) above is to be settled by delivery of Shares or other securities of our Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period);

(b) he/it will not, and will procure that any nominee holding Shares or such other securities on its behalf will not, at any time during the Second Six-Month Period, enter into any of the transactions specified in paragraph (a)(i), (ii) or (iii) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or Encumbrance pursuant to such transaction, he/she/it will cease to be a "controlling shareholder" (as the term is defined in the Listing Rules) of our Company;

(c) until the expiry of the Second Six-Month Period, in the event that he/it or any nominee acting on its behalf enters into any of the transactions specified in paragraph (a)(i), (ii) or (iii) above or offers to or agrees to or announce any intention to effect any such transaction, he/she/it will take all reasonable steps to ensure that he/it will not, and its nominees will not, create a disorderly or false market in the securities of our Company; and

(d) he/it shall, and shall procure that any nominee acting on its behalf shall, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by any nominee acting on its behalf of any Shares or other securities of our Company.

Indemnity

We have agreed to indemnify the Hong Kong Underwriters for certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

The International Offering

In connection with the International Offering, it is expected that we will enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement, subject to the conditions set forth therein, the International Underwriters would severally but not jointly or jointly and severally agree to procure purchasers for or failing which to purchase, the International Offer Shares. It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors shall be reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

Over-allotment Option

Under the International Underwriting Agreement, our Company is expected to grant to the International Underwriters, exercisable by the Joint Global Coordinators (for themselves and on behalf of the International Underwriters), the Over-allotment Option, exercisable within 30 days from the last day for lodging applications under the Hong Kong Public Offering (the last day for exercise of the Over-allotment Option being Friday, August 7, 2020) to require us to allot and issue up to 60,000,000 additional Shares, representing approximately 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering, to, among other things, cover over-allocations in the International Offering, if any.

ACTIVITIES BY SYNDICATE MEMBERS

We describe below a variety of activities that underwriters of the Hong Kong Public Offering and the International Offering, together referred to as "**Syndicate Members**", may each individually undertake, and which do not form part of the underwriting or the stabilizing process. When engaging in any of these activities, it should be noted that the Syndicate Members are subject to restrictions, including the following:

(a) under the agreement among the Syndicate Members, all of them (except for Macquarie Capital Limited and its affiliates as the Stabilization Manager) must not, in connection with the distribution of our Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to our Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of our Offer Shares at levels other than those which might otherwise prevail in the open market; and

(b) all of them must comply with all applicable laws, including the market misconduct provisions of the SFO, the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in different countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, fund management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to our Shares, those activities could include acting as agent for buyers and sellers of our Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in our Shares and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have our Shares as their or part of their underlying assets. Those activities may require hedging activity by those entities who are involved in directly or indirectly, the buying and selling our Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in our Share, in baskets of securities or indices including the Shares, in units of funds that may purchase our Shares, or in derivatives related to any of the foregoing.

In relation to issues by the Syndicate Members or their affiliates of any listed securities having our Shares as their or part of their underlying assets, whether on the Stock Exchange or on any other stock exchange, the rules of the relevant exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in our Shares in most cases. All of these activities may occur both during and after the end of the stabilizing period described in "Structure of the Global Offering – Stabilization" in this document. These activities may affect the market price or the value of our Shares, the liquidity or trading volume in our Shares and the volatility of their share price, and the extent to which this occurs on a day to day basis cannot be estimated.

Stabilization and Over-allotment Option

In connection with the Global Offering, the Stabilization Manager, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate Shares or effect transactions with a view to stabilizing or supporting the market price of our Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. Please refer to the section headed "Structure of the Global Offering – Stabilization" in this document for details regarding stabilization, "Structure of the Global Offering – Over-allotment Option" for over-allocation and "Structure of the Global Offering – The International Offering – Stock Borrowing Agreement" for stock borrowing arrangements in connection with the Global Offering.

Underwriting commission and expenses

The Hong Kong Underwriters will receive an underwriting commission of 2.0% on the Offer Price of the Hong Kong Public Offer Shares initially offered under the Hong Kong Public Offering out of which they will pay any sub-underwriting commission. The International Underwriters are expected to receive an underwriting commission of 2.0% on the Offer Price of the International Offer Shares offered under the International Offering. In addition, we may pay to the Underwriters a discretionary incentive fee of up to 0.5% of the Offer Price multiplied by the total number of Offer Shares (subject to the Over-allotment Option).

The aggregate commissions and fees, together with listing fees, SFC transaction levy and Stock Exchange trading fee, legal and other professional fees and printing and other expenses relating to the Global Offering are estimated to amount to approximately RMB81.0 million (assuming an Offer Price of HK$2.98, being the mid-point of the indicative offer price range and assuming that the Over-allotment Option is not exercised) in total and are payable by us.

Hong Kong Underwriters' Interests in our Company

Save for its obligations under the Hong Kong Underwriting Agreement and as disclosed in this document, none of the Hong Kong Underwriters has any shareholding interests in our Company or any other member of our Group or the right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in our Company or any other member of our Group.

Following completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

Buyers of Offer Shares sold by the Underwriters may be required to pay stamp taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the Offer Price.

The Joint Sponsors' independence

Each of the Joint Sponsors satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

THE GLOBAL OFFERING

This document is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

- the Hong Kong Public Offering of 40,000,000 Hong Kong Public Offer Shares (subject to adjustment as mentioned below) in Hong Kong as described below in the paragraph headed "– The Hong Kong Public Offering"; and
- the International Offering of an aggregate of 360,000,000 International Offer Shares (subject to adjustment and the Over-allotment Option as mentioned below) outside the United States (including to professional and institutional investors within Hong Kong), in offshore transactions in reliance on Regulation S and in the United States to QIBs in reliance on Rule 144A or another exemption from the registration requirements under the U.S. Securities Act.

Investors may apply for Hong Kong Public Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest, if qualified to do so, for International Offer Shares under the International Offering, but may not do both. The Hong Kong Public Offering is open to all members of the public in Hong Kong as well as to institutional and professional investors. The number of Offer Shares offered for subscription under the Global Offering will be subject to re-allocation on the basis described below. No pre-emption right or right to subscribe for the Offer Shares has been granted.

References in this document to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

We are initially offering 40,000,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Offer Shares initially available under the Global Offering. Subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the Hong Kong Public Offer Shares will represent approximately 2.5% of our Company's enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set forth in the paragraph headed "– Conditions of the Hong Kong Public Offering" below.

Allocation

Allocation of Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Public Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Public Offer Shares.

The total number of Offer Shares available under the Hong Kong Public Offering (after taking account of any reallocation referred to below) is to be divided equally into two pools for allocation purposes: pool A and pool B. The Hong Kong Public Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Public Offer Shares with an aggregate subscription price of HK$5 million (excluding the brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee payable) or less. The Hong Kong Public Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Public Offer Shares with an aggregate subscription price of more than HK$5 million (excluding the brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee payable) up to the total value of pool B. Investors should be aware that the allocation ratios for applications in pool A and applications in pool B may be different. If the Hong Kong Public Offer Shares in one (but not both) of the pools are under-subscribed, the unsubscribed Hong Kong Public Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the "price" for Hong Kong Public Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Public Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 20,000,000 Hong Kong Public Offer Shares, being the number of Hong Kong Public Offer Shares initially available under each pool, are liable to be rejected.

Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment under paragraph 4.2 of Practice Note 18 of the Listing Rules and the Stock Exchange's Guidance Letter HKEX-GL91-18. If the Offer Shares under the International Offering are fully subscribed or oversubscribed and the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more of the number of Offer Shares initially available under the Hong Kong Public Offering, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 120,000,000, 160,000,000 and 200,000,000 Offer Shares, respectively, representing 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option). In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between Pool A and Pool B in equal proportion and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate.

If (i) the Offer Shares under the International Offering are fully subscribed or oversubscribed, and if the number of Offer Shares validly applied for in the Hong Kong Public Offering represents more than 100%, but less than 15 times, of the number of Hong Kong Public Offer Shares initially available under the Hong Kong Public Offering; or (ii) the Offer Shares under the International Offering are not fully subscribed, and if the number of Offer Shares validly applied for in the Hong Kong Public Offering represents more than 100% of the number of Hong Kong Public Offer Shares initially available under the Hong Kong Public Offering, the Joint Global Coordinators may, at their discretion, reallocate the Offer Shares initially allocated for the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering, provided that the total number of Hong Kong Public Offer Shares available under the Hong Kong Public Offering shall not be increased to more than 80,000,000 Offer Shares, representing two times the number of Hong Kong Public Offer Shares initially available under the Hong Kong Public Offering and 20% of the total number of Offer Shares initially available under the Global Offering, and the final Offer Price shall be fixed at the low end of the Offer Price range (that is, HK$2.86 per Offer Share) stated in this document in accordance with Guidance Letter HKEX-GL91-18 issued by the Hong Kong Stock Exchange.

The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators.

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK$3.10 per Offer Share in addition to the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the paragraph headed "Pricing and allocation" below, is less than the maximum price of HK$3.10 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Please refer to the section headed "How to apply for Hong Kong Public Offer Shares" in this document for further details.

THE INTERNATIONAL OFFERING

Number of Offer Shares initially offered

We are initially offering 360,000,000 Offer Shares under the International Offering, representing 90% of the total number of Offer Shares initially available under the Global Offering. The International Offering is subject to the Hong Kong Public Offering becoming unconditional. Subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the International Offer Shares will represent approximately 22.5% of our Company's enlarged issued share capital immediately after completion of the Global Offering assuming that the Over-allotment Option is not exercised.

Allocation

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in the paragraph headed "Pricing and allocation" below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell its Shares, after the Listing. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole.

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any application of Offer Shares under the Hong Kong Public Offering.

Stock Borrowing Agreement

For the purpose of covering any over-allocations, the Stabilization Manager may borrow from Cathay Media Holding Inc. up to 60,000,000 Shares, equivalent to the maximum number of Shares to be issued on a full exercise of the Over-allotment Option, under the Stock Borrowing Agreement expected to be entered into between the Stabilization Manager and Cathay Media Holding Inc. on or about the Price Determination Date.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, we intend to grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Global Coordinators on behalf of the International Underwriters.

Pursuant to the Over-allotment Option, the International Underwriters have the right, exercisable by the Joint Global Coordinators (acting for themselves and on behalf of the International Underwriters), pursuant to the International Underwriting Agreement, within 30 days from the last day for lodging of applications under the Hong Kong Public Offering (the last day for the exercise of the Over-allotment Option being Friday, August 7, 2020), to require us to allot and issue up to 60,000,000 additional Offer Shares representing 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering, to, among other things, cover over-allocations in the International Offering, if any. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 3.61% of our enlarged issued share capital immediately following completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, an announcement will be made.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to slow and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements including those of Hong Kong. In Hong Kong, the stabilization price will not exceed the initial public offer price.

In connection with the Global Offering, the Stabilization Manager (or its affiliates or any person acting for it), on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate Shares or effect transactions with a view to stabilizing or maintaining the market price of our Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilization Manager, its affiliates or any persons acting for it, to conduct any such stabilizing action. Such stabilization action, if commenced, may be discontinued at any time, and is required to be brought to an end after a limited period. Should stabilizing transactions be effected in connection with the Global Offering, this will be at the absolute discretion of the Stabilization Manager, its affiliates or any person acting for it. The number of Shares over-allocated will not be greater than the maximum number of Shares which may be issued upon exercise of the Over-allotment Option, being 60,000,000 Shares, which is 15% of the Offer Shares initially available under the Global Offering.

Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules, as amended, includes (i) over-allocating for the purpose of preventing or minimizing any reduction in the market price of the Shares, (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares, (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares, (v) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases and (vi) offering or attempting to do anything as described in (ii), (iii), (iv) or (v) above.

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- the Stabilization Manager, its affiliates or any person acting for it, may, in connection with the stabilizing action, maintain a long position in the Offer Shares;

- there is no certainty regarding the extent to which and the time or period for which the Stabilization Manager, its affiliates or any person acting for it, will maintain such a long position;

- liquidation of any such long position by the Stabilization Manager, its affiliates or any person acting for it, may have a material and adverse impact on the market price of the Offer Shares;

- no stabilizing action can be taken to support the price of the Offer Shares for longer than the stabilizing period which will begin on the Listing Date, and is expected to expire on Friday, August 7, 2020, being the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore their market price, could fall;

- the market price of the Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action by the Stabilization Manager, its affiliates or any person acting for it; and

- stabilizing bids may be made or transactions may be effected in the course of the stabilizing action at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions may be effected at a price below the price paid by applicants for, or investors in, the Shares.

PRICING AND ALLOCATION

The International Underwriters will be soliciting from prospective investors' indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building", is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Wednesday, July 8, 2020, and in any event on or before 6:00 p.m. on Monday, July 13, 2020, by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and our Company and the number of Offer Shares to be allocated under various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK$3.10 per Offer Share and is expected to be not less than HK$2.86 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative offer price range stated in this document.**

The Joint Global Coordinators, on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares offered in the Global Offering and/or the indicative offer price range below that stated in this document at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong

Public Offering, cause there to be published on the websites of the Hong Kong Stock Exchange at **www.hkexnews.hk** and our Company at **www.cathaymedia.com** notices of the reduction. Upon issue of such a notice, the number of Offer Shares offered in the Global Offering and/or the revised offer price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Global Coordinators (on behalf of the Underwriters) and our Company, will be fixed within such revised offer price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set forth in this document, and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon with our Company and the Joint Global Coordinators (on behalf of the Underwriters), will under no circumstances be set outside the offer price range as stated in this document.

In the event of a reduction in the number of Offer Shares being offered under the Global Offering, the Joint Global Coordinators may at its discretion reallocate the number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering (assuming the Over-allotment Option is not exercised). The Offer Shares to be offered in the International Offering and the Offer Shares to be offered in the Hong Kong Public Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators.

The final Offer Price, the indications of interest in the Global Offering, the results of applications and the basis of allotment of Offer Shares available under the Hong Kong Public Offering are expected to be announced on Tuesday, July 14, 2020 in the manner set forth in the section headed "How to apply for Hong Kong Public Offer Shares – Publication of results" in this document.

The net proceeds from the Global Offering accruing to us (after deduction of underwriting fees and estimated expenses payable by us in relation to the Global Offering, assuming that the Over-allotment Option is not exercised), are estimated to be approximately HK$1,103.5 million, assuming an Offer Price of HK$2.98 per Offer Share, being the mid-point of the indicative offer price range (or if the Over-allotment Option is exercised in full, approximately HK$1,278.7 million, assuming an Offer Price of HK$2.98 per Offer Share, being the mid-point of the indicative offer price range).

CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

(i) the Listing Committee granting listing of, and permission to deal in, the Shares in issue, and the Offer Shares being offered pursuant to the Global Offering (including the additional Offer Shares which may be made available pursuant to the exercise of the Over-allotment Option, the Shares to be issued pursuant to awards under the Post-IPO Share Award Scheme and the Shares to be issued pursuant to the exercise of options granted under the Post-IPO Share Option Scheme) (subject only to allotment);

(ii) the Offer Price having been duly agreed between us and the Joint Global Coordinators (on behalf of the Underwriters) and the execution and delivery of the Price Determination Agreement on or around the Price Determination Date;

(iii) the execution and delivery of the International Underwriters Agreement on or around the Price Determination Date; and

(iv) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriters Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in the Hong Kong Underwriting Agreement or the International Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than Thursday, July 30, 2020, being the 30th day after the date of this document.

If, for any reason, the Offer Price is not agreed between our Company and the Joint Global Coordinators (on behalf of the Underwriters) on or before 6:00 p.m. on Monday, July 13, 2020, the Global Offering will not proceed.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with their respective terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Company on the website of the Stock Exchange at **www.hkex.com.hk** and our website at **www.cathaymedia.com** on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set forth in the section headed "How to apply for Hong Kong Public Offer Shares – Despatch/collection of Share certificates and refund monies" in this document. In the meantime, all application monies will be held in separate bank account(s) with the receiving banks or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares will only become valid at 8:00 a.m. on the Listing Date provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed "Underwriting – Underwriting arrangements and expenses for Hong Kong Public Offering – Grounds for termination" in this document has not been exercised.

Application for Listing on the Hong Kong Stock Exchange

We have applied to the Listing Committee for the granting of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any Shares which may be issued under the exercise of the Over-allotment Option, the Shares to be issued pursuant to awards under the Post-IPO Share Award Scheme and the Shares to be issued pursuant to the exercise of options granted under the Post-IPO Share Option Scheme) on the Main Board of the Hong Kong Stock Exchange.

Shares will be eligible for CCASS

All necessary arrangements have been made enabling the Shares to be admitted into CCASS established and operated by the HKSCC. If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Shares and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, July 15, 2020, it is expected that dealings in the Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Wednesday, July 15, 2020.

The Shares will be traded in board lots of 1,000 Shares each and the stock code of the Shares will be 1981.

1. HOW TO APPLY

If you apply for Hong Kong Public Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service in the **IPO App** (which can be downloaded by searching "**IPO App**" in App Store or Google Play or downloaded at **www.hkeipo.hk/IPOApp** or **www.tricorglobal.com/IPOApp**) or at **www.hkeipo.hk**; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Joint Global Coordinators, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States (as defined in Regulation S); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Hong Kong Public Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Public Offer Shares if you are:

- an existing beneficial owner of Shares in the Company and/or any its subsidiaries;
- a Director or chief executive officer of the Company and/or any of its subsidiaries;
- a close associate (as defined in the Listing Rules) of any of the above;
- a core connected person (as defined in the Listing Rules) of the Company or will become a core connected person of the Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for or indicated an interest in any International Offer Shares under the International Offering.

3. APPLYING FOR HONG KONG PUBLIC OFFER SHARES

Which Application Channel to Use

For Hong Kong Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through the **HK eIPO White Form** service in the **IPO App** or the designated website at **www.hkeipo.hk**.

For Hong Kong Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to collect the Application Forms

You can collect a **WHITE** Application Form and a copy of this document during normal business hours between 9:00 a.m. on Tuesday, June 30, 2020 until 12:00 noon on Wednesday, July 8, 2020 from:

(i) the following offices of the Joint Bookrunners:

Macquarie Capital Limited	Level 18 One International Finance Centre 1 Harbour View Street Central Hong Kong
China Merchants Securities (HK) Co., Limited	48/F One Exchange Square Central Hong Kong
China International Capital Corporation Hong Kong Securities Limited	29/F One International Finance Centre 1 Harbour View Street Central, Hong Kong

CMB International Capital Limited	45/F, Champion Tower 3 Garden Road Central, Hong Kong
ICBC International Capital Limited	37/F, ICBC Tower 3 Garden Road Hong Kong
Huatai Financial Holdings (Hong Kong) Limited	62/F The Center 99 Queen's Road Central Hong Kong
Haitong International Securities Company Limited	22/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
Guotai Junan Securities (Hong Kong) Limited	27/F, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong

(ii) any of the designated branches of the following receiving banks:

Bank of China (Hong Kong) Limited

District	**Branch Name**	**Address**
Hong Kong Island	Wan Chai (Wu Chung House) Branch	213 Queen's Road East, Wan Chai, Hong Kong
Kowloon	Yu Chau Street Branch	42-46 Yu Chau Street, Sham Shui Po, Kowloon
New Territories	Tuen Mun Town Plaza Branch	Shop 2, Tuen Mun Town Plaza phase II, Tuen Mun, New Territories

DBS Bank (Hong Kong) Limited

District	**Branch Name**	**Address**
Hong Kong Island	United Centre Branch	Shops 1015-1018 on 1/F & Shops 2032-2034 on 2/F, United Centre, 95 Queensway, Admiralty
	Happy Valley Branch	G/F, 18A-22 King Kwong Street, Happy Valley
Kowloon	Nathan Road – SME Banking Centre	2/F, Wofoo Commercial Building, 574-576 Nathan Road, Mongkok
New Territories	Kwai Chung Branch	G/F, 1001 Kwai Chung Road, Kwai Chung

You can collect a **YELLOW** Application Form and a copy of this document during normal business hours from 9:00 a.m. on Tuesday, June 30, 2020 until 12:00 noon on Wednesday, July 8, 2020 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a check or a banker's cashier order attached and marked payable to "BANK OF CHINA (HONG KONG) NOMINEES LIMITED – CATHAY MEDIA PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

Tuesday, June 30, 2020	–	9:00 a.m. to 5:00 p.m.
Thursday, July 2, 2020	–	9:00 a.m. to 5:00 p.m.
Friday, July 3, 2020	–	9:00 a.m. to 5:00 p.m.
Saturday, July 4, 2020	–	9:00 a.m. to 1:00 p.m.
Monday, July 6, 2020	–	9:00 a.m. to 5:00 p.m.
Tuesday, July 7, 2020	–	9:00 a.m. to 5:00 p.m.
Wednesday, July 8, 2020	–	9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Wednesday, July 8, 2020, the last application day or such later time as described in the paragraph headed "10. Effect of bad weather and/or Extreme Conditions on the opening of the applications lists" below in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you:

(i) undertake to execute all relevant documents and instruct and authorize the Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

(ii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;

(iii) confirm that you have read the terms and conditions and application procedures set out in this document and in the Application Form and in the **IPO App** and on the designated website under the **HK eIPO White Form** service, and agree to be bound by them;

(iv) confirm that you have received and read this document and have only relied on the information and representations contained in this document in making your application and will not rely on any other information or representations except those in any supplement to this document;

(v) confirm that you are aware of the restrictions on the Global Offering in this document;

(vi) agree that none of the Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this document (and any supplement to it);

(vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;

(viii) agree to disclose to the Company, the Hong Kong Share Registrar, the receiving banks, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this document and the Application Form and in the **IPO App** and on the designated website under the **HK eIPO White Form** service;

(x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xi) agree that your application will be governed by the laws of Hong Kong;

(xii) represent, warrant and undertake that (i) you understand that the Hong Kong Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Public Offer Shares are outside the United States;

(xiii) warrant that the information you have provided is true and accurate;

(xiv) agree to accept the Hong Kong Public Offer Shares applied for, or any lesser number allocated to you under the application;

(xv) authorize the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Public Offer Shares allocated to you, and the Company and/or its agents to send any Share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund check(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the Share certificate(s) and/or refund check(s) in person;

(xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(xvii) understand that the Company and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Public Offer Shares to you and that you may be prosecuted for making a false declaration;

(xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and

(xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC; and (ii) you have due authority to sign the Application Form or give electronic application instructions on behalf of that other person as their agent.

Additional Instructions for Yellow Application Form

You may refer to the **Yellow** Application Form for details.

5. APPLYING THROUGH THE HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in the paragraph headed "2. Who can apply" in this section, may apply through the **HK eIPO White Form** service for the Hong Kong Public Offer Shares to be allotted and registered in their own names through the **IPO App** or the designated website at **www.hkeipo.hk**.

Detailed instructions for application through the **HK eIPO White Form** service are in the **IPO App** or on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the **IPO App** or the designated website, you authorize the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this document, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

Time for Submitting Applications under the HK eIPO White Form Service

You may submit your application to the **HK eIPO White Form** Service Provider through the **IPO App** or the designated website at **www.hkeipo.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Tuesday, June 30, 2020 until 11:30 a.m. on Wednesday, July 8, 2020 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, July 8, 2020 or such later time under the paragraph headed "10. Effect of bad weather and/or Extreme Conditions on the opening of the applications lists" below in this section.

No Multiple Applications

If you apply by means of the **HK eIPO White Form** service, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under the **HK eIPO White Form** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this document acknowledge that each applicant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give electronic application instructions to apply for the Hong Kong Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these electronic application instructions through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System (**https://ip.ccass.com**) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input electronic application instructions for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Centre
1/F, One & Two Exchange Square
8 Connaught Place, Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Joint Global Coordinators and the Hong Kong Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given electronic application instructions to apply for the Hong Kong Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this document;

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Hong Kong Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

- agree to accept the Hong Kong Public Offer Shares applied for or any lesser number allocated;

- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;

- (if the electronic applications are given for your benefits) declare that only one set of electronic application instructions has been given for your benefit;

- (if you are an agent for another person) declare that you have only given one set of electronic application instructions for the other person's benefit and are duly authorized to give those instructions as their agent;

- confirm that you understand that the Company, the Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Public Offer Shares to you and that you may be prosecuted if you make a false declaration;

- authorize the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Public Offer Shares allocated to you and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

- confirm that you have read the terms and conditions and application procedures set out in this document and agree to be bound by them;

- confirm that you have received and/or read a copy of this document and have relied only on the information and representations in this document in causing the application to be made, save as set out in any supplement to this document;

- agree that none of the Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this document (and any supplement to it);

- agree to disclose your personal data to the Company, the Hong Kong Share Registrar, receiving banks, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or its respective advisers and agents;

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this document. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this document under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this document;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your electronic application instructions can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;

- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving electronic application instructions to apply for Hong Kong Public Offer Shares;

- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and

- agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving electronic application instructions to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Public Offer Shares on your behalf;

- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this document.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions for a minimum number of 1,000 Hong Kong Public Offer Shares. Instructions for more than 1,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Public Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates[(1)]:

Tuesday, June 30, 2020	–	9:00 a.m. to 8:30 p.m.
Thursday, July 2, 2020	–	8:00 a.m. to 8:30 p.m.
Friday, July 3, 2020	–	8:00 a.m. to 8:30 p.m.
Monday, July 6, 2020	–	8:00 a.m. to 8:30 p.m.
Tuesday, July 7, 2020	–	8:00 a.m. to 8:30 p.m.
Wednesday, July 8, 2020	–	8:00 a.m. to 12:00 noon

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

CCASS Investor Participants can input electronic application instructions from 9:00 a.m. on Tuesday, June 30, 2020 until 12:00 noon on Wednesday, July 8, 2020 (24 hours daily, except on Wednesday, July 8, 2020, the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon on Wednesday, July 8, 2020, the last application day or such later time as described in the paragraph headed "10. Effect of bad weather and/or Extreme Conditions on the opening of the application lists" in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any electronic application instructions to make an application for the Hong Kong Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this document acknowledge that each CCASS Participant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed "Personal Data" applies to any personal data held by the Company, the Hong Kong Share Registrar, the receiving banks, the Joint Global Coordinators, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Public Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Public Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Public Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone

System/CCASS Internet System for submission of electronic application instructions, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for electronic application instructions before 12:00 noon on Wednesday, July 8, 2020.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or through the **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on electronic application instructions). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company, then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange. "Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for the Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum number of 1,000 Hong Kong Public Offer Shares. Each application or electronic application instruction in respect of more than 1,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified in the **IPO App** or on the designated website at **www.hkeipo.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Listing Rules), and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, please see the section headed "Structure of the Global Offering – Pricing and allocation" in this document.

10. EFFECT OF BAD WEATHER AND/OR EXTREME CONDITIONS ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is/are:

- a tropical cyclone warning signal number 8 or above;
- a "black" rainstorm warning; and/or
- extreme conditions announced by the government of Hong Kong in accordance with the "Code of Practice in Times of Typhoons and Rainstorms" issued by the Hong Kong Labour Department in June 2019

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, July 8, 2020. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have any of those warnings or Extreme Conditions in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Wednesday, July 8, 2020 or if there is/are a tropical cyclone warning signal number 8 or above, a "black" rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in the section headed "Expected timetable", an announcement may be made in such event.

11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Public Offer Shares on or before Tuesday, July 14, 2020 on the Company's website at **www.cathaymedia.com** and the website of the Stock Exchange at **www.hkexnews.hk.**

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company's website at **www.cathaymedia.com** and the Stock Exchange's website at **www.hkexnews.hk** by no later than 9:00 a.m. on Tuesday, July 14, 2020;

- from the "Allotment Result" function in the **IPO App** or the designated results of allocations website at **www.tricor.com.hk/ipo/result** or **www.hkeipo.hk/IPOResult** with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Tuesday, July 14, 2020 to 12:00 midnight on Monday, July 20, 2020;

- by telephone enquiry line by calling +852 3691 8488 between 9:00 a.m. and 6:00 p.m. from Tuesday, July 14, 2020 to Friday, July 17, 2020 (excluding Saturday, Sunday and public holiday in Hong Kong);

- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, July 14, 2020 to Thursday, July 16, 2020 at all the receiving banks' designated branches.

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Public Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure of the Global Offering".

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Public Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving electronic application instructions to HKSCC or to the **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this document under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this document.

If any supplement to this document is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If the Company or its agents exercise their discretion to reject your application:

The Company, the Joint Global Coordinators, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Public Offer Shares is void:

The allotment of Hong Kong Public Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Public Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your electronic application instructions through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions in the **IPO App** or on the designated website;
- your payment is not made correctly or the check or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Joint Global Coordinators believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Public Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK$3.10 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "Structure of the Global Offering – Conditions of the Hong Kong Public Offering" in this document or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the check or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Tuesday, July 14, 2020.

14. DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Hong Kong Public Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by electronic application instructions to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- Share certificate(s) for all the Hong Kong Public Offer Shares allotted to you (for **YELLOW** Application Forms, Share certificates will be deposited into CCASS as described below); and

- refund check(s) crossed "Account Payee Only" in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund check, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund check(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund check(s).

Subject to arrangement on dispatch/collection of Share certificates and refund monies as mentioned below, any refund checks and Share certificates are expected to be posted on or around Tuesday, July 14, 2020. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of check(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Wednesday, July 15, 2020 provided that the Global Offering has become unconditional and the right of termination described in the "Underwriting" section in this document has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Public Offer Shares and have provided all information required by your Application Form, you may collect your refund check(s) and/or Share certificate(s) from the Hong Kong Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, July 14, 2020 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund check(s) and/or Share certificate(s) personally within the time specified for collection, they will be dispatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your refund check(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on or before Tuesday, July 14, 2020, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Public Offer Shares or more, please follow the same instructions as described above for the collection of refund check(s). If you have applied for less than 1,000,000 Hong Kong Public Offer Shares, your refund check(s) will be sent to the address on the relevant Application Form on or before Tuesday, July 14, 2020, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Tuesday, July 14, 2020, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

If you apply through a designated CCASS participant (other than a CCASS Investor Participant)

For Hong Kong Public Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offer Shares allotted to you with that CCASS participant.

If you are applying as a CCASS Investor Participant

The Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in the section headed "11. Publication of results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, July 14, 2020 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the HK eIPO White Form service

If you apply for 1,000,000 Hong Kong Public Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, July 14, 2020, or such other date as notified by the Company in the announcement published by the Company as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund checks.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Tuesday, July 14, 2020 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund check(s) by ordinary post at your own risk.

(iv) If you apply via electronic application instructions to HKSCC

Allocation of Hong Kong Public Offer Shares

For the purposes of allocating Hong Kong Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, July 14, 2020, or, on any other date determined by HKSCC or HKSCC Nominees.

- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of results" above on Tuesday, July 14, 2020. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, July 14, 2020, or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give electronic application instructions on your behalf, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, July 14, 2020. Immediately following the credit of the Hong Kong Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, July 14, 2020.

15. ADMISSION OF THE SHARES INTO CCASS

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

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

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

The following is the text of a report set out on pages I-1 to I-2, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Joint Sponsors pursuant to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.

pwc 羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF CATHAY MEDIA AND EDUCATION GROUP INC. AND MACQUARIE CAPITAL LIMITED AND CHINA MERCHANTS SECURITIES (HK) CO., LIMITED

Introduction

We report on the historical financial information of Cathay Media and Education Group Inc. (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages I-3 to I-66, which comprises the balance sheets of the Company as at 31 December 2017, 2018 and 2019, the consolidated balance sheets as at 31 December 2017, 2018 and 2019 and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years then ended (the "**Track Record Period**") and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages I-3 to I-66 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 30 June 2020 (the "**Prospectus**") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 3 and 4.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

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Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 3 and 4.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Company as at 31 December 2017, 2018 and 2019, the consolidated financial position of the Group as at 31 December 2017, 2018 and 2019 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 3 and 4.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-3 have been made.

Dividends

We refer to note 36 to the Historical Financial Information which contains information about the dividends paid by the companies now comprising the Group in respect of the Track Record Period and states that no dividend has been paid by the Company in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 30 June 2020

I. HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report. The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand yuan (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 31 December		
		2017	2018	2019
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*7, 8*	556,878	368,318	747,186
Cost of revenue	*12*	(275,733)	(163,387)	(374,361)
Gross profit		281,145	204,931	372,825
Selling expenses	*12*	(30,620)	(8,124)	(8,999)
Administrative expenses	*12*	(68,675)	(62,356)	(74,212)
Other income	*10*	13,234	12,474	17,504
Other gains/(losses) – net	*11*	4,113	(730)	(72,871)
Operating profit		199,197	146,195	234,247
Finance income	*14*	7,727	8,087	6,705
Finance costs	*14*	(2,741)	(1,056)	(621)
Finance income – net	*14*	4,986	7,031	6,084
Profit before income tax		204,183	153,226	240,331
Income tax expense	*15*	(23,621)	(4,401)	(45,814)
Profit for the year		180,562	148,825	194,517
Profit attributable to				
Owners of the Company		164,296	136,015	177,358
Non-controlling interests	*16*	16,266	12,810	17,159
		180,562	148,825	194,517
Earnings per share for profit attributable to owners of the Company (expressed in RMB per share)				
Basic and diluted	*17*	0.14	0.11	0.15
Other comprehensive income				
Items that may be reclassified to profit or loss				
Currency translation differences		7	252	696
Total comprehensive income		180,569	149,077	195,213
Total comprehensive income attributable to:				
Owners of the Company		164,303	136,267	178,054
Non-controlling interests		16,266	12,810	17,159
		180,569	149,077	195,213

CONSOLIDATED BALANCE SHEETS

	Note	As at 31 December 2017 RMB'000	2018 RMB'000	2019 RMB'000
ASSETS				
Non-current assets				
Right-of-use assets	18	68,918	119,006	112,617
Property, plant and equipment	19	493,658	480,593	539,960
Intangible assets	20	815	864	15,659
Deferred income tax assets	22	20,346	18,022	12,101
Prepayments, deposits and other receivables	27	144,069	144,380	–
		727,806	762,865	680,337
Current assets				
Television series and film rights	21	125,764	289,355	71,650
Inventory		–	–	3,820
Trade receivables	26	154,545	82,813	70,336
Prepayments, deposits and other receivables	27	32,431	22,209	22,616
Financial assets at fair value through profit or loss	25	310,986	656,118	799,516
Other current assets	28	86,900	7,000	–
Term deposits with initial term of over three months	29(b)	–	15,000	–
Cash and cash equivalents	29(a)	255,916	58,072	120,481
		966,542	1,130,567	1,088,419
Total assets		1,694,348	1,893,432	1,768,756
EQUITY AND LIABILITIES				
Equity attributable to owners of the Company				
Combined capital	31(a)(ii)	247,627	247,627	–
Share capital	30	–	–	86
Other reserves	31(a)	198,700	237,070	548,976
Retained earnings		657,432	755,329	703,516
		1,103,759	1,240,026	1,252,578
Non-controlling interests	16	110,582	123,392	124,175
Total equity		1,214,341	1,363,418	1,376,753
LIABILITIES				
Non-current liabilities				
Lease liabilities	37	16,346	–	–
Deferred income	35	2,157	1,859	1,561
Borrowings	34	–	–	32,000
		18,503	1,859	33,561
Current liabilities				
Trade payables	32	49,597	66,504	36,304
Other payables and accrual charges	33	78,993	82,716	104,253
Contract liabilities	9	240,978	352,868	191,707
Current income tax liabilities		28,465	1,980	4,574
Dividend payables	36	58,092	5,228	21,604
Lease liabilities	37	5,379	18,859	–
		461,504	528,155	358,442
Total liabilities		480,007	530,014	392,003
Total equity and liabilities		1,694,348	1,893,432	1,768,756

BALANCE SHEETS OF THE COMPANY

		As at 31 December		
		2017	**2018**	**2019**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS				
Non-current assets				
Investments in subsidiaries		–	–	1,208,202
Total non-current assets		–	–	1,208,202
Current assets				
Cash and cash equivalents		2	105	98
Prepayments, deposits and other receivables		–	–	86
Total current assets		2	105	184
Total assets		2	105	1,208,386
EQUITY AND LIABILITIES				
Equity attributable to owners of the Company				
Share capital	*30*	–	–	86
Other reserves	*31(b)*	2	(7)	1,208,191
Accumulated losses		(60)	(213)	(248)
(Deficit on total equity)/ total equity		(58)	(220)	1,208,029
LIABILITIES				
Current liabilities				
Other payables		60	325	357
Total liabilities		60	325	357
Total equity and total liabilities		2	105	1,208,386

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Note	Attributable to owners of the Company						
		Combined capital *(Note 31(a)(ii))* *RMB'000*	**Share capital** *(Note 30)* *RMB'000*	**Other reserves** *(Note 31(a))* *RMB'000*	**Retained earnings** *RMB'000*	**Sub-total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total** *RMB'000*
At 1 January 2017		247,627	–	166,312	578,381	992,320	99,544	1,091,864
Comprehensive income								
Profit for the year		–	–	–	164,296	164,296	16,266	180,562
Currency translation differences		–	–	7	–	7	–	7
Total comprehensive income		–	–	7	164,296	164,303	16,266	180,569
Transactions with owners								
Profit appropriation to statutory reserves		–	–	32,381	(32,381)	–	–	–
Dividends declared	36	–	–	–	(52,864)	(52,864)	(5,228)	(58,092)
At 31 December 2017		247,627	–	198,700	657,432	1,103,759	110,582	1,214,341
At 1 January 2018		247,627	–	198,700	657,432	1,103,759	110,582	1,214,341
Comprehensive income								
Profit for the year		–	–	–	136,015	136,015	12,810	148,825
Currency translation differences		–	–	252	–	252	–	252
Total comprehensive income		–	–	252	136,015	136,267	12,810	149,077
Transactions with owners								
Profit appropriation to statutory reserves		–	–	38,118	(38,118)	–	–	–
At 31 December 2018		247,627	–	237,070	755,329	1,240,026	123,392	1,363,418

	Note	Attributable to owners of the Company						
		Combined capital *(Note 31(a)(ii))*	Share capital *(Note 30)*	Other reserves *(Note 31(a))*	Retained earnings	Sub-total	Non-controlling interests	Total
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2019		247,627	–	237,070	755,329	1,240,026	123,392	1,363,418
Comprehensive income								
Profit for the year		–	–	–	177,358	177,358	17,159	194,517
Currency translation differences		–	–	696	–	696	–	696
Total comprehensive income		–	–	696	177,358	178,054	17,159	195,213
Transactions with owners								
Capital injection from owners	*30*	–	86	–	–	86	–	86
Profit appropriation to statutory reserves		–	–	63,583	(63,583)	–	–	–
Dividends declared	*36*	–	–	–	(165,588)	(165,588)	(16,376)	(181,964)
Effect of the Reorganisation	*31(a)(ii)*	(247,627)	–	247,627	–	–	–	–
At 31 December 2019		–	86	548,976	703,516	1,252,578	124,175	1,376,753

CONSOLIDATED STATEMENTS OF CASH FLOWS

		As at 31 December		
		2017	**2018**	**2019**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from operating activities				
Cash generated from operations	*38(a)*	184,212	235,979	312,827
Income tax paid		(10,232)	(28,562)	(37,338)
Net cash inflow from operating activities		173,980	207,417	275,489
Cash flows from investing activities				
Purchases of property, plant and equipment		(19,076)	(13,086)	(84,939)
Purchases of land use rights		(9,057)	(56,477)	–
Purchases of intangible assets		(15,119)	(113)	(37,537)
Proceeds from sale of property, plant and equipment		–	–	66
Purchases of financial assets at fair value through profit or loss		(720,004)	(686,158)	(813,500)
Proceeds from disposal of financial assets at fair value through profit or loss		876,764	339,736	701,620
Repayment of loans by a related party		–	–	150,000
Placement of term deposits with initial terms of over three months		–	(15,000)	(66,000)
Withdrawal of term deposits with initial terms of over three months		5,696	–	81,000
Interest received		936	1,166	2,376
Purchases of short-term investments measured at amortised cost		(519,538)	(1,494,472)	(91,939)
Proceeds from disposal of short-term investments measured at amortised cost		433,002	1,575,548	99,003
Net cash inflow/(outflow) from investing activities		33,604	(348,856)	(59,850)
Cash flows from financing activities				
Dividends paid to owner		–	(52,864)	(165,588)
Repayments of borrowings		(37,000)	–	–
Proceeds from borrowings		–	–	32,000
Interest paid		(907)	–	–
Settlement of distribution before Track Record Period to shareholder		(8,000)	–	–
Payment of lease liabilities	*37*			
– Principal		(2,744)	(2,866)	(18,859)
– Interest		(1,178)	(1,056)	(621)
Payment for listing fee		–	–	(867)
Net cash outflow from financing activities		(49,829)	(56,786)	(153,935)
Net increase/(decrease) in cash and cash equivalents		157,755	(198,225)	61,704
Cash and cash equivalents at beginning of year	*29*	98,811	255,916	58,072
Exchange (losses)/gains on cash and cash equivalents		(650)	381	705
Cash and cash equivalents at end of year	*29*	255,916	58,072	120,481

II. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

Cathay Media and Education Group Inc. (formerly known as Cathay Media Group Inc.) (the "Company") was incorporated in the Cayman Islands on 4 January 2017 as an exempted company with limited liability under the Companies Law (Cap 22, Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands.

The Company is an investment holding company and its subsidiaries (collectively referred to as the "Group") are principally engaged in television series and film production as well as the provision of media and arts higher education service in the People's Republic of China (the "PRC") (collectively referred to as the "Listing Business").

The ultimate holding company of the Company is Cathay Media Holding Inc. ("Cathay Media Holding"), a company incorporated in the British Virgin Islands, and is controlled by Mr. Pu Shulin ("Mr. Pu"), the ultimate controlling shareholder (the "Controlling Shareholder") of the Group.

This Historical Financial Information are presented in Renminbi ("RMB") and all amounts are rounded to the nearest thousand yuan (RMB'000), unless otherwise stated.

2. REORGANISATION

Prior to the incorporation of the Company and the completion of the reorganisation (the "Reorganisation") as described below, the Listing Business was conducted through following entities incorporated in the PRC. The television series and film production business was carried out by Huaxia Audio-Visual Global Media (Beijing) Holdings Co., Ltd. ("Huaxia Audio-Visual") and Beijing Huaxia Audio-Visual Online Cultural Development Co., Ltd. ("Huaxia Online"), while higher education service business was carried out by Nanjing Meiya Education Investment Co., Ltd. ("Nanjing Meiya") and Communication University of China, Nanjing ("CUCN") (collectively the "Operating Entities"). The Operating Entities were controlled by the Controlling Shareholder throughout the years ended 31 December 2017, 2018 and 2019 (the "Track Record Period").

In preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing"), the Group underwent the Reorganisation to transfer the Listing Business to the Company.

The Reorganisation involves the following main steps:

(i) On 4 January 2017, the Company was incorporated as an exempted company with limited liability in the Cayman Islands with an authorised share capital of US$50,000 divided into 50,000 shares with par value of US$1.00 each. On the same date, one share was allotted and issued at par value to the initial subscriber, and subsequently transferred to Cathay Media Holding.

(ii) On 12 January 2017, the Company established Cathay Media Group (BVI) Inc. ("Cathay Media BVI") as a limited liability company under the laws of the British Virgin Islands (BVI) with an authorised share capital of US$50,000 divided into 50,000 shares with par value of US$1 each, one share of which was issued and allotted to the Company at par value on the same date.

(iii) On 27 January 2017, Cathay Media BVI established Cathay Media Group (Hong Kong) Limited ("Cathay Media HK") as a limited liability company under the laws of the Hong Kong with a share capital of HK$1 divided into 1 share with par value of HK$1, which was issued and allotted to Cathay Media BVI at par value on the same date.

(iv) Lanchou Investment Holding Limited ("Lanchou Investment") is an investment holding company originally owned by Mr. Pu as to 90% and by Mr. Pu Yu as to 10% before the Reorganisation. Mr. Pu Yu transferred his equity interests in Lanchou Investment to Mr. Pu to effect the Reorganisation. In order to reflect Mr. Pu Yu's 10% ownership in Lanchou Investment, the Company issued and allotted shares to Mr. Pu Yu's wholly owned company in September 2019.

(v) On 17 January 2017, Mr. Wang Rui, a nominee shareholder of Mr. Pu, reduced his registered capital contribution in Nanjing Meiya, meanwhile Lanchou Investment increased its registered capital contribution in Nanjing Meiya in order to unwind the trust arrangement with Mr. Wang Rui. As a result, Nanjing Meiya was held by Lanchou Investment as to 91% and Mr. Li Wei, an independent third party, as to 9%.

(vi) On 26 October 2017, Nanjing Lanchou Corporate Management Co., Ltd. ("Nanjing Lanchou") was incorporated as a limited liability company in the PRC as a wholly-owned company of Mr. Pu, with a registered capital of RMB10,000,000.

(vii) On 15 November 2017, Nanjing Lanchou made a RMB136,500,000 contribution to the registered capital contribution in Nanjing Meiya, and subsequently on 1 February 2018, Lanchou Investment withdrew its RMB136,500,000 registered capital contribution in Nanjing Meiya in order to effectively transfer Mr. Pu's interest in Nanjing Meiya from Lanchou Investment to Nanjing Lanchou. As a result, Nanjing Meiya was held by Nanjing Lanchou as to 91% and Mr. Li Wei as to 9%.

(viii) On 20 March 2018, the registered capital of Huaxia Audio-Visual was increased by RMB55,785,437, which was contributed by Khorgas Anjia Film Culture Media Co., Ltd. (霍爾果斯安佳影視文化傳媒有限公司) ("Anjia Film"), an investment holding company owned by Mr. Pu as to 99% and Mr. Liu Chang (劉暢), a nominee shareholder of Mr. Pu, as to 1%. As a result of the capital injection, Huaxia Audio-Visual was held by Anjia Film, Mr. Pu, Mr. Pu Yu (Mr. Pu Yu holds his interest in Huaxia Audio-Visual on behalf of Mr. Pu) and Ms. Li Huisu (an independent third party) as to 91%, 7.83%, 0.36% and 0.81%, respectively.

On the same date, to ensure that Ms. Li Huisu's effective interest in Huaxia Audio-Visual would not be diluted as a result of the above capital injection, Mr. Pu and Mr. Pu Yu executed irrevocable gift and undertakings in favour of Ms. Li Huisu and notified the same to the board of Huaxia Audio-Visual. Pursuant to the irrevocable undertakings, Mr. Pu and Mr. Pu Yu agreed to transfer their aggregate 8.19% directly held interest in Huaxia Audio-Visual to Ms. Li Huisu for nil consideration upon her acceptance of this gift. Until the time of such transfer, dividends and voting rights in respect of such interest are reserved for Ms. Li Huisu and will not be given to or exercised by Mr. Pu and Mr. Pu Yu. The irrevocable undertakings dated on 20 March 2018 were executed to prevent dilution resulting from the same date increase of registered capital and ensure that, upon completion of the transfer, Ms. Li Huisu's equity interest in Huaxia Audio-Visual would remain at 9%.

(ix) On 18 June 2019, Dongyang Huaxia Audio-Visual Film Culture Co., Ltd. ("Dongyang Huaxia") was incorporated as a limited liability company in the PRC with a registered capital of RMB10,000,000, and was held as 99% by Mr. Pu and 1% by Mr. Liu Chang, a nominee shareholder of Mr. Pu.

(x) On 16 July 2019, Anjia Film transferred its 91% equity interest in Huaxia Audio-Visual to Dongyang Huaxia for nil consideration. The registration of the transfer was completed on 24 July 2019.

(xi) On 29 July 2019, Bicheng Art Consulting (Nanjing) Co., Ltd. ("Bicheng Art") was incorporated as a wholly-owned subsidiary of Cathay Media HK, with a capital registration of RMB10,000,000 in the PRC.

(xii) On 15 August 2019, Dongyang Huaxia Audio-Visual Culture Consulting Co., Ltd. ("Dongyang Culture") was incorporated as a wholly-owned subsidiary of Cathay Media HK, with a capital registration of RMB10,000,000 in the PRC.

(xiii) Pursuant to a series of contractual agreements signed on 28 August 2019 (the "Contractual Arrangements") among Bicheng Arts and Dongyang Culture (collectively as the "WOFEs"), Dongyang Huaxia, Nanjing Lanchou and the Operating Entities (collectively as the "Consolidated Affiliated Entities") and their respective shareholders including Mr. Pu and Mr. Liu Chang (collectively as the "Equity Holders"), the WFOEs are able to effectively control the Consolidated Affiliated Entities and became entitled to the economic benefits generated by these entities. Accordingly, the Consolidated Affiliated Entities became subsidiaries of the WFOEs. Further details of the Contractual Arrangements are set out in Note 4.2.1 below.

(xiv) On 5 September 2019, the shareholder of the Company resolved that the authorised share capital of the Company is divided into 5,000,000,000 shares with a nominal or par value of US$0.00001 each. On the same date, Cathay Media Holding and Media Fortune Limited, a company incorporated in the British Virgin Islands, and is wholly owned by Mr. Pu Yu, subscribed 1,154,900,000 ordinary shares and 45,000,000 ordinary shares of the Company, respectively.

Upon completion of the above Reorganisation on 5 September 2019, the Company became the holding company of the subsidiaries now comprising the Group.

As at the date of this report, the Company has direct or indirect interests in the following subsidiaries:

Company name	Country/place and date of incorporation/ establishment	Issued and Paid-in/ registered capital	Equity interest held As at 31 December 2017	2018	2019	At the date of this report	Principal activities/ place of operation	Statutory auditors
Directly owned:								
Cathay Media Group (BVI) Inc.	BVI/ 12 January 2017	USD50,000	100%	100%	100%	100%	Investment holding /PRC	*Note (vi)*
Indirectly owned:								
Cathay Media Group (Hong Kong) Limited	Hong Kong/ 27 January 2017	HK$1	100%	100%	100%	100%	Investment holding /PRC	*Note (v)*
Cathy Picture, Inc.	United States/ 27 June 2017	USD1	100%	100%	100%	100%	Investment holding /United States	*Note (i)*
Dongyang Huaxia Audio-Visual Culture Consulting Co., Ltd. (東陽華夏視聽文化諮詢有限公司)	PRC/ 15 August 2019	RMB10,000,000	N/A	N/A	100%	100%	Investment holding & consulting /PRC	*Note (i)*
Bicheng Art Consulting (Nanjing) Co., Ltd. (碧城藝術諮詢(南京)有限公司)	PRC/ 29 July 2019	RMB10,000,000	N/A	N/A	100%	100%	Investment holding & consulting /PRC	*Note (i)*
Indirectly controlled by the Company pursuant to the Contractual Arrangements:								
Nanjing Lanchou Corporate Management Co., Ltd. (南京藍籌企業管理有限公司)	PRC/ 26 October 2017	RMB10,000,000	100%	100%	100%	100%	Investment holding /PRC	*Note (vi)*
Dongyang Huaxia Audio-Visual Film Culture Co., Ltd. (東陽華夏視聽影視文化有限公司)	PRC/18 June 2019	RMB10,000,000	N/A	N/A	100%	100%	Investment holding & Television series and film production /PRC	*Note (i)*
Huaxia Audio-Visual Global Media (Beijing) Holdings Co., Ltd. (華夏視聽環球傳媒(北京)股份有限公司)	PRC/27 December 2005	RMB61,023,678	91%	91%	91%	91%	Television series and film production /PRC	*Note (ii)*
Beijing Huaxia Audio-Visual Online Cultural Development Co., Ltd. (北京華夏視聽在線文化發展有限公司)	PRC/11 December 2001	RMB3,000,000	91%	91%	91%	91%	Television series program production /PRC	*Note (ii)*
Nanjing Meiya Education Investment Co., Ltd. (南京美亞教育投資有限公司)	PRC/30 January 2003	RMB150,000,000	91%	91%	91%	91%	Investment holding /PRC	*Note (vi)*
Communication University of China, Nanjing (中國傳媒大學南廣學院)	PRC/16 June 2014	RMB150,000,000	91%	91%	91%	91%	Higher education /PRC	*Note (iii)*
Communication University of China, Nanjing Education Development Foundation (中國傳媒大學南廣學院教育發展基金會)	PRC/26 July 2006	RMB4,000,000	91%	91%	91%	91%	Donations/PRC	*Note (iv)*

Notes:

(i) No audited financial statements has been prepared for these companies as they are newly incorporated or not required to issue audited financial statements under statutory requirements of their respective places of incorporation.

(ii) The statutory financial statements of these companies for the years ended 31 December 2017 and 2018 were audited by Da Hua Certified Public Accountants (Special General Partnership) (大華會計師事務所(特殊普通合夥)).

(iii) The statutory financial statements of the company for the years ended 31 December 2017 and 2018 were audited by Jiangsu Li An Da Yong Cheng CPA Limited (江蘇利安達永誠會計師事務所有限公司).

(iv) The statutory financial statements of the company for the years ended 31 December 2017 and 2018 were audited by Shang Hai Pu Dao Jing Shi Certified Public Accountants (General Partnership) (上海普道競實會計師事務所(普通合夥)).

(v) The statutory financial statements of the company for the years ended 31 December 2017 and 2018 were audited by Kent C. C. Yau, the Certified Public Accountant (Practising).

(vi) No audited financial statements have been prepared for the years ended 31 December 2017 and 2018 as it was not subject to any statutory audit requirements under the relevant rules and regulations in the PRC.

3. BASIS OF PRESENTATION

The companies now comprising the Group, engaging in the Listing Business, which consists of television series and film production business and higher education service business, were under common control of Mr. Pu, the Controlling Shareholder, immediately before and after the Reorganisation. Accordingly, the Reorganisation is regarded as a business combination under common control, and for the purpose of this report, the Historical Financial Information has been prepared using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants.

The Historical Financial Information has been prepared by including the historical financial information of the companies engaged in the Listing Business, which consists of television series and film production business and higher education service business, under the common control of Mr. Pu immediately before and after the Reorganisation and now comprising the Group as if the current group structure had been in existence throughout the periods presented, or since the date when the combining companies first came under the control of Mr. Pu, whichever is a shorter period.

The net assets of the combining companies were combined using the existing book values from Mr. Pu's perspective. No amount is recognised in consideration for goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of business combination under common control, to the extent of the continuation of the controlling party's interest.

Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on consolidation.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to the Track Record Period presented, unless otherwise stated.

4.1 Basis of preparation

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. The Historical Financial Information has been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

The preparation of Historical Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 6.

All the new standards, amendments to standards and interpretations which are mandatory for the financial year beginning on 1 January 2019 are consistently applied to the Group throughout the Track Record Period.

4.1.1 New and amended standards not yet adopted

The following new and amended standards have been issued but are mandatorily effective for the annual period beginning on or after 1 January 2020 and which the Group has not early adopted these new and amended standards during the Track Record Period.

	Effective for accounting periods beginning on or after
Revised Conceptual Framework for Financial Reporting	1 January 2020
Amendments to HKAS 1 and HKAS 8 Definition of Material	1 January 2020
Amendments to HKFRS 3 Definition of a Business	1 January 2020
HKFRS 17 Insurance Contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Directors of the Company have already commenced an assessment of the impact of these new or amended standard, certain of which is relevant to the Group's operations. According to the preliminary assessment made by the Directors, no significant impact on the financial performance and position of the Group is expected when they become effective.

4.2 Subsidiaries

4.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(i) Subsidiaries controlled through contractual arrangements

As described in Note 2, WFOEs have entered into the Contractual Arrangements with the Consolidated Affiliated Entities and their Equity Holders, which enable the WFOEs and the Group to:

- exercise effective financial and operational control over of the Consolidated Affiliated Entities;
- exercise Equity Holders' voting rights of the Consolidated Affiliated Entities;
- receive substantially all of the economic interest returns generated by the Consolidated Affiliated Entities, in consideration for the technical and consulting services provided by the WOFEs;
- obtain the irrevocable and exclusive right, at any time when applicable PRC laws permits foreign invested companies to operate the television series and film production and higher education business, to purchase all or part of the equity interests in the Consolidated Affiliated Entities from Equity Holders at a minimum purchase price permitted under the PRC laws and regulations. In addition, the Equity Holders are not allowed to sell, assign, transfer, or otherwise disposed of or create encumbrance over their interests in any of the Consolidated Affiliated Entities directly or indirectly without prior written consent of the WOFEs; and
- obtain a pledge over the entire equity interest in the Consolidated Affiliated Entities from their Equity Holders to secure the performance obligations of the Consolidated Affiliated Entities under the Contractual Arrangements.

The Group does not have any equity interest in the Consolidated Affiliated Entities. However, as a result of the Contractual Arrangements, the Group has rights to exercise power over the Consolidated Affiliated Entities, receive variable returns from its involvement with the Consolidated Affiliated Entities, and has ability to affect those returns through its power over the Consolidated Affiliated Entities. Consequently, the Company regards the Consolidated Affiliated Entities as the indirect subsidiaries under HKFRS. The Group has included the financial positions and financial results of the Consolidated Affiliated Entities in the Historical Financial Information during the Track Record Period. Please refer to Note 3 for details of the related presentation basis.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over the Consolidated Affiliated Entities, due to the uncertainties presented by the PRC legal system to impede the Group's beneficiary rights of the results, assets and liabilities of the Consolidated Affiliated Entities. The Directors, based on the advice of its legal counsel, consider that the Contractual Arrangements are in compliance with the relevant PRC laws and regulations and are legally binding and enforceable.

(ii) Business Combinations

The Group applies the acquisition method to account for business combinations except for business combination under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKFRS 9 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

(iii) Merger accounting for common control business combination

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control business combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest. The consolidated statements of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where there is a shorter period, regardless of the date of the common control combination.

(iv) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(v) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRS.

4.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

4.3 Joint arrangement

Investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

Joint operations

When the Group undertakes television series and film production activities under joint arrangements with other television series and film production ventures in the PRC, they invest and share the ownership and earnings of the television series and film rights upon completion of the production proportionally in accordance with the joint production agreements, which gives all the parties joint control of the arrangement and the arrangement is not structured through a separate vehicle. Such television series and film production arrangements are classified as joint operations. The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the Historical Financial Information under the appropriate headings. Details of the joint operations are set out in Note 23.

Joint ventures

Interests in joint ventures are accounted for using the equity method (see (4.4) below), after initially being recognised at cost in the consolidated balance sheet.

4.4 Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses of the investee in profit or loss, and the group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

Where the group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the group and its associates and joint ventures are eliminated to the extent of the group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the group.

4.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer and executive directors of the Company that makes strategic decisions.

4.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the group entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's functional currency is RMB. The Company's primary subsidiaries were incorporated in the PRC and these subsidiaries considered RMB as their functional currency. Since the majority of the assets and operations of the Group are located in the PRC, the Group determined to present its Historical Financial Information in RMB (unless otherwise stated).

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statements of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statements of comprehensive income within 'Finance income or costs'. All other foreign exchange gains and losses are presented in consolidated statements of comprehensive income within 'Other (losses)/gains – net'.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified and measured at fair value through other comprehensive income, are included in other comprehensive income.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

4.7 Property, plant and equipment

Property, plant and equipment, other than construction in progress ("CIP"), are stated at historical cost less accumulated depreciation and accumulated impairment losses (if any). Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings and facilities	40 – 50 years
Furniture and fixtures	5 – 15 years
Motor vehicles	5 years
Education equipment	5 years
Office equipment	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other (losses)/gains – net' in the consolidated statements of comprehensive income.

Construction-in-progress ("CIP") represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses (if any). Cost includes the costs of construction and acquisition and capitalised borrowing costs. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to the respective categories of property, plant and equipment and depreciated in accordance with the policy as stated above.

4.8 Intangible assets

(a) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring the specific software into usage. These costs are amortised using the straight-line method over their estimated useful lives. Costs associated with maintaining computer software programmes are recognised as expense as incurred.

(b) Licensing rights

Licensing rights are initially recorded as intangible assets at cost basis. They are subsequently carried at cost less accumulated amortisation and impairment losses. The costs are amortised over the contractual period.

(c) Amortisation methods and periods

The Group amortises intangible assets with a limited useful life using the straight-line method over the following periods:

• Computer software	3-5 years
• Licensing rights	1.5-6 years

4.9 Television series and film rights

Television series and film rights mainly presents the television series and film rights produced for licensing.

(a) Adaptation rights and scripts

Cost includes all direct costs associated with the purchase of adaptation rights and payments on scripts.

(b) Television series and film rights-under production

Television series and film rights under production are carried as cost, less any identified impairment loss.

Cost includes all direct costs associated with the production of television series and film rights, including production costs, costs of services, direct labour costs, facilities and raw materials consumed in the creation of television series and films, as well as rental of camera, equipment and other facilities. For the co-produced television series and films under joint operation agreement, the related production costs are recognised in relation to its interests in a joint operation.

Television series and film rights under production are transferred to "Television series and film rights-completed production" upon completion of production.

(c) Television series and film rights-completed production

Television series and film rights-completed production are stated at cost, less accumulated amortisation and identified impairment losses, if any.

These television series and film rights are expensed in accordance with the expected consumption pattern by usage through various channels, such as television release or internet release, and other licensing arrangements, with the reference to the pattern of view counts and viewer ratings of similar television series and firms as broadcasted in reputable TV stations and on line video platform in the historical period.

4.10 Impairment of non-financial assets

Television series and film rights under production, intangible assets that have an indefinite useful life, and intangible assets not available to use, are not subject to amortisation and are tested annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

4.11 Investments and other financial assets

4.11.1 Classification

The Group classifies its financial assets in the following categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss); and

- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

4.11.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

4.11.3 Measurement

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

4.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

4.13 Impairment of financial assets

The Group has following types of financial assets subject to new expected credit loss model under HKFRS 9:

- Trade receivables
- Deposits and other receivables, including loan receivables from related parties
- Cash and cash equivalents
- Term deposits with initial term of over three months
- Other current assets

Cash and cash equivalents and term deposits with initial term of over three months are also subject to the impairment requirement of HKFRS 9, the identified impairment loss was immaterial.

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 5.1(b) details how the Group determines whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. The Group uses practical expedients when estimating life time expected credit losses on trade receivables, which is calculated using a provision matrix where a fixed provision rate applies depending on the number of days that a trade receivable is outstanding.

Impairment on deposits, other receivables and other current assets is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

4.14 Inventory

Inventory includes the television series and film rights produced for sale. Inventories are stated at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

4.15 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

4.16 Cash and cash equivalents

In the consolidated statements of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks and other financial institutions, other short-term highly liquid investments with original maturities of three months or less.

4.17 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

4.18 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities unless the payment is not due within 12 months after the reporting period (or in the normal operating cycle of the business if longer).

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

4.19 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in consolidated statements of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any noncash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

4.20 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

4.21 Current and deferred income tax

The income tax expense for the period comprises current and deferred income tax. Tax is recognised in the consolidated statements of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

4.22 Employee benefits

(a) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated balance sheet.

(b) Pension obligations

The entities within the Group registered in the PRC make employee benefit contributions based on certain percentage of the salaries of the employees to a defined contribution retirement benefit plan and medical benefit plan organised by relevant government authorities in the PRC on a monthly basis. The government authorities undertake to assume the retirement benefit obligations payable to the existing and future retired employees under these plans and the Group has no further obligations for the post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separate from those of the Group.

(c) Housing funds

The PRC employees of the Group are also entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to those funds based on a certain percentage of the employee's salaries. The Group's liabilities in respect of these funds is limited to the contributions payable in each period and the Group has no further obligation beyond the contributions made. The non-PRC employees are not covered by the housing funds.

4.23 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

4.24 Revenue from contracts with customers

Revenue is recognised when or as the control of the goods or services is transferred to a customer. Depending on the terms of the contracts and the laws that apply to the contract, revenue may be recognised over time or at a point in time. Control of the goods and services is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer; or
- creates and enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods and service transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods and services.

A contract asset is the Group's right to consideration in exchange for goods and services that the Group has transferred to a customer. A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

If a customer pays consideration to the Group has a right to an amount of consideration that is unconditional, before the Group transfers a good or service to the customer, the Group presents the contract liability when the payment is made or a receivable is recorded (whichever is earlier). A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

(a) Revenue from licensing of television series and film rights

The Group generates revenue from licensing of television series and film rights to TV stations and online platforms. Revenue from licensing of television series and film rights is recognised when or as the control of the asset is transferred to the customers, which are the TV stations or online platforms, when an agreement has been signed with a customer, and broadcast license and master tapes and materials have been delivered in accordance with the terms of the contracts, and the customers can obtain substantially all of the remaining benefits from the asset. Revenue is recognised at a point in time when the customer obtains control of the asset.

In determining the transaction price, an amount of consideration can vary because of refunds, if the consideration is variable, the Group estimates the amount of consideration to which it will be entitled in exchange for such licenses. The estimated amount of variable consideration will be included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

At each balance sheet date, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at balance sheet date and the changes in circumstances during the reporting period.

(b) Revenue from the provision of higher education and related services

Revenue from the provision of higher education and related services mainly includes tuition fees income and boarding fees income, entrance examination fee income, international preparatory program, continuing education and canteen management service.

Tuition and boarding fees are generally received in advance prior to the commencement of each school year, and are initially recorded as contract liabilities. Tuition and boarding fees are recognised as revenue proportionately over the relevant period of the applicable program or the beneficial period for the students, where applicable. The portion of tuition and boarding payments received from students but not earned is recorded as contract liabilities. Amounts which will be earned within one year is reflected as a current liability, and those which will be earned beyond one year is reflected as a non-current liability.

Entrance examination fees are generally received from the students who plan to apply for art related major. A separated examination is organised by CUCN every year to test the professional ability of the students who apply for enrollment in addition to the National Higher Education Entrance Exam of the PRC following the regulation requirement. The consideration of the service fees is received from students before the services provided and is recorded as contract liabilities, which the revenue was recognised when the services provided.

CUCN provided international preparatory program in form of providing a wide range of high standard art training courses. The credits obtained from the completion of these training courses would later be recognised by overseas cooperative universities for assisting the students' admission applications in the respective universities. The service fees are received in advance prior to the commencement of the program, and are initially recorded as contract liabilities. The advanced payment of the service fees are recognised as revenue over the terms of the services provided or the beneficial period for the students.

Continuing education services are provided to adult students who are not registered as full time students under full-time formal higher education program, government agencies, enterprises and individual customers. The continuing education service fees are generally received in advance prior to the commencement of the services, and are initially recorded as contract liabilities and recognised as revenue over the terms of the applicable program.

4.25 Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purpose. Any other interest income is included in other income.

4.26 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statements of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statements on a straight line basis over the expected lives of the related assets.

4.27 Lease

Leases are recognised as a right-of use assets and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate

- amounts expected to payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, or the Group's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The estimated useful lives of the right-of-use assets are as follows:

Land use rights	50 years
Office lease	7 years

Payments associated with short-term leases are exempted from applying HKFRS 16. And recognised on a straight-line basis as an expense in consolidated statements of comprehensive income. Short-term leases are leases with a lease term of 12 months or less. The Group adopted the exemption for all short-term leases.

Leases where the Group retains substantially all risks and rewards incidental to ownership are classified as operating leases. Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

Initial direct costs incurred by the Group in negotiating and arranging operating leases are added to the carrying amount of the leased assets and recognised as an expense in profit or loss over the lease term on the same basis as the lease income.

4.28 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group regularly monitors its exposure and currently considers not necessary to hedge any of these financial risks. Risk management is carried out by the senior management of the Group and approved by the executive directors.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the Group entities' functional currency. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures. The Group does not hedge against any fluctuation in foreign currency during the Track Record Period.

The Group's subsidiaries in PRC are exposed to foreign exchange risk arising from recognised financial assets and liabilities denominated in Hong Kong Dollars (HKD) and US Dollars (USD).

For the years ended 31 December 2017, 2018 and 2019, if RMB had weakened/strengthened by 5% against USD with all other variables held constant, pre-tax profit for the year would have been RMB149,000, RMB1,429,000 and RMB1,840,000 higher/lower respectively, mainly as a result of foreign exchange gains/(losses) on translation of USD-denominated cash and cash equivalents and trade receivables.

For the years ended 31 December 2017, 2018 and 2019, if RMB had weakened/strengthened by 5% against HKD with all other variables held constant, pre-tax profit for the year would have been RMB12,000, RMB5,000 and RMB10,000 higher/lower respectively, mainly as a result of foreign exchange gains/(losses) on translation of HKD-denominated cash and cash equivalents.

(ii) Interest risk

As the Group has no significant interest-bearing assets other than cash and cash equivalents, term deposits with the initial term of over three months and loans granted to related parties, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk. During the Track Record Period, the Group's borrowing bore interest at fixed rates.

For the years ended 31 December 2017, 2018 and 2019, if the interest rates on bank borrowing, cash and cash equivalents and term deposits with initial term of over three months had been 50 basis points higher/lower than the prevailing rate announced by People's Bank of China, with all other variables held constant, the Group's pre-tax profit for the year would have been Nil, RMB6,000 and RMB11,000 lower/higher, respectively.

(iii) Price risk

The Group is exposed to equity securities price risk arising from investments in trading securities held by the Group and classified on the consolidated balance sheets at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

The Group's investments in equity of other entities that are publicly traded are listed in Shanghai Stock Exchange and Shenzhen Stock Exchange.

If the market price of these trading securities increase/decrease by 10%, the pre-tax profit of the Group would have been approximately RMB4,851,000, RMB3,355,000, and RMB934,000 higher/lower for the years ended 31 December 2017, 2018 and 2019 respectively, arising as a result of the fair value gain/loss of financial assets at fair value through profit or loss. The Group closely monitors the price movement and changes in market conditions that may have an impact on the value of these financial assets.

(b) Credit risk

The Group's is exposed to credit risk in relation to its cash and cash equivalents, term deposits with the initial term of over three months, trade receivables, deposits and other receivables and other current assets. The carrying amount of each class of the abovementioned financial assets represent the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

For cash and cash equivalents and term deposits with the initial term of over three months, the Group manages the credit risk by placing all the cash and deposits in state-owned financial institutions or reputable banks and financial institutions located in PRC and reputable international financial institutions outside the PRC. There has been no recent history of default in relation to these financial institutions. The expected credit loss is minimal.

To manage the risk arising from trade receivables, the Group has policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of its counterparties.

For trade receivables due from TV stations and online platforms, if the strategic relationship with TV stations and online platforms, is terminated or scaled-back; or if they experience financial difficulties in paying the Group, the Group's corresponding trade receivables might be adversely affected in terms of recoverability. To manage this risk, the Group maintains frequent communications with TV stations and online platforms to ensure effective credit control. In view of the history of cooperation with major TV stations and online platforms and the sound collection history of receivables due from them, the Directors of the Company believe that the expected credit loss inherent in the Group's outstanding trade receivable balances due from TV stations and online platforms is minimal.

For trade receivables due from higher education services, the Group assessed the loss allowances on lifetime expected credit loss basis individually. In determining the expected credit loss for receivables from higher education services, the Directors of the Company has taken into account the historical default experience and forward-looking information, as appropriate, for example, the Group has considered the consistently low historical default rate in connection with payments and concluded that expected credit loss in the Group's outstanding receivable from higher education services is minimal.

The Group considers the probability of default upon initial recognition of other receivables and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, The Group compares the risk of a default occurring on other receivables as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtors' ability to meet its obligations;
- actual or expected significant changes in the operating results of the debtors; significant increases in credit risk on other financial instruments of the same debtors;
- significant changes in the expected performance and behavior of the debtors, including changes in the payment status of debtors, etc.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 24 months before 1 January 2017 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

When assessing the expected credit loss for trade receivables due from TV stations and online platforms as of the respective balance sheet dates, the Group estimated that the expected credit loss rate is close to zero as historically no actual loss from irrecoverable amounts was occurred in connection with the trade receivables due from TV stations and online platforms.

When assessing the expected credit loss for trade receivables due from higher education services, the Group estimated that the expected credit loss rates as of the respective balance sheet dates are: 0.03% for receivables past due and with aging up to 1 year; 11.91% for receivables past due and with aging of 1 to 2 years; 29.10% for receivables past due and with aging of 2 to 3 years, 41.10% for receivables past due and with aging of 3 to 4 years, and 100.00% for receivables past due and with aging of over 4 years. Since the actual loss rates for each type of the receivables and the adjustments for forward looking macroeconomic data did not have significant changes during the Track Record Period, the directors of the Company consider that the changes in the abovementioned expected credit loss rates as applied are insignificant throughout the Track Record Period.

The Group was exposed to concentration of credit risk on its trade receivables. As at 31 December 2017, 2018 and 2019, the top trade receivables balance due from customers amounting to approximately RMB147,439,000, RMB58,305,000 and RMB58,305,000 respectively and accounted for 95.4%, 70.4% and 82.9% of total trade receivables respectively. The major customers of the Group are all reputable organisations. Management considers that the credit risk is limited in this regard.

Trade receivables is written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a long period.

For the deposits, other receivables and other current assets, management applies 3-stages model to assess the expected credit loss. Management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. In view of the history of cooperation with debtors, the sound collection history of receivables due from them and forward-looking estimates, the expected credit loss is minimal.

For loan receivables from related parties, management has assessed that the related parties have a strong capacity to meet their contractual cash flow obligations in the near term. Therefore, a 12-month expected credit loss is applied to these balances. Considering the strong financial capacity of the related parties and forward looking estimates, management assessed that the expected credit loss is minimal.

(c) Liquidity Risk

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, the policy of the Group is to regularly monitor the Group's liquidity risk and to maintain adequate cash and cash equivalents to meet the Group's liquidity requirements.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows including interest elements computed using contractual rates.

	Less than 1 year *RMB'000*	Between 1 and 2 years *RMB'000*	Between 2 and 5 years *RMB'000*	Over 5 years *RMB'000*	Total *RMB'000*	Carrying amounts *RMB'000*
At 31 December 2017						
Trade payables	49,597	–	–	–	49,597	49,597
Other payables and accrual charges (excluding non-financial liabilities)	46,545	–	–	–	46,545	46,545
Lease liabilities	3,922	19,480	–	–	23,402	21,725
	100,064	19,480	–	–	119,544	117,867
At 31 December 2018						
Trade payables	66,504	–	–	–	66,504	66,504
Other payables and accrual charges (excluding non-financial liabilities)	66,840	–	–	–	66,840	66,840
Lease liabilities	19,480	–	–	–	19,480	18,859
	152,824	–	–	–	152,824	152,203
At 31 December 2019						
Borrowings (principal plus interests)	2,151	1,600	4,800	36,138	44,689	32,000
Trade payables	36,304	–	–	–	36,304	36,304
Other payables and accrual charges (excluding non-financial liabilities)	86,640	–	–	–	86,640	86,640
	125,095	1,600	4,800	36,138	167,633	154,944

5.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group's strategy remains constant throughout the Track Record Period.

The Directors review the capital structure on a continuous basis taking into account the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through raising new debts as well as redemption of the existing debt.

The Group monitors its capital structure on the basis of liability-to-asset ratio, which is calculated as total liabilities divided by total assets. The liability-to-asset ratio of the Group as at 31 December 2017, 2018 and 2019 was as follows:

	As at 31 December		
	2017	**2018**	**2019**
The liability-to-asset ratio	28%	28%	22%

5.3 Fair value estimation

The fair value of the Group's financial instruments carried at fair value as at 31 December 2017, 2018 and 2019 are determined based on valuation techniques with certain inputs which are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Valuation processes

The finance department of the Group includes a team that performs the valuations of financial instruments required for financial reporting purposes, including level 3 fair values. This team reports directly to the responsible person of the finance department. Discussions of valuation processes and results are held between the responsible person of the finance department and the valuation team at least once every year, in line with the Group's year end reporting periods.

The main level 3 inputs used by the Group are derived and evaluated as follows:

- Discount rates for financial assets and financial liabilities are determined using a capital asset pricing model to calculate a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the asset.
- Expected rate of return for the wealth management products purchased from banks are estimated based on market information for similar types of products.

Changes in level 2 and 3 fair values are analysed at the end of each reporting period during the year valuation discussion between the responsible person for finance function and the valuation team. As part of this discussion the team presents a report that explains the reason for the fair value movements.

The following table presents the Group's assets and liabilities that are required to be measured at fair value at 31 December 2017, 2018 and 2019.

	Level 1 *RMB'000*	**Level 2** *RMB'000*	**Level 3** *RMB'000*	**Total** *RMB'000*
As at 31 December 2017				
Financial assets at fair value through profit or loss				
– Trading listed equity securities	48,511	–	–	48,511
– Wealth management products purchased from banks	–	–	262,475	262,475
	48,511	–	262,475	310,986
As at 31 December 2018				
Financial assets at fair value through profit or loss				
– Trading listed equity securities	33,552	–	–	33,552
– Wealth management products purchased from banks	–	–	622,566	622,566
	33,552	–	622,566	656,118
As at 31 December 2019				
Financial assets at fair value through profit or loss				
– Trading listed equity securities	9,344	–	–	9,344
– Wealth management products purchased from banks	–	–	790,172	790,172
	9,344	–	790,172	799,516

There were no transfers between levels 1, 2 and 3 during the years ended 31 December 2017, 2018 and 2019.

Trading listed equity securities are the securities related to companies list in A share China domestic market; and wealth management products purchased from banks are the finance products issued by China domestic banks with variable returns and no guarantee on principals.

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise trading securities classified as fair value through profit or loss.

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

(c) Financial instruments in level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

	Wealth management products purchased from banks *(level 3)* *RMB'000*
As at 1 January 2017	373,990
Additions	720,000
Settlements	(840,066)
Gains and losses recognised in profit and loss	8,551
As at 31 December 2017	262,475
Changes in unrealised gains or losses for the year included in profit or loss for assets held at the end of the year	2,475
As at 1 January 2018	262,475
Additions	609,700
Settlements	(261,745)
Gains and losses recognised in profit and loss	12,136
As at 31 December 2018	622,566
Changes in unrealised gains or losses for the year included in profit or loss for assets held at the end of the year	23,566
As at 1 January 2019	622,566
Additions	813,500
Settlements	(671,058)
Gains and losses recognised in profit and loss	25,164
As at 31 December 2019	790,172
Changes in unrealised gains or losses for the year included in profit or loss for assets held at the end of the year	19,732

The following table summarises the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements of the wealth management products purchased from banks as at 31 December 2017, 2018 and 2019.

Description	Fair Values			Valuation techniques	Significant unobservable inputs	Range of inputs			Relationship of unobservable inputs to fair values
	As at 31 December					As at 31 December			
	2017	2018	2019			2017	2018	2019	
	RMB'000	*RMB'000*	*RMB'000*						
Wealth management products purchased from banks	262,475	622,566	790,172	Discounted cash flow method	Expected rate of return	3.20%-4.65%	2.70%-4.70%	3.00%-4.10%	The higher the expected rate of return, the higher the fair value

The level 3 instruments represent wealth management products purchased from banks, measured at fair value through profit or loss (Note 25). These instruments are not traded in an active market and do not have observable market data. The main level 3 input used by the Group is the expected rate of return based on management estimation.

If the expected rate of return of the wealth management products purchased from banks measured at fair value through profit or loss held by the Group had been 10% higher/lower, the post-tax profit for the years ended 31 December 2017, 2018 and 2019 would have been approximately RMB247,000 higher/lower, RMB1,314,000 higher/lower and RMB3,220,000 higher/lower, respectively.

As at 31 December 2017, 2018 and 2019, the carrying amounts of the Group's financial assets, including cash and cash equivalents, term deposits with the initial term of over three months, trade receivables, deposits and other receivables, other current assets and financial liabilities, including trade and other payables, borrowings, lease liabilities and dividend payables approximate their fair values due to the short maturities. The fair values of non-current borrowings and lease liabilities are estimated based on discounted cash flow using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at the respective balance sheet dates. The fair value of the non-current portion of other receivables is disclosed in Note 27.

6 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Contractual Arrangements

The Group conducts a substantial portion of the business through the Consolidated Affiliated Entities in the PRC as mentioned in Note 2 due to the regulatory restrictions on the foreign ownership in television series and film production business and higher education service business in the PRC. The Group does not have any equity interest in the Consolidated Affiliated Entities. The Directors assessed whether or not the Group has power to control over the Consolidated Affiliated Entities, has rights to variable returns from its involvement with the Consolidated Affiliated Entities and has the ability to affect those returns through its power to control over the Consolidated Affiliated Entities. After assessment, the Directors concluded that the Group has control over the Consolidated Affiliated Entities as a result of the Contractual Arrangements and accordingly the financial position and their operating results of the Consolidated Affiliated Entities are included in the Group's consolidated financial statements throughout the Track Record Period or since the respective dates of incorporation/establishment, whichever is the shorter period.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over the Consolidated Affiliated Entities and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the Consolidated Affiliated

Entities. The Directors, based on the advice of its other legal counsel, consider that the Contractual Arrangements among the Consolidated Affiliated Entities and their equity shareholders are in compliance with the relevant PRC laws and regulations and are legally enforceable.

(b) Accounting for amortisation of television series and film rights

The costs of television series and film rights are amortised based on the expected consumption pattern. Adjustment on amortisation is made when the expected changes in consumption pattern occurs. The Group's management determines the expected consumption pattern of each television series and film with reference to historical performance of similar television series and film.

Based on information available on the actual results of each television series and film, management reviews and revises, when necessary, the expected consumption pattern at regular intervals. Such changes may result in a change in the rate of amortisation and/or the write-down of the carrying values of the assets to recoverable amount. This could have an impact on the Group's results of operations. The carrying amounts of television series and film rights are disclosed in Note 21 to the Historical Financial Information.

(c) Current and deferred income taxes

According to the Implementation Rules for the Law for Promoting Private Education (the "Implementation Rules"), private schools, for which the school sponsors do not requiring reasonable returns are eligible to enjoy the same preferential tax treatment as public schools. The preferential tax treatment polices applicable to private schools requiring reasonable returns are to be separately formulated by the relevant government authorities under the State Council of the PRC. During the Track Record Period and up to the date of this Historical Financial Information, no regulations have been promulgated by such authorities in this regard. In accordance with the historical tax returns filed to the relevant tax authorities and the tax compliance confirmation obtained therefrom, CUCN has been granted corporate income tax exemption for providing formal academic education services. As a result, no income tax expense was recognised during the Track Record Period.

Significant judgement is required in interpreting the relevant tax rules and regulations so as to determine whether our Group is subject to corporate income tax. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of the tax liabilities. Such changes to tax liabilities will impact tax expense in the year that such determination is made.

The Group recognises deferred income tax assets based on estimates that it is probable to generate sufficient taxable profits in the foreseeable future against which the deductible losses will be utilised. The recognition of deferred tax assets mainly involved management's judgements and estimations about the timing and the amount of taxable profits of the companies which had tax losses.

(d) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment, and reviews the useful lives and residual values periodically to ensure that the method and rates of depreciation are consistent with the expected pattern of realisation of economic benefits from property, plant and equipment. This estimate is based on the historical experience of the actual residual values and useful lives of property, plant and equipment of similar nature and functions. In addition, management assesses impairment whenever events or changes in circumstances indicate that the carrying amount of an item of property, plant and equipment may not be recoverable. Management will increase the depreciation charge where useful lives are estimated to be shorter than previously estimated, or will write off or write down obsolete assets that have been abandoned or impaired. As at 31 December 2017, 2018 and 2019, the carrying amount of property, plant and equipment are RMB493,658,000, RMB480,593,000 and RMB539,960,000, respectively. Any change in these estimates may have a material impact on the results of the Group.

(e) Useful lives and impairment of land use rights

As explained in Note 18, the Group's management has determined the useful lives of land use rights based on estimates. The estimates are based on the management's experience of the actual practice of similar nature and functions and normal terms in the PRC. In addition, management assesses impairment whenever events or changes in circumstances indicate that the carrying amount of an item of land use rights may not be recoverable. Management will increase the amortisation charge where useful lives are estimated to be shorter than previously estimated, or will write off or write down obsolete assets that have been abandoned or impaired. As at 31 December 2017, 2018 and 2019, the carrying amount of land use rights are RMB49,570,000, RMB103,528,000 and RMB101,009,000 respectively. Any change in these estimates may have a material impact on the results of the Group.

(f) Estimated impairment of television series and film rights

The management of the Group assesses any impairment on television series and film rights whenever events or changes in circumstances indicate the carrying amount may not be recoverable. The management mainly considers the following factors in assessing whether there is any indication that the television series and film rights may be impaired:

- An asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use; or

- Management's own forecasts of future net cash inflows or operating profits may show a significant decline from previous budgets and forecasts.

The assessment was made on a title-by-title basis. The recoverable amount of the television series and film rights was determined by considering the current market environment to project cash flows expected to be received. If the recoverable amount is lower than the carrying amount, the carrying amount of the television series and film rights will be written down to its recoverable amount.

(g) Classification of joint arrangements

The Group has entered into joint arrangements to produce and distribute television series and films. The Group has participating interests ranging from 30% to 80% in these joint arrangements. The Group has joint control over these arrangements as under the contractual agreements, unanimous consent is required from all parties to the agreements for all relevant key business and operating activities. The Group's joint arrangements involve the joint control by the venturers of the assets contributed to the joint arrangement and dedicated to the purposes of the joint arrangement. The assets are used to obtain benefits for the venturers.

Each venturer may take a share of the output from the assets and each bears an agreed share of the expenses incurred. These joint arrangements do not involve the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Therefore, these arrangements are classified as joint operations of the Group. The determination of the relevant activities under joint operations requires management's significant judgement.

7 SEGMENT INFORMATION

The CODM has been identified as the chief executive officer and executive directors of the Company who review the Group's internal reporting in order to assess performance and allocate resources.

The CODM had identified the television series and film production and higher education as separate reportable segments, namely the television series and film productions segment and the higher education segment. Revenue of the television series and film production segment represents the licensing income from the sale of the television series and film rights. Revenue of the higher education segment comprise of tuition fee income, boarding fee income, entrance examination fee income, international preparation program income, continuing education service income and others.

The CODM evaluates the performance of the reportable segments based on their revenue, gross profit and operating results which derived from gross profit to include selling expenses, administrative expenses, other income and other (losses)/gains – net. The CODM also assesses the assets and liabilities of the operating segments.

The segment information provided to the CODM for the reportable segments for the Track Record Period are as follows:

	Television series and film production RMB'000	Higher education RMB'000	Unallocated RMB'000	Inter-segment elimination RMB'000	Total RMB'000
Year ended 31 December 2017					
Revenue	300,601	256,277	–	–	556,878
Cost of revenue	(158,951)	(116,782)	–	–	(275,733)
Gross profit	141,650	139,495	–	–	281,145
Selling expenses	(30,248)	(372)	–	–	(30,620)
Administrative expenses	(13,740)	(30,435)	(24,500)	–	(68,675)
Other income	500	12,734	–	–	13,234
Other (losses)/gains – net	(2,743)	6,856	–	–	4,113
Operating profit/(loss)	95,419	128,278	(24,500)	–	199,197
Finance income – net					4,986
Profit before income tax					204,183
Other segment information					
Additions to non-current assets *(Notes 18, 19 and 20)*	7	13,165	–	–	13,172
Depreciation and amortisation *(Note 12)*	161,580	42,058	–	–	203,638
As at 31 December 2017					
Total assets	565,889	1,279,410	–	(150,951)	1,694,348
Total liabilities	421,961	199,910	9,087	(150,951)	480,007
Year ended 31 December 2018					
Revenue	91,396	276,922	–	–	368,318
Cost of revenue	(45,592)	(117,795)	–	–	(163,387)
Gross profit	45,804	159,127	–	–	204,931
Selling expenses	(7,725)	(399)	–	–	(8,124)
Administrative expenses	(13,541)	(38,355)	(10,460)	–	(62,356)
Other income	2,277	10,197	–	–	12,474
Other (losses)/gains – net	(3,775)	3,045	–	–	(730)
Operating profit/(loss)	23,040	133,615	(10,460)	–	146,195
Finance income – net					7,031
Profit before income tax					153,226

	Television series and film production *RMB'000*	Higher education *RMB'000*	Unallocated *RMB'000*	Inter-segment elimination *RMB'000*	Total *RMB'000*
Other segment information					
Addition to non-current assets *(Notes 18, 19 and 20)*	1,158	70,078	–	–	71,236
Depreciation and amortisation *(Note 12)*	49,833	28,659	–	–	78,492
As at 31 December 2018					
Total assets	566,274	1,458,109	–	(130,951)	1,893,432
Total liabilities	414,214	231,194	15,557	(130,951)	530,014
Year ended 31 December 2019					
Revenue	435,529	311,657	–	–	747,186
Cost of revenue	(232,210)	(142,151)	–	–	(374,361)
Gross profit	203,319	169,506	–	–	372,825
Selling expenses	(8,407)	(592)	–	–	(8,999)
Administrative expenses	(17,079)	(38,106)	(19,027)	–	(74,212)
Other income	5,952	11,552	–	–	17,504
Other gains/(losses) – net	2,262	(75,133)	–	–	(72,871)
Operating profit/(loss)	186,047	67,227	(19,027)	–	234,247
Finance income – net					6,084
Profit before income tax					240,331
Other segment information					
Additions to non-current assets *(Notes 18, 19 and 20)*	35	108,976	–	–	109,011
Depreciation and amortisation *(Note 12)*	236,368	37,057	–	–	273,425
As at 31 December 2019					
Total assets	319,220	1,577,152	3,761	(131,377)	1,768,756
Total liabilities	217,298	281,613	24,469	(131,377)	392,003

Notes:

(a) The unallocated expenses represent professional fees and directors' emoluments.

(b) The unallocated assets represent professional fees capitalised. The unallocated liabilities represent payables for professional fees and directors' emoluments.

(c) The inter-segment elimination is related to the inter-segment loans.

Geographical information

The following tables present information on revenue, based on the location of the customers of the Group by geographical regions.

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Revenue			
The PRC, excluding Hong Kong and Taiwan	553,112	338,928	740,961
Others	3,766	29,390	6,225
	556,878	368,318	747,186

Non-current assets are all located in the PRC during the Track Record Period.

The major customers which contributed more than 10% of the total revenue for the years ended 31 December 2017, 2018 and 2019 are listed as below:

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Customer A	296,607	–	–
Customer B	–	55,004	–
Customer C	–	–	400,943

8 REVENUE

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Revenue recognised at a point in time			
Licensing income	300,601	91,396	435,529
Entrance examination fee income	14,987	24,288	28,202
	315,588	115,684	463,731
Revenue recognised over time			
Higher education related income			
- Tuition fees	208,812	217,905	225,994
- Boarding fees	19,397	20,250	20,494
International preparatory program	4,666	6,892	23,729
Continuing education services	2,050	1,211	5,298
Others	6,365	6,376	7,940
	241,290	252,634	283,455
	556,878	368,318	747,186

9 CONTRACT LIABILITIES

Contract liability is recognised when a customer pays consideration, or the Group has a right to an amount of consideration that is unconditional, preceding the Group's performance. The Group recognised the following revenue-related contract liabilities, which represented the unsatisfied performance obligations as the respective balance sheet dates and are expected to be recognised within two years:

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Licensing income	107,053	211,071	9,206
Higher education related income			
– Tuition fees	113,440	119,024	126,908
– Boarding fees	12,921	13,524	13,596
Entrance examination fee income	3,962	–	21,135
International preparatory program	1,974	7,865	16,483
Continuing education services	–	–	2,536
Others	1,628	1,384	1,843
	240,978	352,868	191,707

The Group receives licensing fee income from customers in advance based on payment terms of the respective licensing contracts. The advanced payment of licensing fee income are recognised when the control of the asset is transferred to the customers, which are the TV stations or online platforms.

The Group receives tuition fees, boarding fees, international preparatory program fees and others from customers in advance prior to the beginning of each school year or contract period, which are recognised over the relevant school year or period of the applicable programs.

The Group receives entrance examination fee income from customers in advance prior to the service provided, which are recognised at point in time upon the completion of the related exams.

(a) Revenue recognised in relation to contract liabilities

The following table shows the revenue recognised during the Track Record Period related to brought-forward contract liabilities:

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Revenue recognised that was included in the contract liabilities balance at the beginning of the year			
Licensing income	–	31,915	211,071
Higher education related income			
- Tuition fees	108,063	113,440	119,024
- Boarding fees	12,393	12,921	13,524
Entrance examination fee income	5,436	3,962	–
International preparatory program	3,369	1,974	7,865
Others	980	1,628	1,384
	130,241	165,840	352,868

For revenue from licensing of television series and film rights, considering the production cycle normally last for around two years, the contract liability will be recognised as revenue in two years accordingly.

For revenue from higher education, the contract liability related revenue will be recognised within one year with the normal period of school year.

(b) Unsatisfied performance obligations

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Expected to be recognised within one year			
Licensing income	63,116	433,353	85,868
Higher education related income			
- Tuition fees	113,440	119,024	126,908
- Boarding fees	12,921	13,524	13,596
Entrance examination fee income	3,962	–	21,135
International preparatory program	1,974	7,865	16,483
Continuing education services	–	–	2,536
Others	1,628	1,384	1,843
Expected to be recognised over one year			
Licensing income	519,788	74,717	–
	716,829	649,867	268,369

10 OTHER INCOME

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Donation income	9,587	6,429	9,200
Government grants and subsidies *(Note)*	1,314	2,575	6,250
Interest income on short-term investments measured at amortised cost	364	1,176	64
Others	1,969	2,294	1,990
	13,234	12,474	17,504

Note:

There are no unfulfilled conditions or other contingencies attaching to government grants and subsidies recognised during the Track Record Period. The Group did not benefit directly from any other forms of government assistance.

11 OTHER GAINS/(LOSSES) – NET

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB' 000*	*RMB' 000*
Changes in fair value of financial assets at fair value through profit or loss			
– Trading listed equity securities	(2,460)	(13,421)	6,351
– Wealth management products purchased from banks	8,551	12,136	25,164
Termination fee to Communication University of China ("CUC") *(Note 12)*	–	–	(95,000)
Net loss from the renegotiation for the early repayment of loans from Mr. Pu *(Note 40(c)(i))*	–	–	(9,667)
(Losses)/gains on disposal of property, plant and equipment	–	(142)	66
Others	(1,978)	697	215
	4,113	(730)	(72,871)

12 EXPENSES BY NATURE

	Year ended 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Employee benefit expenses *(Note 13)*	67,814	71,414	92,714
Amortisation			
- Television series and film rights	157,073	45,588	232,187
- Licensing rights *(Note)*	15,000	–	7,500
- Software	106	64	242
Depreciation			
- Property, plant and equipment	26,199	26,451	27,107
- Right-of-use assets	5,260	6,389	6,389
Annual fee for education related services *(Note)*	5,000	–	–
Office expenses and utilities fee	22,209	27,688	32,290
Licensing fee *(Note)*	–	15,000	7,500
Property management and maintenance expenses	13,587	10,209	10,814
Student activities expenses	6,060	5,594	7,715
Training expenses	2,066	5,134	9,276
Professional fee	15,861	6,812	8,889
Auditors' remuneration			
- Audit services	2,559	853	2,334
- Non-audit services	–	–	–
Distribution expenses	28,723	5,500	2,730
Promotion expenses	–	865	3,815
Other expenses	7,511	6,306	6,070
Total cost of revenue, selling expenses and administrative expenses	375,028	233,867	457,572

Note:

In 2003, Nanjing Meiya entered into a cooperation agreement ("Cooperation Agreement") with CUC for a contractual cooperation period of 50 years. Based on the Cooperation Agreement, CUC provided certain education related services and licensing rights to CUCN for its higher education operations in return for annual fees. Subsequently in 2013, CUC, CUCN and Nanjing Meiya re-negotiated the annual fees and entered into two agreements (collectively the "2013 Agreements"). Pursuant to the 2013 Agreements, CUCN agreed to pay CUC annual fees of RMB15 million per annum and RMB5 million per annum in return for the licensing right and education related services respectively for a 6-years period from 2012 to 2017. The 2013 Agreements were expired on 31 December 2017 and have not been renewed upon expiry. CUC has no longer provided the education related services to CUCN since January 2018 while CUCN has continued to use the brand related to the licensing right for its higher education operations subsequent to the expiry of the 2013 Agreements.

Annual fee for the education related services as provided by CUC has been recognised as "Cost of revenue" for the years ended 31 December 2017 in the consolidated statements of comprehensive income. The licensing right was initially recognised as intangible assets (Note 20) and was subject to amortisation over the contractual period. For the years ended 31 December 2017, the related amortisation charge amounted to RMB15 million for each of the respective year has been recognised as "Cost of revenue" in the consolidated statements of comprehensive income. As CUCN has continued to use the brand related to the licensing right for its higher education operations, the Group has accrued licensing fee of RMB15 million and RMB7.5 million as "Cost of revenue" for the year ended 31 December 2018 and the six months ended 30 June 2019 respectively.

For strategic and commercial reasons, CUC, CUCN and Nanjing Meiya entered into an agreement to terminate the Cooperation Agreement and agree the transition arrangements to facilitate the change in registration of CUCN from an independent college to a private higher education institution on 1 July 2019 (the "Termination Agreement"). Pursuant to the Termination Agreement, CUCN has to pay CUC a payment of RMB160 million (the "Agreed Payment") and management considered that the Agreed Payment included (1) a settlement payment for the payables in relation to licensing rights and accrued licensing fees as of 30 June 2019 of RMB42.5 million; (2) a payment of an one-off termination fee of RMB95 million; and (3) a payment for the licensing rights covering the period from 1 July 2019 to 31 December 2020 of RMB22.5 million which is recognised as intangible assets and subject to amortisation on a straight-line basis *(Note 20).*

13 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Wages, salaries and bonuses	55,677	56,010	73,736
Social security costs and housing fund	8,008	11,749	14,572
Welfare and other expenses	4,129	3,655	4,406
	67,814	71,414	92,714

Employee benefit expenses were charged in the following categories in the consolidated statements of comprehensive income:

	Year ended 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Cost of revenue	42,092	44,565	57,851
Administrative expenses	23,559	25,816	33,710
Selling expenses	1,353	1,033	1,153
	67,814	71,414	92,714

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended 31 December 2017, 2018 and 2019 include 4, 4 and 4 directors whose emoluments are reflected in the analysis shown in Note 41. Details of the emoluments of the remaining highest paid non-director individuals during the Track Record Period are set out as below:

	Year ended 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Wages, salaries and bonuses	786	240	280
Social security costs and housing fund	–	95	100
	786	335	380

The emoluments fell within the following bands:

	Number of individuals Year ended 31 December		
	2017	2018	2019
Emolument bands (in HK dollar)			
Nil to HK$1,000,000	1	1	1

14 FINANCE INCOME – NET

	Year ended 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Finance income			
Interest income from a related party	6,791	6,790	4,527
Interest income from cash at bank and term deposits with initial term of over three months	936	1,166	2,157
Exchange gain – net	–	131	21
	7,727	8,087	6,705
Finance costs			
Interest expenses on bank borrowings	(907)	–	–
Interest on lease liabilities *(Note 37)*	(1,178)	(1,056)	(621)
Exchange loss – net	(656)	–	–
	(2,741)	(1,056)	(621)
Finance income – net	4,986	7,031	6,084

15 INCOME TAX EXPENSE

	Year ended 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Current income tax expense	28,464	2,077	39,893
Deferred income tax (credit)/expense	(4,843)	2,324	5,921
	23,621	4,401	45,814

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the applicable tax rate of PRC, the principal place of the Group's operations, as follows:

	Year ended 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax	204,183	153,226	240,331
Tax expense calculated at applicable PRC statutory tax rate of 25%	51,046	38,307	60,083
Tax effects of:			
The impact of education exempted net income	(28,081)	(33,254)	(14,048)
Difference in overseas tax rates	–	(855)	(389)
Expenses not deductible for tax purposes	651	62	75
Utilisation of previously unrecognised tax losses	(38)	–	–
Tax losses for which no deferred income tax asset was recognised	43	141	93
Tax charge	23,621	4,401	45,814

(i) Cayman Islands profits tax

The Company was incorporated in Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and, accordingly, is exempted from payment of local income tax.

(ii) British Virgin Islands profits tax

The Company's direct subsidiary incorporated in British Virgin Islands under the International Business Companies Acts of the British Virgin Islands is exempted from payment of local income tax.

(iii) Hong Kong profits tax

Hong Kong profits tax rate is 16.5% up to 1 April 2018. When the two-tiered profits tax regime took effect on 1 April 2018, the applicable Hong Kong profits tax rate is 8.25% for assessable profits on the first HK$2 million and 16.5% for any assessable profits in excess of HK$2 million.

(iv) PRC corporate income tax

Corporate income tax ("CIT") in the PRC is calculated based on the statutory profit or loss of subsidiaries incorporated in the PRC in accordance with the PRC tax laws and regulations, after adjusting certain income and expense items, which are not assessable or deductible for income tax purposes. According to the PRC Corporate Income Tax Law promulgated by the PRC government, the tax rate for the Company's PRC subsidiaries is 25%.

According to the Implementation Rules for the Law for Promoting Private Education (the "Implementation Rules"), private schools, for which the school sponsors do not requiring reasonable returns are eligible to enjoy the same preferential tax treatment as public schools. The preferential tax treatment polices applicable to private schools requiring reasonable returns are to be separately formulated by the relevant government authorities under the State Council of the PRC. During the Track Record Period and up to the date of this Historical Financial Information, no regulations have been promulgated by such authorities in this regard. In accordance with the historical tax returns filed to the relevant tax authorities and the tax compliance confirmation obtained therefrom, CUCN has been granted corporate income tax exemption for providing formal academic education services. As a result, no income tax expense was recognised by CUCN during the Track Record Period.

(v) PRC Withholding Tax ("WHT")

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

During the Track Record Period, the Group had distributed certain portion of its PRC subsidiaries' retained earnings to their respective owners. The Group does not have any plan to further distribute the retained earnings of these PRC subsidiaries and intends to retain them for the operation and expansion of the Group's business in the PRC. Accordingly, no deferred income tax liability in connection with the aforesaid undistributed retained earnings has been recognised as at the end of each reporting period. As of 31 December 2017, 2018 and 2019, the undistributed retained earnings of those PRC subsidiaries amounted to approximately RMB653,972,000, RMB743,122,000 and RMB693,082,000 respectively.

16 SUBSIDIARIES

Set out below is summarised financial information for each subsidiary that has non-controlling interests ("NCI") that are material to the Group. The balances/amounts disclosed for each subsidiary are before inter-company balances/transactions eliminations.

Summarised balance sheets

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Huaxia Audio-Visual and its subsidiaries			
Current assets	524,050	412,805	222,935
Current liabilities	(405,101)	(412,269)	(207,990)
Net current assets	118,949	536	14,945
Non-current assets	41,488	144,818	75,607
Non-current liabilities	(16,346)	–	–
Net non-current assets	25,142	144,818	75,607
Net assets	144,091	145,354	90,552
Accumulated NCI	12,968	13,082	8,150

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Nanjing Meiya and its subsidiaries			
Current assets	330,750	217,505	186,011
Current liabilities	(77,005)	(102,974)	(111,009)
Net current assets	253,745	114,531	75,002
Non-current assets	948,792	1,240,613	1,394,903
Non-current liabilities	(132,120)	(143,657)	(194,927)
Net non-current assets	816,672	1,096,956	1,199,976
Net assets	1,070,417	1,211,487	1,274,978
Accumulated NCI	97,614	110,310	116,025

Summarised statements of comprehensive income

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Huaxia Audio-Visual and its subsidiaries			
Revenue	300,601	83,263	430,030
Profit for the year	68,411	1,264	127,162
Other comprehensive income	–	–	–
Total comprehensive income	68,411	1,264	127,162
Profit allocated to NCI	6,157	114	11,445
Dividends appropriated to NCI	(5,228)	–	(16,376)

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Nanjing Meiya and its subsidiaries			
Revenue	256,277	276,922	311,657
Profit for the year	112,323	141,070	63,490
Other comprehensive income	–	–	–
Total comprehensive income	112,323	141,070	63,490
Profit allocated to NCI	10,109	12,696	5,714

Summarised statements of cash flows

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Huaxia Audio-Visual and its subsidiaries			
Cash flows generated from operating activities	22,907	394	169,234
Cash flows generated from/(used in) investing activities	218	(109,365)	63,024
Cash flows generated from/(used in) from financing activities	138,079	(76,785)	(185,068)
Net increase/(decrease) in cash and cash equivalents	161,204	(185,756)	47,190

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Nanjing Meiya and its subsidiaries			
Cash flows generated from operating activities	139,466	190,850	106,256
Cash flows used in investing activities	(105,275)	(212,488)	(122,875)
Cash flows (used in)/generated from financing activities	(37,906)	–	31,133
Net (decrease)/increase in cash and cash equivalents	(3,715)	(21,638)	14,514

17 EARNINGS PER SHARE

(a) Basic

The basic earnings per share is calculated on the profit attributable to owner of the Company by the weighted average number of ordinary shares in issue during the Track Record Period. In determining the weighted average number of ordinary shares in issue, the subdivision of the Company's shares from 50,000 shares of US$1 each to 5,000,000,000 shares of US$0.00001 each (see Note 30(a)) were deemed to be effective since 1 January 2017. The new shares issued in connection with the Reorganisation had been treated as if these shares were in issue since 1 January 2017.

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Profit attributable to owners of the Company (RMB'000)	164,296	136,015	177,358
Weighted average number of ordinary shares in issue ('000)	1,200,000	1,200,000	1,200,000
Basic earnings per share (expressed in RMB)	0.14	0.11	0.15

(b) Diluted

Diluted earnings per share presented is the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued during the Track Record Period.

18 RIGHT-OF-USE ASSETS

	Land use rights	**Leased properties**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2017			
Opening net book amount	50,960	23,218	74,178
Depreciation charge	(1,390)	(3,870)	(5,260)
Closing net book amount	49,570	19,348	68,918
Year ended 31 December 2018			
Opening net book amount	49,570	19,348	68,918
Additions	56,477	–	56,477
Depreciation charge	(2,519)	(3,870)	(6,389)
Closing net book amount	103,528	15,478	119,006
Year ended 31 December 2019			
Opening net book amount	103,528	15,478	119,006
Depreciation charge	(2,519)	(3,870)	(6,389)
Closing net book amount	101,009	11,608	112,617

As at 31 December 2017, 2018 and 2019, the Group was in the process of obtaining the ownership certificates for certain land use rights located in the PRC with carrying amounts of approximately of RMB26,144,000, RMB80,758,000 and Nil respectively.

Land use rights with carrying amounts of approximately RMB49,570,000, RMB103,528,000 and RMB101,009,000 as at 31 December 2017, 2018 and 2019, respectively which are allocated by the PRC government, have no definite life of use stated in the land use rights certification or for which the Group is in the process of obtaining the ownership certificate. The estimated useful lives are 50 years which is the best estimate by reference to the normal lease terms as stated in the land use right certificates in the PRC. However, without the relevant administrative authorities' permission, the Group cannot transfer, lease or mortgage such land use rights as allocated by the PRC government.

Land use rights are depreciated on a straight-line basis over estimated useful lives and the depreciation was charged to cost of revenue in the consolidated statements of comprehensive income.

19 PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities	Furniture and fixtures	Motor vehicles	Education equipment	Office equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2017							
Cost	617,836	79,838	8,180	85,208	4,733	–	795,795
Accumulated depreciation	(153,786)	(55,897)	(4,755)	(70,299)	(4,101)	–	(288,838)
Net book amount	464,050	23,941	3,425	14,909	632	–	506,957
Year ended 31 December 2017							
Opening net book amount	464,050	23,941	3,425	14,909	632	–	506,957
Additions	–	800	1,105	7,193	181	3,774	13,053
Disposals	–	–	(153)	–	–	–	(153)
Depreciation charge	(15,527)	(4,170)	(947)	(5,360)	(195)	–	(26,199)
Closing net book amount	448,523	20,571	3,430	16,742	618	3,774	493,658
At 31 December 2017							
Cost	617,836	80,638	8,885	92,401	4,914	3,774	808,448
Accumulated depreciation	(169,313)	(60,067)	(5,455)	(75,659)	(4,296)	–	(314,790)
Net book amount	448,523	20,571	3,430	16,742	618	3,774	493,658
Year ended 31 December 2018							
Opening net book amount	448,523	20,571	3,430	16,742	618	3,774	493,658
Additions	–	1,387	1,002	4,228	94	7,935	14,646
Disposals	–	–	(1,260)	–	–	–	(1,260)
Depreciation charge	(15,526)	(4,380)	(769)	(5,577)	(199)	–	(26,451)
Closing net book amount	432,997	17,578	2,403	15,393	513	11,709	480,593
At 31 December 2018							
Cost	617,836	82,025	7,556	96,629	5,008	11,709	820,763
Accumulated depreciation	(184,839)	(64,447)	(5,153)	(81,236)	(4,495)	–	(340,170)
Net book amount	432,997	17,578	2,403	15,393	513	11,709	480,593

	Buildings and facilities *RMB'000*	Furniture and fixtures *RMB'000*	Motor vehicles *RMB'000*	Education equipment *RMB'000*	Office equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Year ended 31 December 2019							
Opening net book amount	432,997	17,578	2,403	15,393	513	11,709	480,593
Additions	–	1,106	4	15,813	663	68,888	86,474
Transfer upon construction completed	28,640	–	–	–	–	(28,640)	–
Disposals	–	–	–	–	–	–	–
Depreciation charge	(15,187)	(4,576)	(717)	(6,384)	(243)	–	(27,107)
Closing net book amount	446,450	14,108	1,690	24,822	933	51,957	539,960
At 31 December 2019							
Cost	646,476	83,131	7,028	112,442	5,671	51,957	906,705
Accumulated depreciation	(200,026)	(69,023)	(5,338)	(87,620)	(4,738)	–	(366,745)
Net book amount	446,450	14,108	1,690	24,822	933	51,957	539,960

Depreciation charges of property, plant and equipment were charged to the consolidated statements of comprehensive income as follows:

	Year ended 31 December 2017 *RMB'000*	2018 *RMB'000*	2019 *RMB'000*
Cost of revenue	17,142	17,657	18,049
Administrative expenses	9,057	8,794	9,058
	26,199	26,451	27,107

As at 31 December 2017, 2018 and 2019, the Group is still in the process of obtaining the ownership certificates for its buildings located in the PRC which are with carrying amounts of approximately of RMB448,523,000, RMB432,997,000 and RMB71,764,000, respectively.

20 INTANGIBLE ASSETS

	Computer Software *RMB'000*	Licensing rights *(Note)* *RMB'000*	Total *RMB'000*
At 1 January 2017			
Cost	1,539	90,000	91,539
Accumulated amortisation	(737)	(75,000)	(75,737)
Net book amount	802	15,000	15,802
Year ended 31 December 2017			
Opening net book amount	802	15,000	15,802
Additions	119	–	119
Amortisation charge	(106)	(15,000)	(15,106)
Closing net book amount	815	–	815
At 31 December 2017			
Cost	1,658	–	1,658
Accumulated amortisation	(843)	–	(843)
Net book amount	815	–	815
Year ended 31 December 2018			
Opening net book amount	815	–	815
Additions	113	–	113
Amortisation charge	(64)	–	(64)
Closing net book amount	864	–	864
At 31 December 2018			
Cost	1,771	–	1,771
Accumulated amortisation	(907)	–	(907)
Net book amount	864	–	864
Year ended 31 December 2019			
Opening net book amount	864	–	864
Additions	37	22,500	22,537
Amortisation charge	(242)	(7,500)	(7,742)
Closing net book amount	659	15,000	15,659
At 31 December 2019			
Cost	1,808	22,500	24,308
Accumulated amortisation	(1,149)	(7,500)	(8,649)
Net book amount	659	15,000	15,659

Note:

As detailed in Note 12, the licensing rights are related to two agreements as signed with CUC, the 2013 Agreements and the Termination Agreement. According to the 2013 Agreements, the Group made a payment of RMB90 million for the use of the licensing rights for a 6-years period from 2012 to 2017 and the payment had been capitalised and amortised on a straight-line basis over the contractual period. According to the Termination Agreement, the payment for the licensing rights covering the period from 1 July 2019 to 31 December 2020 of RMB22.5 million has been capitalised as intangible assets and amortised on a straight-line basis over the contractual period of 1.5 years.

Amortisation of the Group's intangible assets were charged in the following categories in the consolidated statements of comprehensive income as follows:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Cost of revenue	15,000	–	7,500
Administrative expenses	106	64	242
	15,106	64	7,742

21 TELEVISION SERIES AND FILM RIGHTS

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Television series and film rights			
– Adaptation rights and scripts	7,293	13,963	17,988
– Under production	59,537	4,915	4,915
– Completed production	58,934	270,477	48,747
	125,764	289,355	71,650

	Television series and film rights			
	Adaptation rights and scripts	**Under production**	**Completed production**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2017	8,951	52,100	58,917	119,968
Additions	–	162,869	–	162,869
Transfer upon production completed	–	(157,090)	157,090	–
Transfer from adaptation rights and scripts to under production	(1,658)	1,658	–	–
Recognised in cost of revenue	–	–	(157,073)	(157,073)
As at 31 December 2017	7,293	59,537	58,934	125,764
As at 1 January 2018	7,293	59,537	58,934	125,764
Additions	11,853	197,326	–	209,179
Transfer upon production completed	–	(257,131)	257,131	–
Transfer from adaptation rights and scripts to under production	(5,183)	5,183	–	–
Recognised in cost of revenue	–	–	(45,588)	(45,588)
As at 31 December 2018	13,963	4,915	270,477	289,355
As at 1 January 2019	13,963	4,915	270,477	289,355
Additions	4,589	9,893	–	14,482
Transfer upon production completed	–	(10,457)	10,457	–
Transfer from adaptation rights and scripts to under production	(564)	564	–	–
Recognised in cost of revenue	–	–	(232,187)	(232,187)
As at 31 December 2019	17,988	4,915	48,747	71,650

The Group has performed impairment tests on a title-by-title basis for these TV series and film rights by using the discounted cash flow model. In determining the projected net cash inflows to be received, management has made reference to contracts signed with customers, the recent market prices for other similar productions and prevailing production costs. The pre-tax discount rate as adopted in the impairment tests ranged 16.0%-44.0%. After considering the reasonably possible changes in the key parameters for the impairment tests, the Group has concluded that no provision for impairment is required to be recognised as of the respective balance sheet dates.

22 DEFERRED INCOME TAX ASSETS

	As at 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Deferred income tax assets:			
– Deferred income tax asset to be recovered after more than 12 months	5,431	4,715	–
– Deferred income tax asset to be recovered within 12 months	19,752	17,177	15,004
	25,183	21,892	15,004
Deferred income tax liabilities:			
– Deferred income tax liability to be recovered after more than 12 months	4,087	–	–
– Deferred income tax liability to be recovered within 12 months	750	3,870	2,903
	4,837	3,870	2,903

The deferred income tax assets and deferred income tax liabilities have been offset in the consolidated financial statements as following:

	As at 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Deferred income tax assets	20,346	18,022	12,101

The gross movement of deferred income tax assets and deferred income tax liabilities is as follows:

Deferred income tax assets

	Accrued expenses *RMB'000*	Lease liabilities *RMB'000*	Tax losses *RMB'000*	Financial assets of fair value through profit or loss *RMB'000*	Other temporary differences *RMB'000*	Total RMB'000 *RMB'000*
At 1 January 2017	4,929	6,118	149	905	9,206	21,307
Credited/(charged) to profit or loss	4,350	(687)	–	213	–	3,876
At 31 December 2017	9,279	5,431	149	1,118	9,206	25,183
At 1 January 2018	9,279	5,431	149	1,118	9,206	25,183
Credited/(charged) to profit or loss	46	(716)	(149)	1,394	(3,866)	(3,291)
At 31 December 2018	9,325	4,715	–	2,512	5,340	21,892
At 1 January 2019	9,325	4,715	–	2,512	5,340	21,892
Charged to profit or loss	(402)	(4,715)	–	(194)	(1,577)	(6,888)
At 31 December 2019	8,923	–	–	2,318	3,763	15,004

Deferred income tax liabilities

	Right-of-use assets
	RMB'000
At 1 January 2017	5,804
Credited to profit or loss	(967)
At 31 December 2017	4,837
At 1 January 2018	4,837
Credited to profit or loss	(967)
At 31 December 2018	3,870
At 1 January 2019	3,870
Credited to profit or loss	(967)
At 31 December 2019	2,903

23 INTERESTS IN JOINT OPERATIONS

The Group has entered into certain joint operation arrangements to produce and distribute three television series during the Track Record Period. The Group has participating interests ranging from 30% to 80% in these joint operations. As at 31 December 2017, 2018 and 2019, the aggregate amounts of assets/liabilities and revenue/expenses for the years then ended as recognised in the Historical Financial Information relating to the Group's interests in these joint operation arrangements are as follows:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Television series and film rights – for licensing	104,277	65,297	48,747
Inventory – Television series and film rights for sale	–	–	3,820
Trade receivables	150,888	64,308	67,638
	255,165	129,605	120,205
Trade payables	(5,617)	(19,381)	(25,673)
Other payables	(6,335)	(13,352)	(12,985)
Contract liabilities	(33,783)	(21,730)	(5,701)
	(45,735)	(54,463)	(44,359)
	209,430	75,142	75,846

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	299,044	73,707	29,413
Cost of revenue	(155,635)	(41,658)	(16,550)
Selling expenses	(28,723)	(6,365)	(4,441)
Profit before income tax	114,686	25,684	8,422

24 FINANCIAL INSTRUMENTS BY CATEGORY

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets			
Financial assets at amortised cost			
Trade receivables	154,545	82,813	70,336
Deposits and other receivables (excluding non-financial assets)	152,438	161,159	8,584
Cash and cash equivalents	255,916	58,072	120,481
Term deposits with initial term of over three months	–	15,000	–
Other current assets	86,900	7,000	–
	649,799	324,044	199,401
Financial assets at fair value			
Financial assets at fair value through profit or loss	310,986	656,118	799,516
Total	960,785	980,162	998,917
Financial liabilities			
Financial liabilities at amortised cost			
Borrowings	–	–	32,000
Lease liabilities	21,725	18,859	–
Trade payables	49,597	66,504	36,304
Dividend payables	58,092	5,228	21,604
Other payables (excluding non-financial liabilities)	46,545	66,840	86,640
Total	175,959	157,431	176,548

25 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets at fair value through profit or loss			
– Trading listed equity securities	48,511	33,552	9,344
– Wealth management products purchased from banks	262,475	622,566	790,172
Total	310,986	656,118	799,516

The wealth management products purchased from banks are denominated in RMB, with expected rates of return ranging from 3.20% to 4.65%, 2.70% to 4.70% and 3.00% to 4.10% per annum for the years ended 31 December 2017, 2018 and 2019, respectively. The principals and returns on all of these wealth management products are not guaranteed, hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore, they are measured at fair value through profit or loss. The fair values are based on cash flow discounted using the expected return based on management estimation and are within level 3 of the fair value hierarchy.

26 TRADE RECEIVABLES

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables			
– Television series and film productions	152,434	81,508	68,715
– Higher education and related resources services	2,111	1,305	1,621
	154,545	82,813	70,336

(a) The Group's trade receivables were denominated in RMB and the carrying amounts approximated their fair value.

(b) The table below sets forth an ageing analysis of trade receivables based on the recognition dates:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Less than 6 months	150,886	82,591	1,694
6 months to 1 year	3,354	–	7,222
1 to 2 years	254	222	61,420
Over 3 years	51	–	–
	154,545	82,813	70,336

As at 31 December 2017 2018 and 2019, trade receivables of RMB1,225,000, RMB37,434,000 and RMB70,185,000 were past due but not impaired, respectively. These are related to certain independent customers which are not in significant financial difficulty. Based on past experience, the Company expected that the past due balances can be recovered.

27 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Deposits and other receivables			
Loans to/amounts due from related parties *(Note 40(c))*	148,512	156,741	1,688
Payments of utilities on behalf of canteen operators and other third parties	2,369	2,518	4,661
Others	1,557	1,900	2,235
	152,438	161,159	8,584
Less: non-current portion	(141,091)	(144,380)	–
	11,347	16,779	8,584

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Prepayments			
Prepayment for television series and film rights	20,700	1,373	832
Prepayment for professional fees	–	–	3,761
Prepayments for purchases of property, plant and equipment	2,978	–	–
Prepayment for teaching materials	–	–	3,109
Deductible value-added-tax	–	3,478	4,718
Others	384	579	1,612
	24,062	5,430	14,032
Less: non-current portion	(2,978)	–	–
	21,084	5,430	14,032
Total prepayments, deposits and other receivables – current portion	32,431	22,209	22,616
Total prepayments, deposits and other receivables – non current portion	144,069	144,380	–

The Group's deposits and other receivables were denominated in RMB.

For the current portion of the deposits and other receivables, their carrying amount is considered to be similar to their fair value. The fair value for receivables from the Controlling Shareholder is estimated to be approximately RMB146,775,000, RMB154,114,000 and Nil as at 31 December 2017, 2018 and 2019, respectively. The fair values were calculated based on discounted cash flows and classified as level 3.

28 OTHER CURRENT ASSETS

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Short-term investments measured at amortised cost	86,900	7,000	–

Short-term investments measured at amortised cost represents wealth management products purchased from other financial institutions which are principal guaranteed, bearing fixed interest rate ranging from 3.2% to 4.2% per annum, with terms ranging from one to seven days and denominated in RMB. The investments are held for collection of contractual cash flows which were qualified for solely payments of principal and interest, hence they are measured at amortised cost. None of these investments are past due.

29 CASH AND BANK BALANCES

(a) Cash and cash equivalents

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Cash at bank and on hand	241,953	58,072	99,546
Cash held by other financial institutions	3,963	–	20,935
Short-term bank deposits	10,000	–	–
	255,916	58,072	120,481

Cash and cash equivalents which are denominated in the following currencies are as follow:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
RMB	252,695	47,645	83,486
HKD	233	109	205
USD	2,988	10,210	36,790
GBP	–	108	–
	255,916	58,072	120,481

(b) Term deposits with initial term of over three months

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Term deposits with initial term over three months	–	15,000	–

The interest rates on term deposits with the maturity over three months as at 31 December 2018 was in the range of 1.35% to 1.75% per annum. These deposits were denominated in RMB and earned interests at floating rates based on prevailing market rates.

30 SHARE CAPITAL

	Number of ordinary shares	**Nominal value of ordinary shares**
		US$
Authorised shares at 31 December 2017 and 2018 – US$1 each	50,000	50,000
Subdivision of shares *(Note (a))*	4,999,950,000	–
At 31 December 2019 – US$0.00001 each	5,000,000,000	50,000

	Number of ordinary shares	**Equivalent nominal value of ordinary shares**
		RMB'000
Issued and fully paid:		
Issuance of shares upon incorporation of the Company *(Note (a))*	1	–
As at 31 December 2017 and 2018	1	–
Subdivision of shares *(Note (b))*	99,999	–
	100,000	–
Issued but not fully paid:		
Increase in issued shares *(Note (c))*	1,199,900,000	86
At 31 December 2019	1,200,000,000	86

(a) The Company was incorporated in the Cayman Islands under the Companies Law of Cayman Islands as an exempted company with limited liability on 4 January 2017 with an authorised share capital of US$50,000 divided into 50,000 shares of a nominal or par value of US$1 each. On the same date, one subscriber share of the Company was transferred to Cathay Media Holding Inc. ("CMHI"), a company wholly owned by Mr. Pu which is incorporated in the British Virgin Islands at par value.

On 5 September 2019, the shareholder of the Company resolved that the authorised share capital of the Company is divided into 5,000,000,000 shares with a nominal or par value of US$0.00001 each.

(b) On 5 September 2019, one issued share of a nominal or par value of US$1 each in the capital of the Company held by CMHI is sub-divided into 100,000 shares of a nominal or par value of US$0.00001 each.

(c) On 5 September 2019, CMHI and Media Fortune Limited ("MFL"), another company wholly owned by Mr. Pu Yu which is incorporated in the British Virgin Islands, subscribed 1,154,900,000 ordinary shares and 45,000,000 ordinary shares of the Company, respectively. Up to 31 December 2019, the Company has not received the capital injection from CMHI and MFL.

31 OTHER RESERVES

(a) Other reserve movement of the Group

	Statutory reserves *(Note (i))* *RMB'000*	**Foreign translation reserves** *RMB'000*	**Capital reserves** *(Note (ii))* *RMB'000*	**Total** *RMB'000*
At 1 January 2017	166,312	–	–	166,312
Profit appropriation to statutory reserves	32,381	–	–	32,381
Currency translation differences	–	7	–	7
At 31 December 2017	198,693	7	–	198,700
At 1 January 2018	198,693	7	–	198,700
Profit appropriation to statutory reserves	38,118	–	–	38,118
Currency translation differences	–	252	–	252
At 31 December 2018	236,811	259	–	237,070
At 1 January 2019	236,811	259	–	237,070
Profit appropriation to statutory reserves	63,583	–	–	63,583
Currency translation differences	–	696	–	696
Effect of the Reorganisation	–	–	247,627	247,627
At 31 December 2019	300,394	955	247,627	548,976

(i) Statutory reserves

Pursuant to the relevant laws and regulations in the PRC, the Company's subsidiaries in the PRC shall make appropriations from after-tax profit to non-distributable reserve funds as determined by the respective regulations or boards of the directors of the relevant PRC subsidiaries where applicable. These reserves include:

– statutory reserve fund of the limited liability companies;

In accordance with the relevant laws and regulations in the PRC and Articles of Association of the companies incorporated in the PRC now comprising the Group (the "PRC Subsidiaries"), it is required to appropriate 10% of the annual statutory net profits of the PRC Subsidiaries, after offsetting any prior years' losses as determined under the PRC generally accepted accounting principles (the "PRC GAAP"), to the statutory reserves fund before distributing the net profit. When the balance of the statutory reserves fund reaches 50% of the registered capital of the PRC Subsidiaries, any further appropriation is at the discretion of shareholders of the PRC Subsidiaries. The statutory reserves fund can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding, provided that the remaining balance of the statutory reserves fund after such issue is not less than 25% of registered capital.

– general reserve fund of foreign invested enterprise; and

Pursuant to the laws applicable to China's Foreign Investment Enterprises, the Company's subsidiaries which are foreign investment enterprises in China have to make appropriations from their after-tax profit as determined under the PRC GAAP to reserve funds including (i) general reserve fund, (ii) enterprise expansion fund and (iii) staff bonus and welfare fund. The appropriation to the general reserve fund must be at least 10% of the after tax profits calculated in accordance with the PRC GAAP. Appropriation is not required if the reserve fund has reached 50% of the respective company. Appropriations to the other two reserve funds are at the respective companies' discretion.

– the development fund of schools.

According to the relevant PRC Laws and regulations, for a private school not requiring reasonable return, it is required to appropriate to development fund of not less than 25% of the net profit or the annual increase of net assets of the relevant school as determined in accordance with the PRC GAAP. The development fund is for the construction or maintenance of the school or procurement or upgrading of educational equipment.

(ii) Capital reserves

As mentioned in Note 2 above, the Historical Financial Information has been prepared as if the Group structure after the Reorganisation has been in existence throughout the Track Record Period. Combined capital as 31 December 2017 and 2018 represented the combined capital including the registered capital and owners' contributions of the companies now comprising the Group after elimination of inter-company investments. Upon completion of the Reorganisation on 5 September 2019, the combined capital was reclassified to capital reserves, which represented the contribution of the Consolidated Affiliated Entities from the owners of the Company via the Contractual Arrangements.

(b) Other reserve movement of the Company

	Foreign translation reserves *RMB'000*	Other reserve *RMB'000*	Total *RMB'000*
At 1 January 2017	–	–	–
Currency translation differences	2	–	2
At 31 December 2017	2	–	2
At 1 January 2018	2	–	2
Currency translation differences	(9)	–	(9)
At 31 December 2018	(7)	–	(7)
At 1 January 2019	(7)	–	(7)
Currency translation differences	(4)	–	(4)
Shareholders' contribution in the Reorganisation	–	1,208,202	1,208,202
At 31 December 2019	(11)	1,208,202	1,208,191

32 TRADE PAYABLES

The ageing analysis of the trade payables based on their respective invoice dates are as follows:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Less than 6 months	27,249	46,504	36,304
6 months to 1 year	18,458	–	–
1 to 2 years	3,890	20,000	–
	49,597	66,504	36,304

33 OTHER PAYABLES AND ACCRUAL CHARGES

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Other payables and accrual charges			
Miscellaneous expenses received from students *(Note (b))*	10,940	13,996	15,354
Amount due to a related party *(Note 40(c))*	3,600	3,600	3,600
Payables for teaching materials and other operating expenditure	5,092	5,945	7,134
Payables for purchases of property, plant and equipment	2,524	1,106	2,094
Payables to joint operators	6,335	13,352	12,985
Payables for deposits	2,600	4,457	6,961
Payable for interest	–	–	547
Payables for professional services	8,915	15,382	24,451
Government subsidies payable to students	220	2,606	5,126
Others	6,319	6,396	8,388
Total financial liabilities	46,545	66,840	86,640
Salary and welfare payables	13,992	15,091	16,793
Other taxes payable	18,456	785	820
Total non-financial liabilities	32,448	15,876	17,613
Other payables and accrual charges	78,993	82,716	104,253

Notes:

(a) The Group's other payables and accrued charges were denominated in RMB.

(b) The amounts represent the miscellaneous expenses collected from students which are to be paid out by the Group on behalf the students.

34 BORROWINGS

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Non-current			
-Unsecured borrowing from a third party non-financial institution *(Note (a))*	–	–	32,000
	–	–	32,000

Notes:

(a) In July 2019, a subsidiary of the Group has drawn down an unsecured loan of RMB32 million from a third party non-financial institution which bears fixed interest rate at 5% per annum and is repayable on 2 August 2027.

35 DEFERRED INCOME

	As at 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Deferred government grants	2,157	1,859	1,561

The government grants were received for subsidies in connection with the Group's construction/purchases of certain property, plant and equipment and are recognised over the estimated useful lives of the relevant assets.

36 DIVIDEND PAYABLES

	As at 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Dividend payables	58,092	5,228	21,604

On 5 December 2017, Huaxia Audio-Visual has declared dividend of RMB58,092,000 and part of the declared dividends of RMB52,864,000 have been paid on 24 January 2018. The remaining dividend payables to the NCI of RMB5,228,000 has not yet been settled as of 31 December 2019.

On 9 August 2019, Huaxia Audio-Visual declared dividend of approximately RMB181,964,000. Declared dividends of RMB165,588,000 have been paid on 26 August 2019. The remaining dividend payables to the NCI of RMB16,376,000 has not yet been settled as of 31 December 2019.

37 LEASE LIABILITIES

(a) Amounts recognised in the consolidated balance sheets

	Year ended 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Lease liabilities in connection of leases of office premises			
– Current	5,379	18,859	–
– Non-current	16,346	–	–
	21,725	18,859	–

Liabilities arising from a lease are initially measured on a present value basis and are discounted at a rate of 4.9% per annum. The finance cost of leases is charged to profit or loss over the lease period.

Pursuant to the term as set out in the agreement governing the leases of the office premises, the Group has settled all of the lease liabilities in August 2019 (which include the prepayment for rental expenses of RMB14,610,000 for the period from 1 January 2020 to 31 December 2022).

(b) Amounts recognised in the consolidated statements of comprehensive income/cash flows

The consolidated statements of comprehensive income/cash flows shows the following amounts relating to leases:

	Year ended 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Interest expense *(Note 14)*	1,178	1,056	621
Depreciation of right-of-use assets *(Note 18)*	3,870	3,870	3,870
Total cash outflow for leases	3,922	3,922	19,480

The lease agreements do not impose any covenants, but lease assets may not be used as security for borrowing purposes.

38 CASH FLOW INFORMATION

(a) Cash generated from/(used in) operations

	Year ended 31 December 2017 RMB'000	2018 RMB'000	2019 RMB'000
Profit before income tax	204,183	153,226	240,331
Adjustments for:			
– Depreciation of property, plant and equipment *(Note 19)*	26,199	26,451	27,107
– Amortisation of intangible assets *(Note 20)*	15,106	64	7,742
– Depreciation of right-of-use assets *(Note 18)*	5,260	6,389	6,389
– Deferred income	(298)	(298)	(298)
– Other income	(364)	(1,176)	(66)
– Net loss from the renegotiation for the early repayment of loans receivable *(Note 11)*	–	–	9,667
– Losses/(gains) on disposal of property, plant and equipment *(Note 11)*	–	142	(66)
– Finance income-net *(Note 14)*	(4,986)	(7,031)	(6,084)
– Changes in fair value of financial assets at fair value through profit or loss *(Note 11)*	(6,091)	1,285	(31,515)
Changes in working capital:			
– Television series and film rights	(5,796)	(163,591)	217,705
– Inventory	–	–	(3,820)
– Trade receivables	(143,279)	71,732	12,477
– Prepayments, deposits and other receivables	(9,424)	15,394	(7,335)
– Contract liabilities	79,595	111,890	(161,161)
– Trade payable	(1,719)	16,907	(15,200)
– Other payable and accrual charges	25,826	4,595	16,954
Cash generated from operations	184,212	235,979	312,827

(b) Reconciliation of liabilities from financing activities

This section sets out the movements in net debt for each of the years presented.

	Borrowings from financial institution RMB'000	Borrowings from non-financial institution RMB'000	Lease liabilities RMB'000	Total RMB'000
Balance as at 1 January 2017	(37,000)	–	(24,469)	(61,469)
Cash outflows–Principal	37,000	–	2,744	39,744
Cash outflows–Interest	907	–	1,178	2,085
Other non-cash movements–accrue interest	(907)	–	(1,178)	(2,085)
Balance as at 31 December 2017	–	–	(21,725)	(21,725)
Cash outflows–Principal	–	–	2,866	2,866
Cash outflows–Interest	–	–	1,056	1,056
Other non-cash movements–accrue interest	–	–	(1,056)	(1,056)
Balance as at 31 December 2018	–	–	(18,859)	(18,859)
Cash (inflows)/outflows–Principal	–	(32,000)	18,859	(13,141)
Cash outflows–Interest	–	–	621	621
Other non-cash movements–accrue interest	–	(547)	(621)	(1,168)
Balance as at 31 December 2019	–	(32,547)	–	(32,547)

39 COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the end of the years but not yet incurred is as follows:

	As at 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Land use rights	56,159	–	–
Property, plant and equipment	3,756	1,444	–
Investments accounted for using the equity method *(Note)*	–	–	1,750
Total	59,915	1,444	1,750

Note:

Cathay Media HK has entered into an agreement on 25 July 2019 and committed to invest in and has 50% equity holding in Emperor Nanguang performance (Nanjing) Co., Ltd. ("Emperor Nanguang"), a new company incorporated on 15 November 2019. As at 31 December 2019, Cathay Media HK had not paid the investment proceeds (RMB1,750,000.00) to Emperor Nanguang and Emperor Nanguang also has not started operation. No investment was recognised by Group as at 31 December 2019.

40 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, control or joint control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control or joint control. Members of controlling shareholder, key management and their close family member of the Group are also considered as related parties.

Mr. Pu is the Controlling Shareholder of the Group for the years ended 31 December 2017, 2018 and 2019.

(a) Name and relationship with related parties

Name of related parties	**Nature of relationship**
Mr. Pu	Controlling Shareholder
Mr. Pu Yu	A shareholder of the Company
Cathay Media Holding Inc. ("CMHI")	Ultimate holding company of the Group
Lanchou Investment Holding Company Limited	An entity controlled by Mr. Pu
Media Fortune Limited ("MFL")	A company controlled by Mr. Pu Yu

(b) Significant transactions with related parties

During the Track Record Period, the Group has the following significant transactions with related parties:

	Year ended 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Loans to the Controlling Shareholder and related interest receivables			
Balance at 1 January	141,559	148,350	155,140
Loans repaid by Mr. Pu *(Note 40(c))*	–	–	(150,000)
Interest income	6,791	6,790	4,527
Net loss from the renegotiation for the early repayment of loans from Mr. Pu *(Note 40(c))*	–	–	(9,667)
Balance at 31 December	148,350	155,140	–

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Dividend payables			
Balance at 1 January	–	58,092	5,228
Dividend declared			
– Mr. Pu	52,864	–	165,588
– Non-controlling shareholders	5,228	–	16,376
Dividend paid			
– Mr. Pu	–	(52,864)	(165,588)
Balance at 31 December	58,092	5,228	21,604
Other non-trade transactions with related parties			
Payment on behalf of CMHI	9	142	–
Settlement of distribution before Track Record Period to Mr. Pu	8,000	–	–
Sales of property, plant and equipment to Mr. Pu	–	(1,296)	–
Sales of property, plant and equipment to Mr. Pu Yu	(153)	–	–
Purchase of property, plant and equipment from Mr. Pu	–	749	–
Leasing of office building from Mr. Pu	3,922	3,922	19,480
Subscription of the Company's shares by CMHI	–	–	83
Subscription of the Company's shares by MFL	–	–	3

(c) Non-trade balances with related parties

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Amounts due from CMHI	9	152	236
Amounts due from MFL	–	–	3
Amounts due from Mr. Pu Yu	153	153	153
Amounts due from Mr. Pu			
– Loans to Mr. Pu *(Note)*	135,816	135,816	–
– Interest receivable on loans due from Mr. Pu *(Note)*	12,534	19,324	–
– Disposal consideration receivables from Mr. Pu	–	1,296	1,296
	148,512	156,741	1,688
Amounts due to Mr. Pu	3,600	3,600	3,600
Dividend payables			
– Mr. Pu	52,864	–	–
– Non-controlling shareholder	5,228	5,228	21,604
	61,692	8,828	25,204

Notes:

(i) The Group has entered into loan agreement with Controlling Shareholder (Mr. Pu) on 4 December 2015 and 25 May 2016, respectively ("Loan Agreements"). Pursuant to the Loan Agreements, the Group granted RMB denominated loans with principal amounts of RMB70 million and RMB80 million to the Controlling Shareholder which were unsecured, bore interests at a fixed rate of 5% per annum and 1 % per annum respectively and were originally repayable in 2020 and 2021, respectively.

The aforesaid loans receivable was recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Upon the initial recognition of the related loans receivable, the fair value adjustment resulting from the contracted non-market interest rates as applicable to the loans receivable amounted to approximately RMB14.2 million had reduced the initial carrying amount of the loans receivable as recognised by that amount, with a corresponding debit to the Group's retained earnings to reflect a deemed distribution to the Controlling Shareholder.

In July 2019, the Group has renegotiated with the Controlling Shareholder for the early repayment of the aforesaid loans receivable. Based on the mutual agreement reached in the renegotiation, the Group has entered into a supplement agreement with the Controlling Shareholder on 24 July 2019 (the "Supplemental Agreement"). Pursuant to the Supplemental Agreement, the Controlling Shareholder agreed to early repay all of the loan principals under the Loan Agreements and the Group agreed to waive all of the interest receivables as of the date of the Supplemental Agreement.

The Controlling Shareholder has subsequently repaid the entire loan principals of RMB150 million on 28 August 2019. The net loss arising from the renegotiation for the early repayment from the Controlling Shareholder of RMB9,667,000 (representing the aggregated carrying amounts of the loans and interest receivables derecognised in excess of the cash amount as repaid by the Controlling Shareholder) has been recognised in the consolidated statements of comprehensive income as "other gains/(losses) - net" during the year ended 31 December 2019 (Note 11).

(ii) The other amounts due from/to related parties were unsecured, interest-free, non-trading in nature, collectable/repayable on demand and denominated in RMB. Their carrying amounts approximated their fair values at each of the reporting dates.

(iii) Till now, the non-trade balances with related parties have not been settled yet. Such balances will be settled prior to the Listing.

(d) Key management compensation

Key management includes directors (executive and non-executive), chief executive officer and chief financial officer. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Salaries, allowances and other benefits	2,202	2,294	2,401

41 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The Company appointed seven directors on the board, who are Mr. Pu Shulin (Chairperson of the Board), Sun Haitao (Executive Director), Wu Ye (Executive Director), Yan Xiang (Executive Director), Zhang Jizhong (Independent Non-executive Director), Li Zhuoran (Independent Non-executive Director), Huang Yu (Independent Non-executive Director). Among the directors, Zhang Jizhong, Li Zhuoran, Huang Yu received no emolument or remuneration from the Company. The remuneration of every director and chief executive is set out below:

Year ended 31 December 2017

	Fees	**Salary**	**Discretionary bonuses**	**Employer's contributions to the retirement benefit scheme**	**Social security costs excluding retirement cost**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Name						
Executive director						
Mr. Sun Haitao	–	577	–	51	64	692
Mr. Pu Shulin	–	600	–	–	–	600
Mr. Yan Xiang	–	242	–	48	56	346
Mr. Wu Ye	–	218	–	38	48	304
Total	–	1,637	–	137	168	1,942

Year ended 31 December 2018

	Fees	Salary	Discretionary bonuses	Employer's contributions to the retirement benefit scheme	Social security costs excluding retirement cost	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Name						
Executive director						
Mr. Sun Haitao	–	577	–	55	70	702
Mr. Pu Shulin	–	600	–	–	–	600
Mr. Yan Xiang	–	240	–	41	54	335
Mr. Wu Ye	–	218	10	42	52	322
Total	–	1,635	10	138	176	1,959

Year ended 31 December 2019

	Fees	Salary	Discretionary bonuses	Employer's contributions to the retirement benefit scheme	Social security costs excluding retirement cost	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Name						
Executive director						
Mr. Sun Haitao	–	577	–	50	74	701
Mr. Pu Shulin	–	600	–	–	–	600
Mr. Wu Ye	–	218	79	37	52	386
Mr. Yan Xiang	–	240	–	40	54	334
Total	–	1,635	79	127	180	2,021

(b) Directors' retirement benefits

No retirement benefits were paid or receivable by any directors in respect of their services in connection with the management of the affairs of the Company or its subsidiary undertaking for the years ended 31 December 2017, 2018 and 2019, respectively.

(c) Directors' termination benefits

No payments were made to directors as compensation for early termination of the appointment for the years ended 31 December 2017, 2018 and 2019, respectively.

(d) Consideration provided to third parties for making available directors' service

No payments were made to the former employer of directors or third parties for making available the services as a director of the Company for the years ended 31 December 2017, 2018 and 2019, respectively.

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

Save as disclosed in note 40(c)(i) above, no other loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors for the years ended 31 December 2017, 2018 and 2019, respectively.

(f) Directors' material interests in transactions, arrangements or contracts

No other significant transaction, arrangement and contract in relation to the Group's business to which the Group companies were parties and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during the years ended 31 December 2017, 2018 and 2019, respectively.

42. SUBSEQUENT EVENTS

An outbreak of the wide spread of the Novel Coronavirus (the "Coronavirus Outbreak") has been emerged since early of January 2020 and has been subsequently declared as a Public Health Emergency of International Concern by the World Health Organisation on 30 January 2020.

The directors of the Company has conducted an assessment of the impact of this post-balance sheet date Coronavirus Outbreak based on the Group's business segments as below:

– For the television series and film production segment, no TV/film production activities were conducted during the period from January to March 2020 (which originally might be resumed in March 2020 right after the Chinese Lunar New Year holiday). The Group has already rolled-off the principal photography of a new TV series in late April 2020.

– For the higher education segment, the tuition, boarding fee and related fees for the entire academic year commencing 1 September 2019 have already been prepaid by students prior to 30 September 2019. CUCN could only arranged online learnings for its student as a temporary measure during the period from March 2020 (right after the winter break) till late April 2020 due to the precautionary and control measures as implemented by the PRC government. All students of CUCN have already been allowed to resume their classroom learnings from late April 2020 and the Group is not planned or obliged to refund any of tuition fees to students due to the temporary online learning arrangements. And the Group decided to refund approximately two months' boarding fees to the students, such refund will not have significant impact to both revenue and net profit of our higher education business for 2020.

Based on the assessment as mentioned above, the directors of the Company have concluded that there is not any significant adverse impact on the Group's financial position as of the report date as a result of the Coronavirus Outbreak and there might be certain unfavorable impact on the Group's financial performance due to the delay in resuming the TV/film production activities but the financial effect of which for the year ending 31 December 2020 cannot be reasonably estimated at this stage. The Group will closely monitor the latest development of the Coronavirus Outbreak and continue to adopt positive counter-measures to overcome any challenges or unfavorable impact arising from the Coronavirus Outbreak.

Except for the non-adjusting subsequent events as described above, there is no other significant event occurred subsequently after the balance sheet date.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company in any of the companies now comprising the Group in respect of any period subsequent to 31 December 2019 and up to date of this report. No dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2019.

The information set forth in this Appendix II does not form part of the Accountant's Report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as set forth in Appendix I to this prospectus, and is included herein for illustrative purpose only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Historical financial information" in this prospectus and the Accountant's Report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules, is for the purpose of illustrating the effect of the Listing on the consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 December 2019 as if the Global Offering had taken place on 31 December 2019.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the net tangible assets of the Group as at 31 December 2019 or at any future dates following the Global Offering. It is prepared based on the consolidated financial information of the Group as at 31 December 2019 as set forth in the Accountant's Report of the Group, the text of which is set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the Accountant's Report.

	Audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 December 2019	**Estimated net proceeds from the Global Offering**	**Unaudited pro forma adjusted net tangible assets attributable to the owners of the Company as at 31 December 2019**	**Unaudited pro forma adjusted net tangible assets per share**	
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 5)*
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
Based on the Offer Price of HK$2.86 per share	1,238,328	1,004,177	2,242,505	1.40	1.53
Based on the Offer Price of HK$3.10 per share	1,238,328	1,090,250	2,328,578	1.46	1.59

Notes:

(1) The audited consolidated net tangible assets attributable to the owners of the Company as of 31 December 2019 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to the owners of the Company as of 31 December 2019 of RMB1,252,578,000, with an adjustment for the intangible assets attributable to the owners of the Company as at 31 December 2019 of RMB14,250,000.

(2) The estimated net proceeds from the Global Offering are based on the individual Offer Price of HK$2.86 and HK$3.10 per share, being the lower end to higher end of the stated offer price range, respectively, and 400,000,000 shares expected to be issued under the Global Offering, after deduction of the underwriting fees and other related expenses payable by the Company (excluding listing expenses of approximately RMB37.5 million which have been accounted for in the Group's consolidated statement of comprehensive income prior to 31 December 2019), and takes no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option, any options which may be granted under the Post-IPO Share Option Scheme, any shares which may be awarded under the Post-IPO Share Award Scheme or any Shares which may be allotted and issued or repurchased by the Company under the general mandate to issue Shares and general mandate to repurchase Shares as described in the section headed "Share capital" in this prospectus.

(3) The unaudited pro forma adjusted net tangible assets per share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,600,000,000 shares are in issue, assuming the Global Offering had been completed on 31 December 2019, and no Over-allotment Option will be granted.

(4) No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2019.

(5) For the purpose of this unaudited pro forma statement of adjusted net tangible assets, the balance stated in Renminbi is converted into Hong Kong dollars at rate of HK$1.00 to RMB0.9150. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

B. REPORT FROM THE REPORTING ACCOUNTANT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Cathay Media and Education Group Inc.

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Cathay Media and Education Group Inc. (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as at 31 December 2019, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 to II-2 of the Company's prospectus dated 30 June 2020, in connection with the proposed initial public offering of the shares of the Company (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2 of the Prospectus.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed initial public offering on the Group's financial position as at 31 December 2019 as if the proposed initial public offering had taken place at 31 December 2019. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial information for the period ended 31 December 2019, on which an accountant's report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

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Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering at 31 December 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) or standards and practices of any professional body in any other overseas jurisdiction and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 30 June 2020

The following is the text of a letter and a valuation report prepared for the purpose of incorporation in this document received from Cushman & Wakefield Limited, an independent property valuer, in connection with its opinion of value of the property interest of Cathay Media and Education Group Inc. as at April 30, 2020.

CUSHMAN & WAKEFIELD
戴德梁行

16th Floor
Jardine House
1 Connaught Place
Central
Hong Kong
June 30, 2020

The Directors
Cathay Media and Education Group Inc.,
F-22, Tower 12, Wanda Plaza,
93 Jianguo Road,
Chaoyang District,
Beijing, the PRC

Dear Sirs,

Instructions, Purpose & Valuation Date

We refer to the instruction of Cathay Media and Education Group Inc. (the "Company") for Cushman & Wakefield Limited ("C&W") to prepare market valuation of the property in which the Company and/or its subsidiaries (together referred to as the "Group") have interests in the People's Republic of China (the "PRC"). We confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing the Company with our opinion of the value of the property as at April 30, 2020 (the "valuation date").

Valuation Basis

Our valuation of the property represents its market value which in accordance with The HKIS Valuation Standards 2017 Edition issued by The Hong Kong Institute of Surveyors is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

We confirm that the valuation is undertaken in accordance with The HKIS Valuation Standards 2017 Edition issued by The Hong Kong Institute of Surveyors.

In valuing the property, we have complied with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities published by the Stock Exchange of the Hong Kong Limited.

Our valuation of property is on an entirety interest basis.

Valuation Assumptions

Our valuation of the property excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of value available only to a specific owner or purchaser.

In the course of our valuation of the property, we have assumed that transferable land use rights in respect of the property for its term at nominal annual land use fee has been granted and that any premium payable has already been fully paid. We have relied on the advice given by the Company regarding the title to the property and the interest in the property.

In valuing the property, we have assumed that the owner of the property has enforceable title to the property and has free and uninterrupted rights to use, occupy or assign the property for the whole of the unexpired term as granted.

We have assumed that all consents, approvals and licences from relevant government authorities for the developments have been obtained without onerous conditions or delays. We have also assumed that the design and construction of the development are in compliance with the local planning and other relevant regulations and have been approved by the relevant authorities.

No allowances have been made in our valuation for any charges, mortgages or amounts owing on the property nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of any onerous nature which could affect its value.

Method of Valuation

In valuing the property, due to the specific nature of the property and lack of sales transactions of properties of the same characteristics in the vicinity, we have adopted the Depreciated Replacement Costs ("DRC") Method. The DRC Method is based on an estimate of the market value of the land in its existing use, plus the current cost of replacement of the improvements, less allowance for physical deterioration and all relevant forms of obsolescence and optimisation. For the land portion, we have made reference to comparable land sales evidence as available in the relevant market subject to appropriate adjustments including but not limited to location, time, size etc. The DRC Method is subject to service potential of the entity from the use of assets as a whole paying due regard to the total assets employed. The market value arrived using the DRC Method applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed.

Source of Information

In the course of our valuation, we have relied to a very considerable extent on the information given to us by the Group and its legal adviser, Commerce & Finance Law Offices (通商律師事務所) regarding the title to the property and the interest of the Group in the property. We have accepted advice given by the Group on such matters as planning approvals or statutory notices, easements, tenure, identification of land and buildings, particulars of occupancy, site and floor areas, site and floor plans, completion date of buildings, interest attributable to the Group and all other relevant matters.

Dimensions, measurements and areas are based on the copies of documents or other information provided to us by the Company and are therefore only approximations. No on-site measurement has been carried out. We have had no reason to doubt the truth and accuracy of the information provided by the Company which is material to the valuation. We were also advised that no material facts have been omitted from the information provided to us.

Title Investigation

We have been provided with copies of the title documents relating to the property but have not carried out any land title searches. Moreover, we have not inspected the original documents to verify ownership or to ascertain any amendments which may not appear on the copies handed to us. We are also unable to ascertain the title of the property in the PRC and we have therefore relied on the advice given by the Company regarding its interests in the property.

In the course of our valuation, we have relied to a considerable extent on the information given by the Group and its legal adviser, Commerce & Finance Law Offices (通商律師事務所), in respect of the title to the property in the PRC.

Site Inspection

Mr. Hui Huang, Senior Manager of our Nanjing Office, inspected the exterior and, where possible, the interior of the property on June 16, 2020. Mr. Hui Huang has over 9 years' experience in property valuation in the PRC. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are, however, not able to report that the property is free of not, infestation or other structural defects. No test was carried out on any of the services. Our valuation is prepared on the assumption that these aspects are satisfactory.

Unless otherwise stated, we have not carried out detailed on-site measurements to verify the site and floor areas of the property and we have assumed that the areas shown on the documents handed to us are correct.

Confirmation of Independence

We hereby confirm that C&W and the undersigned have no pecuniary or other interests that could conflict with the proper valuation of the property or could reasonably be regarded as being capable of affecting our ability to give an unbiased opinion.

We also confirm that we are an independent qualified valuer, as referred to Rule 5.08 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

Market Uncertainty

The recent outbreak of the Novel Coronavirus (COVID-19) has brought high volatility to global financial markets and uncertainty to the property market. It is expected that property values will be very sensitive to development of the pandemic and changes in the financial markets. The extents of impact on different sectors of the market are different and the time for marketing and negotiating sale of a property will be longer than normal. There will be less certainty as to how long a valuation may sustain and property prices may fluctuate rapidly and materially over a short period of time. Our valuation of the property is valid only at the valuation date and any subsequent changes in market conditions as well as the resulting impacts on property values after the valuation date cannot be taken into account. If any party intends to make reference to our valuation when entering into any transaction, he must bear in mind the high market volatility during this period of time and that the property value may or may not have changed since the valuation date.

Intended Use and User of Report

This valuation report is issued only for the use of the Company for incorporation into its listing document.

Currency

Unless otherwise stated, all monetary amounts stated in our valuation report are in Renminbi ("RMB"), the official currency of the PRC.

We enclose herewith our valuation report for your attention.

Yours faithfully,
For and on behalf of
Cushman & Wakefield Limited
Grace S.M. Lam
MRICS, MHKIS, RPS(GP)
Director
Valuation & Advisory Services, Greater China

Note: Grace S.M. Lam is a Member of the Royal Institution of Chartered Surveyors, a Member of the Hong Kong Institute of Surveyor and a Registered Professional Surveyor (General Practice). Ms. Lam has over 25 years of experience in the professional property valuation and advisory services in the Greater China region and various overseas countries. Ms. Lam has sufficient current national knowledge of the market, and skills and understanding to undertake the valuation competently.

VALUATION REPORT

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at April 30, 2020
Communication University of China, Nanjing 3666 Hongjing Avenue, Science Park, Jiangning District, Nanjing, Jiangsu Province, the PRC	Communication University of China, Nanjing is a university containing campus developed in 2 phases and is erected upon various parcels of adjoining land with a total site area of 705,454.75 sq m.	As at the valuation date, the property was operated as a university.	No commercial value (see Note (1))

The campus comprises various buildings completed in the period between 2005 and 2019.

The property comprises various existing teaching buildings, dormitories, multiple-functional buildings and ancillary facilities with a total gross floor area of 283,397.21 sq m with details as follows:–

Use	Gross Floor Area *(sq m)*
Teaching buildings	30,842.33
Dormitories	147,081.83
Multiple-functional buildings	63,665.15
Ancillary facilities	41,807.90
Total	**283,397.21**

In addition, 4 student dormitories with a total planned gross floor area of 40,052.88 sq m currently under construction are scheduled to be completed in November 2020.

The property is located in National Science Park of Jiangning District, Nanjing. Developments nearby are mainly residential and educational in nature. According to the information provided by the Group, the property is generally for educational use.

The property is held with allocated land use rights with no specific term for technology and education uses. (For details, please see Note (2)).

Notes:–

(1) In the valuation of the property, we have attributed no commercial value to the property due to non-assignment restriction of the allocated land nature of the property. However, for reference purpose, we are of opinion that the depreciated replacement cost of the buildings and structures is in the sum of 533,300,000 (RENMINBI FIVE HUNDRED THIRTY THREE MILLION AND THREE HUNDRED THOUSAND).

(2) According to four Real Estate Title Certificates issued by 南京市規劃和自然資源局 (Nanjing Urban Planning and Natural Resources Bureau), the land use rights of allocated nature of the property with a total site area of 705,454.75 sq m and the building ownership of the property with a total floor area of 246,593.97 sq m have been vested in 中國傳媒大學南廣學院 (Communication University of China, Nanjing) with details as follows:–

Certificate No.	Issue date	Land use term expiry date	Site area	Gross floor area
			(sq m)	*(sq m)*
(2019) 0089820	December 18, 2019	No specific term	31,503.91	40,665.91
(2019) 0089822	December 18, 2019	No specific term	497,191.14	205,928.06
(2019) 0089689	December 17, 2019	No specific term	149,509.10	–
(2019) 0089690	December 17, 2019	No specific term	27,250.60	–
		Total:	705,454.75	246,593.97

(3) According to three Planning Permits for Construction Works issued by 南京市規劃和自然資源局 (Nanjing Urban Planning and Natural Resources Bureau), the construction works with a total planned floor area of approximately 337,962.02 sq m are in compliance with the rural and urban planning requirements and have been approved with details as follows:–

Certificate No.	Issue date	Gross floor area
		(sq m)
320115201912306	December 2, 2019	192,129.14
320115201910185	January 28, 2019	105,780.00
320115201911378	July 29, 2019	40,052.88
	Total:	337,962.02

(4) According to two Commencement Permits for Construction Works issued by 南京市江寧區行政審批局 (Jiangning District Branch of Nanjing Administration Approval of Regulatory Bureau), the construction works with a total planned gross floor area of 40,052.88 sq m are in compliance with the requirements for works commencement and have been permitted with detail as follows:-

Certificate No.	Issue date	Gross floor area
		(sq m)
320115201909241101	September 24, 2019	18,008.50
320115202001201501	January 20, 2020	22,044.38
	Total:	40,052.88

(5) According to Construction Fire Protection Acceptance Form No. (2018) 0013 dated August 20, 2018, the construction works with a total gross floor area of 186,742.60 sq m have passed fire control assessment.

(6) According to the information provided by the Group, the construction cost for the 4 student dormitories currently under construction with a total planned gross floor area of 40,052.88 sq m incurred as at the valuation date was approximately RMB18,800,000. In the course of our valuation, we have taken into account such costs.

(7) We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, which contains, inter alia, the following information:–

(a) 中國傳媒大學南廣學院 (Communication University of China, Nanjing) has the right to freely occupy and use of the land use rights of the property with a total site area of 705,454.75 sq m as permitted by the PRC laws and regulations within the planned usage;

(b) 中國傳媒大學南廣學院 (Communication University of China, Nanjing) has the right to freely occupy and use of the property with a total floor area of 246,593.97 sq m as permitted by the PRC laws and regulations within the planned usage;

(c) 中國傳媒大學南廣學院 (Communication University of China, Nanjing) has not obtained several relevant certificates and approvals from the government in respect of the construction and has not obtained certain building ownership certificates of the buildings;

(d) 中國傳媒大學南廣學院 (Communication University of China, Nanjing) is in the process of applying to the relevant government authorities for the relevant outstanding certificates and permits;

(e) 中國傳媒大學南廣學院 (Communication University of China, Nanjing) has obtained confirmations from the relevant and competent government authorities that 中國傳媒大學南廣學院 (Communication University of China, Nanjing) will not be subject to administrative penalties and is permitted to use the relevant buildings under current status; and

(f) Based on such confirmations, the risk that 中國傳媒大學南廣學院 (Communication University of China, Nanjing) the probability of administrative penalties regarding the lack of construction planning permit, construction works commencement permit, acceptance inspection upon completion, fire control assessment for such buildings is relatively low.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on January 4, 2017 under the Cayman Companies Law. The Company's constitutional documents consist of its Memorandum and Articles.

1. MEMORANDUM OF ASSOCIATION

The Memorandum provides, inter alia, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since the Company is an exempted company, that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on June 22, 2020. A summary of certain provisions of the Articles is set out below.

(a) Shares

(i) Classes of shares

The share capital of the Company consists of ordinary shares.

(ii) Variation of rights of existing shares or classes of shares

Subject to the Cayman Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of the Articles relating to general meetings shall *mutatis mutandis* apply to every such separate general meeting, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or, in the case of a shareholder being a corporation, by its duly authorized representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

The Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so canceled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorized and subject to any conditions prescribed by law.

(iv) Transfer of shares

Subject to the Cayman Companies Law and the requirements of the Stock Exchange, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognize any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

(v) Power of the Company to purchase its own shares

The Company may purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles or any code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

(vi) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by installments. If the sum payable in respect of any call or installment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or installments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or installment of a call on the day appointed for payment, the Board may, for so long as any part of the call or installment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or installment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

(b) Directors

(i) Appointment, retirement and removal

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the "retirement by rotation" provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

(i) resign;

(ii) dies;

(iii) is declared to be of unsound mind and the Board resolves that his office be vacated;

(iv) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(v) he is prohibited from being or ceases to be a director by operation of law;

(vi) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;

(vii) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or

(viii) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine, and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Cayman Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of the Company or any of its subsidiaries

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(iv) Borrowing powers

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) Remuneration

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, *pro rata*. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make contributions out of the Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vi) Compensation or payments for loss of office

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more of the Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(viii) Disclosure of interest in contracts with the Company or any of its subsidiaries

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favor of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realized by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

(i) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

(ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

(v) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

(c) Proceedings of the Board

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

(d) Alterations to the constitutional documents and the Company's name

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

(e) Meetings of member

(i) Special and ordinary resolutions

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

(ii) Voting rights and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorized corporate representative):

(a) at least two members;

(b) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(c) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, such person or persons may be authorized as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorisation shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized in accordance with this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings

The Company must hold an annual general meeting each year other than the year of the Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorized by the Stock Exchange at such time and place as may be determined by the Board.

(iv) Notices of meetings and business to be conducted

An annual general meeting of the Company shall be called by at least 21 days' notice in writing, and any other general meeting of the Company shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Cayman Companies Law and the Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

(i) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95% of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

Extraordinary general meetings shall also be convened on the requisition of one or more members holding at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings.

(v) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vi) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorized in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorized officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favor of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(f) Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Law (which include all sales and purchases of goods by the company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account, book or document of the Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorized by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarized financial statements to shareholders who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those shareholders that have consented and elected to receive the summarized financial statements not less than 21 days before the general meeting.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The members may, at any general meeting convened and held in accordance with the Articles of the Company, remove the auditors by special resolution at any time before the expiration of the term of office and shall, by ordinary resolution, at that meeting appoint new auditors in its place for the remainder of the term.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

(g) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

(a) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;

(b) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and

(c) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, installments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

(a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or

(b) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by checks or warrant sent through the post. Every such checks or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the checks or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or installments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending checks for dividend entitlements or dividend warrants by post if such checks or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a checks or warrant is returned undelivered.

(h) Inspection of corporate records

For so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

(j) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

(i) if the Company is wound up and the assets available for distribution among the members of the Company are more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed pari passu among such members in proportion to the amount paid up on the shares held by them respectively; and

(ii) if the Company is wound up and the assets available for distribution among the members as such are insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

(k) Subscription rights reserve

Provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on January 4, 2017 subject to the Cayman Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Company operations

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

(b) Share capital

Under Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancelation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

(i) paying distributions or dividends to members;

(ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;

(iii) any manner provided in section 37 of the Cayman Companies Law;

(iv) writing-off the preliminary expenses of the company; and

(v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorized to do so by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorize the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares.

In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as canceled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Cayman Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either canceled or transferred pursuant to the Cayman Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

Subject to a solvency test, as prescribed in the Cayman Companies Law, and the provisions, if any, of the company's memorandum and articles of association, company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of Foss v. Harbottle and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

(g) Disposal of assets

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

(h) Accounting and auditing requirements

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities. Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2017 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

(i) Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2018 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet that:

(i) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and

(ii) no tax be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:

    (a) on or in respect of the shares, debentures or other obligations of the Company; or

    (b) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2018 Revision).

The undertaking for the Company is for a period of 20 years from May 2, 2018.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

(m) Inspection of corporate records

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

(n) Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands.

(o) Register of Directors and officers

Pursuant to the Cayman Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers, including a change of the name of such directors or officers.

(p) Winding up

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

(q) Reconstructions

Reconstructions and amalgamations may be approved by a majority in number representing 75% in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

(r) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

(s) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation

Our Company was incorporated under the laws of the Cayman Islands on January 4, 2017 as an exempted limited liability company. Upon our incorporation, the authorized share capital was US$50,000 divided into 50,000 Shares with a nominal value of US$1.00 each.

Our registered office address is at Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands. Accordingly, our Company's corporate structure and Memorandum and Articles are subject to the relevant laws of the Cayman Islands. A summary of our Memorandum and Articles is set out in Appendix IV.

Our registered place of business in Hong Kong is at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. We were registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on May 10, 2018 with the Registrar of Companies in Hong Kong. Ms. Chow Yuk Yin Ivy has been appointed as the authorized representative of our Company for the acceptance of service of process in Hong Kong. The address for service of process is Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

As at the date of this document, our Company's head office is located at 22/F, Block 12, Wanda Plaza No. 93 Jianguo Road, Chaoyang District, Beijing, China.

2. Changes in share capital of our Company

The following sets out the changes in the Company's issued share capital within the two years immediately preceding the date of this document:

(a) On September 5, 2019, each issued and authorized but unissued ordinary shares of par value US$1.00 each were subdivided into 100,000 ordinary shares of par value US$0.00001 each, such that immediately following this share subdivision, the authorized share capital of our Company became US$50,000 divided into 5,000,000,000 shares of par value US$0.00001 each; and

(b) On the same day, our Company issued and allotted 1,154,900,000 ordinary shares of par value US$0.00001 each to Cathay Media Holding Inc. and 45,000,000 ordinary shares of par value US$0.00001 each to Media Fortune Limited;

Save as disclosed above and in the section headed "– Resolutions of our Shareholders dated June 22, 2020" below, there has been no alteration in the share capital of our Company within the two years immediately preceding the date of this document.

3. Changes in the share capital of members of our Group

A summary of the corporate information and the particulars of our subsidiaries are set out in note 2 to the Accountant's Report as set out in Appendix I.

There has been no alteration in the share capital of any member of our Group within the two years immediately preceding the date of this document.

4. Resolutions of our Shareholders dated June 22, 2020

Resolutions of our Shareholders were passed on June 22, 2020, pursuant to which, among others, conditional upon the conditions of the Global Offering (as set out in this document) being fulfilled:

(a) the Memorandum and the Articles were approved and adopted effective conditional on and immediately prior to the Listing on the Listing Date;

(b) the Global Offering, Listing and Over-allotment Option were approved, and our Directors were authorised to negotiate and agree the Offer Price and to allot and issue the Offer Shares (including pursuant to the Over-allotment Option);

(c) a general mandate (the "**Sale Mandate**") was granted to our Directors to allot, issue and deal with any Shares or securities convertible into Shares and to make or grant offers, agreements or options which would or might require Shares to be allotted, issued or dealt with, provided that the number of Shares so allotted, issued or dealt with or agreed to be allotted, issued or dealt with by our Directors, shall not exceed 20% of the total number of Shares in issue immediately following the completion of Global Offering;

(d) a general mandate (the "**Repurchase Mandate**") was granted to our Directors to repurchase our own Shares on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the total number of Shares in issue immediately following completion of the Global Offering;

(e) the Sale Mandate was extended by the addition to the total number of Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the total number of the Shares purchased by our Company pursuant to the Repurchase Mandate, provided that such extended amount shall not exceed 10% of the total number of the Shares in issue immediately following completion of the Global Offering; and

(f) the terms of the Post-IPO Share Option Scheme and Post-IPO Share Award Scheme were approved and adopted with effect from Listing.

Each of the general mandates referred to above will remain in effect until the earliest of:

(i) the conclusion of the next annual general meeting of our Company unless, by ordinary resolution passed at that meeting, the authority is renewed, either unconditionally or subject to condition;

(ii) the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws of the Cayman Islands or the memorandum and the articles of association of our Company; and

(iii) the passing of an ordinary resolution by our Shareholders in a general meeting revoking or varying the authority.

5. Explanatory statement on repurchase of our own securities

The following summarizes restrictions imposed by the Listing Rules on share repurchases by a company listed on the Stock Exchange and provides further information about the repurchase of our own securities.

Shareholders' approval

A listed company whose primary listing is on the Stock Exchange may only purchase its shares on the Stock Exchange, either directly or indirectly, if: (i) the shares proposed to be purchased are fully-paid up, and (ii) its shareholders have given a specific approval or general mandate by way of an ordinary resolution of shareholders.

Size of mandate

The exercise in full of the Repurchase Mandate, on the basis of 1,600,000,000 Shares in issue immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised, no Shares that are awarded under the Post-IPO Share Award Scheme, and no options are granted under the Post-IPO Share Option Scheme), could accordingly result in up to approximately 160,000,000 Shares being repurchased by our Company.

The total number of shares which a listed company may repurchase on the Stock Exchange may not exceed 10% of the number of issued shares as at the date of the shareholder approval.

Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and Shareholders for our Directors to have general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and Shareholders.

Source of funds

Purchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and Articles and the applicable laws and regulations of the Cayman Islands.

The Company shall not purchase its own Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

Any purchases by the Company may be made out of profits or out of an issue of new shares made for the purpose of the purchase or, if authorized by its Memorandum and Articles of Association and subject to the Cayman Companies Law, out of capital, and, in the case of any premium payable on the purchase out of profits or from sums standing to the credit of our share premium account or, if authorized by its Memorandum and Articles of Association and subject to the Cayman Companies Law, out of capital.

Suspension of repurchase

A listed company shall not repurchase its shares on the Stock Exchange at any time after inside information has come to its knowledge until the information is made publicly available. In particular, during the period of one month immediately preceding the earlier of: (i) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for the issuer to announce its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), until the date of the results announcement, the company may not repurchase its shares on the Stock Exchange unless there are exceptional circumstances.

Trading restrictions

A listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange.

A listed company may not repurchase its shares if that repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange.

Status of repurchased Shares

The listing of all repurchased shares (whether through the Stock Exchange or otherwise) shall be automatically canceled and the relevant documents of title must be canceled and destroyed as soon as reasonably practicable.

Close associates and core connected persons

None of our Directors or, to the best of their knowledge having made all reasonable enquiries, any of their close associates have a present intention, in the event the Repurchase Mandate is approved, to sell any Shares to our Company.

No core connected person of our Company has notified our Company that they have a present intention to sell Shares to our Company, or have undertaken to do so, if the Repurchase Mandate is approved.

A listed company shall not knowingly purchase its shares on the Stock Exchange from a core connected person (namely a director, chief executive or substantial shareholder of the company or any of its subsidiaries, or a close associate of any of them), and a core connected person shall not knowingly sell their interest in shares of the company to it.

Takeover implications

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

General

If the Repurchase Mandate were to be carried out in full at any time, there may be a material adverse impact on our working capital or gearing position (as compared with the position disclosed in our most recent published audited accounts). However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would have a material adverse effect on our working capital or gearing position.

Our Directors have undertaken to the Stock Exchange to exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws in the Cayman Islands.

We have not made any repurchases of our Shares in the previous six months.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

The following are contracts (not being contracts entered into in the ordinary course of business) entered into by any member of our Group within the two years immediately preceding the date of this document that are or may be material:

(a) a termination of co-operation agreement dated July 1, 2019 between Communication University of China ("**CUC**"), CUCN and Nanjing Meiya, pursuant to which CUCN and Nanjing Meiya agreed to pay CUC RMB160 million to, among others, terminate their co-operation with CUC and facilitate the transition of CUCN from an independent college to a private higher education institution;

(b) an exclusive business cooperation agreement dated August 28, 2019 entered into between WFOE-Education, Nanjing Lanchou, CUCN and Pu Shulin, pursuant to which WFOE-Education agreed to, among other things, provide Nanjing Lanchou and CUCN with technical services, management support services, consulting services and intellectual property licenses as required by the business activities of Nanjing Lanchou and CUCN;

(c) an exclusive technical services and management consulting agreement dated August 28, 2019 entered into between WFOE-Education, Nanjing Lanchou and CUCN, pursuant to which WFOE-Education agreed to, among other things, provide Nanjing Lanchou and CUCN with technical services, management support services and consulting services;

(d) an exclusive call option agreement dated August 28, 2019 entered into between Pu Shulin, Nanjing Lanchou, Nanjing Meiya, CUCN and WFOE-Education, pursuant to which Pu Shulin granted WFOE-Education or its designated purchaser the exclusive right to purchase all or part of his direct and/or indirect interest in Nanjing Lanchou, Nanjing Meiya and CUCN;

(e) a shareholders' rights entrustment agreement dated August 28, 2019 entered into between WFOE-Education, Nanjing Lanchou and Pu Shulin, pursuant to which Pu Shulin authorized and entrusted WFOE-Education or person(s) designated by WFOE-Education to exercise all his respective rights as shareholder of Nanjing Lanchou;

(f) an equity pledge agreement dated August 28, 2019 entered into between WFOE-Education, Pu Shulin and Nanjing Lanchou, pursuant to which Pu Shulin agreed to pledge all of his equity interests in Nanjing Lanchou to WFOE-Education;

(g) an equity pledge agreement dated August 28, 2019 entered into between WFOE-Education, Nanjing Lanchou and Nanjing Meiya, pursuant to which Nanjing Lanchou agreed to pledge all of its equity interests in Nanjing Meiya to WFOE-Education;

(h) a directors' rights entrustment agreement dated August 28, 2019 entered between the directors of CUCN (namely Pu Shulin (蒲樹林), Yan Xiang (嚴翔), Chen Simeng (陳思蒙), Hu Shixiang (胡士香), Jacqueline Luo, Xiang Zhongping (項仲平), Cui Xiong (崔雄), Yang Bin (楊斌) and Wang Xinghe (汪興和)) and WFOE-Education, pursuant to which the directors of CUCN authorized and entrusted WFOE-Education or person(s) designated by WFOE-Education to exercise all his/her rights as director of CUCN;

(i) an exclusive business cooperation agreement dated August 28, 2019 entered into between WFOE-Production, Dongyang Huaxia, Pu Shulin and Liu Chang, pursuant to which WFOE-Production agreed to, among other things, provide Dongyang Huaxia and its subsidiaries with various services including technical services, management support services, consulting services and intellectual property licenses as required by the business activities of Dongyang Huaxia and its subsidiaries;

(j) an exclusive technical services and management consulting agreement dated August 28, 2019 entered into between WFOE-Production and Dongyang Huaxia pursuant to which WFOE-Production agreed to, among other things, provide Dongyang Huaxia and its subsidiaries with technical services, management support services and consulting services;

(k) an exclusive call option agreement dated August 28, 2019 entered into between Pu Shulin, Liu Chang, Dongyang Huaxia, Huaxia Audio-Visual, Huaxia Online and WFOE-Production, pursuant to which Pu Shulin and Liu Chang granted WFOE-Production or its designated purchaser the exclusive right to purchase all or part of their direct and/or indirect equity interests in Dongyang Huaxia, Huaxia Audio-Visual and Huaxia Online;

(l) a shareholders' rights entrustment agreement dated August 28, 2019 entered into between WFOE-Production, Dongyang Huaxia, Pu Shulin and Liu Chang, pursuant to which Pu Shulin and Liu Chang authorized and entrusted WFOE-Production or person(s) designated by WFOE-Production to exercise all their respective rights as shareholders of Dongyang Huaxia;

(m) an equity pledge agreement dated August 28, 2019 entered into between WFOE-Production, Dongyang Huaxia, Pu Shulin and Liu Chang, pursuant to which Pu Shulin and Liu Chang agreed to pledge all of their equity interests in Dongyang Huaxia to WFOE-Production;

(n) an equity pledge agreement dated August 28, 2019 entered into between WFOE-Production, Dongyang Huaxia and Huaxia Audio-Visual, pursuant to which Dongyang Huaxia agreed to pledge all of its equity interests in Huaxia Audio-Visual to WFOE-Production;

(o) a cornerstone investment agreement dated June 25, 2020 entered into between the Company, Highland Pines Limited, Macquarie Capital Limited and China Merchants Securities (HK) Co., Limited pursuant to which Highland Pines Limited agreed to subscribe for Shares at the Offer Price in the amount of the Hong Kong dollar equivalent of US$40,000,000;

(p) a cornerstone investment agreement dated June 25, 2020 entered into between the Company, Snow Lake China Master Fund, Ltd. and Snow Lake China Master Long Fund, Ltd. (collectively the "**Snow Lake Funds**"), Macquarie Capital Limited and China Merchants Securities (HK) Co., Limited pursuant to which the Snow Lake Funds agreed to subscribe for Shares at the Offer Price in the amount of the Hong Kong dollar equivalent of US$20,000,000;

(q) a cornerstone investment agreement dated June 25, 2020 entered into between the Company, Foresight Orient Global Superior Choice SPC – Global Superior Choice Fund 1 SP ("**GSC Fund 1**") and Foresight Orient Global Superior Choice SPC – Vision Fund 1 SP ("**Vision Fund 1**"), Macquarie Capital Limited and China Merchants Securities (HK) Co., Limited pursuant to which GSC Fund 1 and Vision Fund 1 agreed to subscribe for Shares at the Offer Price in the amount of the Hong Kong dollar equivalent of US$10,000,000;

(r) a cornerstone investment agreement dated June 25, 2020 entered into between the Company, Oceanic Wisdom Limited, Macquarie Capital Limited and China Merchants Securities (HK) Co., Limited pursuant to which Oceanic Wisdom Limited agreed to subscribe for Shares at the Offer Price in the amount of the Hong Kong dollar equivalent of US$2,500,000; and

(s) the Hong Kong Underwriting Agreement.

2. Intellectual property rights

Save as disclosed below, as of the Latest Practicable Date, there were no other trademarks, service marks, patents, intellectual property rights, or industrial property rights which are or may be material in relation to our business.

Trademarks registered in China

As at the Latest Practicable Date, we had registered the following trademarks in China which we consider to be or may be material to our business:

No.	Trademark	Registered owner	Class	Registration number	Expiry date (dd/mm/yyyy)
1.		Huaxia Audio-Visual	35	12879910	27/08/2025
		Huaxia Audio-Visual	41	12880210	06/12/2024
2.	CATHAY MEDIA	Huaxia Audio-Visual	35	12879847	27/03/2025
		Huaxia Audio-Visual	41	12880393	06/04/2025
3.	CMG	Huaxia Audio-Visual	35	12879946	20/06/2025
4.	CATHAY	Huaxia Audio-Visual	35	12879878	27/03/2025
		Huaxia Audio-Visual	41	12880233	06/04/2025
5.	南广 NanGuang	Nanjing Meiya	1	4446697	27/03/2028
		Nanjing Meiya	9	4446698	13/10/2027
		Nanjing Meiya	15	4446699	27/03/2028
		Nanjing Meiya	16	4446700	27/03/2028
		Nanjing Meiya	28	4446701	27/10/2028
		Nanjing Meiya	29	4446702	13/08/2027
		Nanjing Meiya	30	4446703	13/08/2027
		Nanjing Meiya	31	4446704	13/08/2027
		Nanjing Meiya	32	4446705	13/08/2027
		Nanjing Meiya	33	4446706	13/08/2027
		Nanjing Meiya	34	4446707	13/08/2027
		Nanjing Meiya	35	4446710	27/10/2028
		Nanjing Meiya	36	4446708	13/09/2028
		Nanjing Meiya	37	4446709	20/08/2028
		Nanjing Meiya	38	4446711	20/08/2028
		Nanjing Meiya	41	4446712	20/08/2028
		Nanjing Meiya	42	4446713	20/08/2028
		Nanjing Meiya	43	4446714	20/08/2028
		Nanjing Meiya	44	4446715	20/08/2028
		Nanjing Meiya	45	4446716	20/08/2028

Trademarks registered in Hong Kong

As at the Latest Practicable Date, we had registered the following trademarks in Hong Kong which we consider to be or may be material to our business:

No.	Trademark	Registered owner	Class	Registration number	Expiry date (dd/mm/yyyy)
1.		Huaxia Audio-Visual	35	304032530	25/01/2027
2.	華夏視聽	Huaxia Audio-Visual	35	304032512	25/01/2027
3.	CATHAY MEDIA	Huaxia Audio-Visual	35	304032521	25/01/2027

Copyrights

As at the Latest Practicable Date, our Group owned, co-owned or licensed in the copyrights to the following TV Series which we consider to be or may be material to our business:

No.	Title of TV series (Chinese)	Title of TV series (English)	Name of proprietor or licensor
1.	鹿鼎記	The Deer And The Cauldron	Beijing Huayi Brothers Film Industry Investment Co., Ltd. (北京華誼兄弟影業投資有限公司)
2.	京華煙雲	Moment In Peking	Jiuzhou Audio-Video Publishing Company (九洲音像出版公司)
3.	倚天屠龍記	The Heaven Sword and Dragon Saber	Beijing Huayi Brothers Entertainment Investment Co., Ltd. (北京華誼兄弟娛樂投資有限公司)
4.	倚天屠龍記	The Heaven Sword and Dragon Saber	Huaxia Audio-Visual
5.	偶然	Coincident Meet	Jiuzhou Audio-Video Publishing Company (九洲音像出版公司)
6.	像火花像蝴蝶	Old Days in Shanghai	Huaxia Audio-Visual
7.	準媽媽四重奏	Mother-to-be Quartet	Huaxia Audio-Visual
8.	四世同堂	Four Generations Under One Roof	Beijing Lvshi Culture Development Co., Ltd. (北京履實文化發展有限公司)
9.	因為有你	Because of You	Huaxia Audio-Visual
10.	夜幕下的哈爾濱	Harbin Under the Curtain of Night	Huaxia Audio-Visual
11.	大唐遊俠傳	Paladins in Troubled Times	Huaxia Audio-Visual
12.	屋頂上的綠寶石	Emerald on the Roof	Beijing Dongwang Culture Development Co., Ltd. (北京東王文化發展有限公司)

No.	Title of TV series (Chinese)	Title of TV series (English)	Name of proprietor or licensor
13.	美人無淚山河戀	In Love with Power	Huaxia Audio-Visual
14.	悲傷時唱首歌	Singing when you are Sad	Huaxia Audio-Visual
15.	真愛惹麻煩	Love & Trouble	Huaxia Audio-Visual
16.	碧血劍	Sword stained with Royal Blood	Huaxia Audio-Visual
17.	神鵰俠侶	The Return of the Condor Heroes	Huaxia Audio-Visual
18.	風塵三俠之紅拂女	Romance of Red Dust	Beijing Ciwen Film and TV Production Co., Ltd. (北京慈文影視製作有限公司)
19.	笑傲江湖	The Smiling, Proud Wanderer	Huaxia Audio-Visual
20.	金茂祥	Jin Mao Xiang	Jiuzhou Audio-Video Publishing Company (九洲音像出版公司)
21.	鳳囚凰	Untouchable Lovers	Huaxia Audio-Visual
22.	射鵰英雄傳	The Legend of the Condor Heroes	Suzhou Ciwen Film and TV Production Co., Ltd. (蘇州慈文影視製作有限公司) Beijing Ciwen Film and TV Production Co., Ltd. (北京慈文影視製作有限公司) Jiuzhou Audio-Video Publishing Company (九洲音像出版公司) Beijing Huaxia Audio-Visual Times Advertising Co., Ltd. (北京華夏視聽時代廣告有限公司) Beijing Broadband Technology Co., Ltd. (北京寬頻科技有限公司) Beijing Fuyuan Four Seas Film and TV Culture Co., Ltd. (北京福緣四海影視文化有限公司) Beijing Tiandi Heyun Film and TV Culture Exchange Co., Ltd. (北京天地和韻影視文化交流有限公司)
23.	孫子	Sun Zi-Military Expert	Shandong Film and Television Production Center (山東電影電視劇製作中心)
24.	粉紅女郎	Pink Ladies	China International Television Cooperation (中國國際電視總公司)
25.	天龍八部	Demi-Gods and Semi-Devils	Jiuzhou Audio-Video Publishing Company (九洲音像出版公司) Jiangsu Radio and TV Station (江蘇省廣播電視總台)
26.	永樂英雄兒女	Hero of Yong Le Age	Suzhou Ciwen Film and TV Production Co., Ltd. (蘇州慈文影視製作有限公司)

No.	Title of TV series (Chinese)	Title of TV series (English)	Name of proprietor or licensor
27.	神鵰俠侶(2004)	The Return of the Condor Heroes	Jiuzhou Audio-Video Publishing Company (九洲音像出版公司) Beijing Ciwen Film and TV Production Co., Ltd. (北京慈文影視製作有限公司) Beijing Fuyuan Four Seas Film and TV Culture Arts Co., Ltd. (北京福緣四海影視文化藝術有限公司) Dongyang Fuyuan Film and TV Culture Communication Co., Ltd. (東陽市福源影視文化傳播有限公司)
28.	霍元甲	Kungfu King Huo Yuanjia	Beijing Jian Yongjia Film and TV Culture Media Co., Ltd. (北京吉安永嘉影視文化傳媒有限公司)
29.	長江一號	Changjiang No. 1	Beijing Fuyuan Sight Film and TV Culture Co., Ltd. (北京福緣視線影視文化有限公司)
30.	生死橋	The Bridge of Life and Death	Beijing Fuyuan Sight Film and TV Culture Co., Ltd. (北京福緣視線影視文化有限公司)
31.	青春期撞上更年期II	Adolescence and Menopause II	Zhejiang Dongyang Gorgeous Audiovisual Film and TV Communication Co., Ltd. (浙江東陽華麗視聽影視傳播有限公司)
32.	封神	The Gods	Dongyang Sanshang Film & TV Media Co., Ltd. (東陽三尚影視傳媒有限公司)
33.	朝歌	Zhaoge	Dongyang Huanyu Film & TV Culture Co., Ltd. (東陽歡娛影視文化有限公司)

Domain names

As at the Latest Practicable Date, we owned or leased the following domain names which we consider to be or may be material to our business:

No.	Domain name	Registered owner/lessee	Expiry date
1.	cathaypicture.com	Huaxia Audio-Visual	03/04/2021
2.	cathayentertainment.com	Huaxia Audio-Visual	04/03/2021
3.	catheyentertainment.com	Huaxia Audio-Visual	04/03/2021
4.	中國視聽.中國	Huaxia Audio-Visual	29/06/2027
5.	華夏視聽.中國	Huaxia Audio-Visual	29/06/2027
6.	中國視聽.cn	Huaxia Audio-Visual	29/06/2027
7.	華夏視聽.cn	Huaxia Audio-Visual	29/06/2027
8.	cathaymedia.com	Huaxia Audio-Visual	10/03/2021
9.	CUCN.EDU.CN	CUCN	

C. FURTHER INFORMATION ABOUT OUR DIRECTORS

1. Particulars of Directors' service contracts and appointment letters

Executive Directors

Each of our executive Directors has entered into a service contract with our Company pursuant to which they agreed to act as executive Directors for an initial term of three years from the Listing Date or until the third annual general meeting of our Company after the Listing Date (whichever is sooner). Either party has the right to give not less than three months' written notice to terminate the agreement. Details of the Company's remuneration policy are described in section headed "Directors and senior management – Remuneration".

The executive Directors are not entitled to receive any remuneration in their capacities as executive Directors under their respective service contracts.

Independent non-executive Directors

Each of our independent non-executive Directors has entered into an appointment letter with our Company. The term of office of our independent non-executive Directors is three years or until the third annual general meeting of our Company since the Listing Date (whichever is sooner).

Under these appointment letters, the annual director's fee receivable by each of our independent non-executive Directors in such capacities is HK$180,000.

2. Remuneration of Directors

(a) Save as disclosed in this document, none of our Directors has or is proposed to have a service contract with any member of our Group other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

(b) The aggregate amount of remuneration (including basic salaries, housing allowances, other allowances and benefits in kind, contributions to pension plans and discretionary bonuses) for our Directors for the year ended December 31, 2019 was approximately RMB2.02 million.

(c) Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors by any member of our Group in respect of the year ending December 31, 2020 is approximately RMB2.02 million.

3. Disclosure of interests

Interests and short positions of our Directors in the share capital of our Company or our associated corporations following completion of the Global Offering

Immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised, no Shares are awarded under the Post-IPO Share Award Scheme, and no options are granted under the Post-IPO Share Option Scheme), the interests or short positions of our Directors and chief executives in the shares, underlying shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO), which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the 'Model Code for Securities Transactions by Directors of Listed Issuers' contained in the Listing Rules, to be notified to our Company and the Stock Exchange are set out below:

Interest in our Company

Name of director	Nature of interest	Number of Shares	Approximate percentage of interest in our Company immediately after the Global Offering(1)
Mr. Pu	Interest in a controlled corporation	1,155,000,000	72.19%

Note:

(1) It is assumed that the Over-allotment Option is not exercised, no Shares are awarded under the Post-IPO Share Award Scheme, and no options are granted under the Post-IPO Share Option Scheme.

Interest in our associated corporations

Associated corporation	Name of director	Nature of interest	Number of shares/ amount of contribution to registered capital	Interest in associated corporation
Cathay Media Holding Inc.	Mr. Pu	Interest in a controlled corporation	1	100%

Interests and short positions disclosable under Divisions 2 and 3 of Part XV of the SFO

For information, so far as is known to our Directors or chief executive, of each person, other than our Directors or chief executive, who immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised, no Shares are awarded under the Post-IPO Share Award Scheme, and no options are granted under the Post-IPO Share Option Scheme) will have an interest or short position in the Shares or underlying shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, is, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of our Group, see the section headed "Substantial shareholders".

D. SHARE SCHEMES

1. Post-IPO Share Award Scheme

The following is a summary of the principal terms of the Post-IPO Share Award Scheme conditionally adopted by the Shareholders' resolutions dated June 22, 2020 effective from the Listing Date. The Post-IPO Share Award Scheme is not a share option scheme and is not subject to the provisions of Chapter 17 of the Listing Rules.

Purpose

The purpose of the Post-IPO Share Award Scheme is to align the interests of eligible persons with those of our Group through ownership of Shares, dividends and other distributions paid on Shares and/or the increase in value of the Shares, and to encourage and retain eligible persons to make contributions to the long-term growth and profits of our Group.

Eligible Persons

Any individual, being an employee, director, officer, consultant, adviser, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of our Group or any affiliate (including nominees and/or trustees of any employee benefit trust established for them) who the Board or its delegate(s) considers, in its sole discretion, to have contributed or will contribute to our Group is eligible to receive an Award (as defined below). However, no individual who is resident in a place where the grant, acceptance or vesting of an Award pursuant to the Post-IPO Share Award Scheme is not permitted under the laws and regulations of such place or where, in the view of the Board, compliance with applicable laws and regulations in such place makes it necessary or expedient to exclude such individual, shall be entitled to participate in the Post-IPO Share Award Scheme.

Awards

An Award gives a selected participant a conditional right, when the Shares vest, to obtain the Shares or, if in the absolute discretion of the Board or its delegate(s), it is not practicable for the selected participant to receive the Award in Shares, the cash equivalent from the sale of the Shares. An Award includes all cash income from dividends in respect of those Shares from the date the Award is granted ("**Grant Date**") to the date the Award vests ("**Vesting Date**"). For the avoidance of doubt, the Board at its discretion may from time to time determine that any dividends declared and paid by our Company in relation to the Shares be paid to the selected participant even though the Shares have not yet vested.

Grant of Award

The Board or the committee of the Board or person(s) to which the Board has delegated its authority may, from time to time, at their absolute discretion, grant an Award to a selected participant (in the case of the Board's delegate(s), to any selected participant other than a director or an officer of our Company) by way of an award letter ("**Award Letter**"). The Award Letter will specify the Grant Date, the number of Shares underlying the Award, the vesting criteria and conditions, the Vesting Date and such other details as the Board or its delegate(s) may consider necessary.

Each grant of an Award to any Director or the chief executive officer shall be subject to the prior approval of the independent non-executive Directors (excluding any independent non-executive Director who is a proposed recipient of the grant of an Award). Our Company will comply with the relevant requirements under Chapter 14A of the Listing Rules for any grant of shares to connected persons of our Company.

The Board and its delegate(s) may not grant any Shares to any selected participant in certain circumstances, including the following:

(i) where any applicable approval from any applicable regulatory authorities has not been granted;

(ii) where any member of our Group will be required under applicable securities laws, rules or regulations to issue a prospectus or other offer documents in respect of such Award or the Post-IPO Share Award Scheme, unless the Board determines otherwise;

(iii) where such Award would result in a breach by any member of our Group or its directors of any applicable securities laws, rules or regulations in any jurisdiction;

(iv) where such grant of Award would result in a breach of the Share Award Scheme Limit (as defined below) or would otherwise cause our Company to issue Shares in excess of the permitted amount in the mandate approved by the Shareholders;

(v) where any Director is in possession of unpublished inside information in relation to our Company or where dealings by Directors are prohibited under any code or requirement of the Listing Rules and all applicable laws, rules or regulations, from time to time;

(vi) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and

(vii) during the period of 30 days immediately preceding the publication date of the half-year results or, if shorter, the period from the end of the relevant half-year period up to the publication date of the results.

Maximum number of Shares to be granted

The maximum aggregate number of Shares underlying all grants made pursuant to the Post-IPO Share Award Scheme (excluding Shares which have been forfeited in accordance with the Share Award Scheme) will not exceed 32,000,000 Shares (representing approximately 2% of the total issued Shares immediately after completion of the Global Offering, assuming the Over-allotment Option and options granted under the Post-IPO Share Option Scheme are not exercised and no Shares are granted under the Post-IPO Share Award Scheme) without further Shareholders' approval (the "**Share Award Scheme Limit**"), subject to an annual limit of 1% of the total number of issued Shares of the relevant times.

Save as otherwise restricted by the Share Award Scheme Limit or the Listing Rules, there shall be no limit on the total number of non-vested Shares that may be granted to a selected participant under the Scheme.

Scheme Mandate

To the extent that the Share Award Scheme Limit is subsequently increased by way of alteration of the Post-IPO Share Award Scheme and our Company is required to issue and allot new shares to satisfy any Awards in excess of any amount previously approved by our Shareholders (as the case may be), our Company shall at a general meeting propose, and the Shareholders shall consider and, if thought fit, pass an ordinary resolution approving a mandate specifying:

(i) the maximum number of new Shares that may be issued for this purpose;

(ii) that the Board has the power to issue, allot, procure the transfer of and otherwise deal with the Shares in connection with the Post-IPO Share Award Scheme; and

(iii) the mandate will remain in effect during the period from the passing of the ordinary resolution granting the mandate until the variation or revocation of such mandate by an ordinary resolution of the Shareholders in a general meeting.

Rights attached to the Award

Save that the Board at its discretion may from time to time determine that any dividends declared and paid by our Company in relation to the Shares be paid to the selected participants even though the Shares have not yet vested, the selected participant only has a contingent interest in the Shares underlying an Award unless and until such Shares are actually transferred to the selected participant, nor does he/she have any rights to any cash or non-cash income until the Shares and related income vest.

Rights attached to the Shares

Any Shares transferred to a selected participant in respect of any Awards will be subject to all the provisions of the Memorandum and Articles of Association and will form a single class with the fully paid Shares in issue on the relevant date.

Assignment of Awards

Any Shares granted under the Post-IPO Share Award Scheme but not yet vested are personal to the selected participants to whom they are granted and cannot be assigned or transferred. A selected participant shall not in any way sell, transfer, charge, mortgage, encumber or create any interest in favor of any other person over or in relation to any Award, or enter into any agreement to do so.

Vesting of Awards

The Board or its delegate(s) may from time to time while the Post-IPO Share Award Scheme is in force and subject to all applicable laws, determine such vesting criteria and conditions or periods for the Award to be vested.

If there is an event of change in control of our Company by way of a merger, a privatization of our Company by way of a scheme or by way of an offer, the Board or the committee of the Board or person(s) to which the Board has delegated its authority shall at their sole discretion determine whether the Vesting Dates of any Awards will be accelerated to an earlier date.

Consolidation, subdivision, bonus issue and other distribution

In the event our Company undertakes a subdivision or consolidation of the Shares, corresponding changes will be made to the number of outstanding Shares that have been granted provided that the adjustments shall be made in such manner as the Board or its delegate(s) determines to be fair and reasonable in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Post-IPO Share Award Scheme for the selected participants. All fractional shares (if any) arising out of such consolidation or sub-division in respect of the Shares of a selected participant shall be deemed as returned shares ("**Returned Shares**") and shall not be transferred to the relevant selected participant on the relevant Vesting Date.

In the event of any non-cash distribution or other events not referred to above by reason of which the Board or its delegate(s) considers an adjustment to an outstanding Award to be fair and reasonable, an adjustment shall be made to the number of outstanding Shares of each selected participant as the Board or its delegate(s) shall consider as fair and reasonable, in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Post-IPO Share Award Scheme for the selected participants.

Retirement, death or permanent physical or mental disability of an eligible person

If a selected participant ceases to be an eligible person by reason of retirement of the selected participant, any outstanding Shares and related income not yet vested shall continue to vest in accordance with the Vesting Dates set out in the Award Letter, unless the Board or its delegate(s) determines otherwise at their absolute discretion.

If a selected participant ceases to be an eligible person by reason of (i) death of the selected participant; (ii) termination of the selected participant's employment or contractual engagement with our Group or an affiliate by reason of his/her permanent physical or mental disablement; or (iii) termination of the selected participant's employment or contractual engagement with our Group by reason of redundancy, any outstanding Shares and related income not yet vested shall be immediately forfeited, unless the Board or its delegate(s) determines otherwise at their absolute discretion.

If a selected participant, being an employee whose employment is terminated by our Group or an affiliate by reason of the employer terminating the contract of employment without notice or payment in lieu of notice, or the selected participant having been convicted of any criminal offense involving his or her integrity or honesty, any outstanding Shares and related income not yet vested shall be immediately forfeited, unless the Board or its delegate(s) determines otherwise at their absolute discretion.

Grant of Shares under the Post-IPO Share Award Scheme

As of the date of this document, no Shares have been granted or agreed to be granted under the Post-IPO Share Award Scheme.

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares which may be issued pursuant to the Post-IPO Share Award Scheme.

Duration and termination

The Post-IPO Share Award Scheme shall be valid and effective for ten years from the Listing Date (the "**Award Period**") (after which no Awards will be granted), and thereafter for so long as there are any non-vested Shares granted prior to the expiration of the Post-IPO Share Award Scheme, in order to give effect to the vesting of such Shares or otherwise as may be required in accordance with the rules of the Post-IPO Share Award Scheme. Subject to the foregoing, the Post-IPO Share Award Scheme shall terminate on the earlier of:

(i) the end of the Award Period except in respect of any non-vested Shares granted prior to the expiration of the Post-IPO Share Award Scheme, for the purpose of giving effect to the vesting of such Shares or otherwise as may be required in accordance with the provisions of the Post-IPO Share Award Scheme; and

(ii) such date of early termination as determined by our Board provided that such termination shall not affect any subsisting rights in respect of the Shares granted to a selected participant under the Post-IPO Share Award Scheme.

Administration by trustee

Without prejudice to the Board's general power of administration, to the extent not prohibited by applicable laws and regulations, the Board or the committee of the Board or persons to which the Board has delegated its authority may from time to time appoint one or more trustees in respect of granting administration or vesting of any Shares under the Post-IPO Share Award Scheme.

Subject to the rules of the Post-IPO Share Award Scheme:

(i) our Company shall, as soon as reasonably practicable and no later than 30 business days from the Grant Date, for the purposes of satisfying the grant of awards, issue and allot Shares to the trustee and/or transfer to the trust the necessary funds and instruct the trustee to acquire Shares through on-market transactions at the prevailing market price; and

(ii) our Company shall instruct the trustee whether or not to apply any Returned Shares to satisfy any grant of Awards made, and if the Returned Shares, as specified by our Company, are not sufficient to satisfy the Awards granted, our Company shall as soon as reasonably practicable and no later than 30 business days from the Grant Date, for purposes of satisfying the Awards granted, issue and allot further Shares to the trustee and/or transfer to the trust the necessary funds and instruct the trustee to acquire further Shares through on-market transactions at the prevailing market price.

Where the trustee has received instructions from our Company to acquire shares through on-market transactions, the trustee shall acquire such number of Shares as instructed by our Company on-market at the prevailing market price as soon as reasonably practicable after receiving the necessary funds from our Company. The trustee shall only be obliged to transfer Shares granted (and the related income derived from such Shares) to selected participants on vesting to the extent that Shares granted (and the related income derived from such Shares) are comprised in the trust.

2. Post-IPO Share Option Scheme

The following is a summary of the principal terms of the Post-IPO Share Option Scheme conditionally adopted by our Shareholders' resolutions dated June 22, 2020 with effect from Listing. The terms of the Post-IPO Share Option Scheme will be subject to Chapter 17 of the Listing Rules.

Purpose

The purpose of the Post-IPO Share Option Scheme is to provide Eligible Persons (defined below) with the opportunity to acquire proprietary interests in our Company and to encourage the Eligible Person to work towards enhancing the value of our Company and our Shares for the benefit of our Company and Shareholders as a whole. The Post-IPO Share Option Scheme will provide our Company with a flexible means of retaining, incentivizing, rewarding, remunerating, compensating and/or providing benefits to Eligible Persons.

Eligible Persons

Any individual, being an employee, director, officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of our Group or any of our Group's affiliates who the Board or its delegate(s) considers, in their sole discretion, to have contributed or will contribute to our Group is entitled to be offered and granted options ("**Eligible Person(s)**").

However, no individual who is resident in a place where the grant, acceptance, vesting or exercise of options pursuant to the Post-IPO Share Option Scheme is not permitted under the laws and regulations of such place or where, in the view of the Board or its delegate(s), compliance with applicable laws and regulations in such place makes it necessary or expedient to exclude such individual, is eligible to be offered or granted options.

Maximum number of Shares

The total number of Shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme and any other share option schemes of the Company is 160,000,000, being no more than 10% of the Shares in issue on the date the Shares commence trading on the Stock Exchange (assuming the Over-allotment Option is not exercised, no Shares are awarded under the Post-IPO Share Award Scheme, and no options are granted under the Post-IPO Share Option Scheme) (the "**Option Scheme Mandate Limit**"). Options which have lapsed in accordance with the terms of the rules of the Post-IPO Share Option Scheme (or any other share option schemes of our Company) shall not be counted for the purpose of calculating the Option Scheme Mandate Limit.

The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other share option schemes of our Company at any time (and to which the provisions of Chapter 17 of the Listing Rules are applicable) must not exceed 30% of the Shares in issue from time to time (the "**Option Scheme Limit**"). No options may be granted under any schemes of our Company (or its subsidiaries) if this will result in the Option Scheme Limit being exceeded.

The Option Scheme Mandate Limit may be refreshed at any time subject to prior approval of our Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time. However, the Option Scheme Mandate Limit as refreshed cannot exceed 10% of the Shares in issue as at the date of such approval. Options previously granted under the Post-IPO Share Option Scheme and any other share option schemes of our Company (and to which the provisions of Chapter 17 of the Listing Rules are applicable) (including those outstanding, canceled or lapsed in accordance with its terms or exercised), shall not be counted for the purpose of calculating the refreshed Option Scheme Mandate Limit.

Our Company may also seek separate approval of our Shareholders in general meeting for granting options beyond the Option Scheme Mandate Limit, provided such grant is to Eligible Person specifically identified by our Company before the aforesaid Shareholders' meeting where such approval is sought.

Maximum entitlement of a grantee

Unless approved by our Shareholders, the total number of Shares issued and to be issued upon exercise of the options granted and to be granted under the Post-IPO Share Option Scheme and any other share option scheme(s) of our Company to each Eligible Person (including both exercised and outstanding options) in any 12 month period shall not exceed 1% of the total number of Shares in issue (the "**Individual Limit**"). Any further grant of options to an Eligible Person which would result in the aggregate number of Shares issued and to be issued upon exercise of all options granted and to be granted to such Eligible Person (including exercised, canceled and outstanding options) in the 12 month period up to and including the date of such further grant exceeding the Individual Limit shall be subject to separate approval of our Shareholders in general meeting (with such Eligible Persons and his associates abstaining from voting).

Performance target

The Post-IPO Share Option Scheme does not set out any performance targets that must be achieved before the options may be exercised. However, the Board or its delegate(s) may at their sole discretion specify, as part of the terms and conditions of any option, such performance conditions that must be satisfied before the option can be exercised.

Subscription price

The price per Share at which a grantee may subscribe for Shares on the exercise of an option (the "**Subscription Price**") shall be such price determined by the Board in its absolute discretion and shall be no less than the higher of:

(i) the closing price of a Share as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant;

(ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and

(iii) the nominal value of a Share on the date of grant.

Rights are personal to grantee

An option is personal to the grantee and shall not be transferable or assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest in favor of or enter into any agreement with any other person over or in relation to any option, except for the transmission of an option on the death of the grantee to his personal representative(s) on the terms of the Post-IPO Share Option Scheme.

Options granted to directors or substantial shareholders of our Company

Each grant of options to any director of our Company, the chief executive (as defined in the Listing Rules) or substantial Shareholder of our Company (or any of their respective associates) shall be subject to the prior approval by the independent non-executive Directors of our Company (excluding any independent non-executive Director who is a proposed recipient of the grant of options).

Where any grant of options to a substantial shareholder or an independent non-executive Director of our Company (or any of their respective associates) would result in the number of Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, canceled and outstanding) to such person in the 12 month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% (or such other higher percentage as may from time to time be specified by the Stock Exchange) of the Shares in issue; and

(ii) having an aggregate value, based on the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant, in excess of HK$5 million (or such other higher amount as may from time to time be specified by the Stock Exchange),

such further grant of options must also be subject to the prior approval by our Shareholders (voting by way of poll) in general meeting. Our Company shall send a circular to our Shareholders in accordance with and containing such information as is required under the Listing Rules. All core connected persons of our Company shall abstain from voting at such general meeting, except that any core connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular to be sent to our Shareholders in connection therewith.

Grant offer letter and notification of grant of options

An offer shall be made to Eligible Persons by a letter in duplicate which specifies the terms on which the option is to be granted. Such terms may include any minimum period(s) for which an option must be held and/or any minimum performance target(s) that must be achieved, before the option can be exercised in whole or in part, and may include at the discretion of the Board or its delegate(s) such other terms either on a case basis or generally.

An offer shall be deemed to have been accepted and the option to which the offer relates shall be deemed to have been granted and to have taken effect when the duplicate of the offer letter comprising acceptance of the offer duly signed by the grantee with the number of Shares in respect of which the offer is accepted clearly stated therein, together with a remittance in favor of our Company of HK$1.00 by way of consideration for the grant thereof, is received by our Company within 20 business days from the date on which the letter containing the offer is delivered to the Eligible Person.

Any offer may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot for dealing in Shares or a multiple thereof. To the extent that the offer is not accepted within 20 business days from the date on which the letter containing the offer is delivered to that Eligible Person, it shall be deemed to have been irrevocably declined.

Restriction of grant of options

No offer shall be made and no option shall be granted to any Eligible Person in circumstances prohibited by the Listing Rules or at a time when the Eligible Person would or might be prohibited from dealing in the Shares by the Listing Rules or by any applicable rules, regulations or law. No offer shall be made and no option shall be granted to any Eligible Person where our Company or such persons are in possession of any unpublished inside information in relation to our Company until such inside information has been published in an announcement in accordance with the Listing Rules. Furthermore, no offer shall be made and no option shall be granted:

(i) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and

(ii) during the period of 30 days immediately preceding the publication date of the half-year results or, if shorter, the period from the end of the relevant half-year period up to the publication date of the results.

Such period will also cover any period of delay in the publication of any results announcement.

Time of exercise of an option

An option may, subject to the rules of the Post-IPO Share Option Scheme and the terms and conditions upon which such option is granted, be exercised in whole or in part by the grantee giving notice in writing to our Company in such form as our Board may from time to time determine stating that the option is thereby exercised and the number of Shares in respect of which it is exercised.

Cancelation of options granted

Any breaches of the rules of the Post-IPO Share Option Scheme by a grantee may result in the options granted to such grantee being canceled by our Company. Any options granted but not exercised may be canceled if the grantee so agrees. Issuance of new options to the same grantee may only be made if there are unissued options available under the Post-IPO Share Option Scheme (excluding the canceled options) and in compliance with the terms of the Post-IPO Share Option Scheme.

Lapse of an option

Without prejudice to the additional situations provided by our Board or its delegates(s), an option shall lapse automatically (to the extent not already exercised) on the earliest of:

(i) the expiry of the period within which an option may be exercised, which is to be determined and notified by the Board to each grantee at the time of making an offer, and shall not expire later than 10 years from the date of grant (the "**Option Period**");

(ii) the expiry of any of the periods for exercising the option as referred to in the paragraphs headed "Retirement, death or permanent physical or mental disability of an Eligible Person", "Termination of employment of an Eligible Person", "Rights on takeover and schemes of compromise or arrangement" and "Rights on a voluntary winding up" below; and

(iii) the date on which the grantee commits a breach of the rules detailed under the heading "Rights are personal to grantee" above.

Voting and dividend rights

No dividends shall be payable and no voting rights shall be exercisable in relation to any options or Shares that are the subject of options that have not been exercised.

Effects of alterations in the capital structure of our Company

In the event of an alteration in the capital structure of our Company by way of capitalization of profits or reserves, rights issue, subdivision or consolidation of shares, or reduction of the share capital of our Company in accordance with legal requirements and requirements of the Stock Exchange (other than any alteration in the capital structure of our Company as a result of an issue of Shares as consideration in a transaction to which our Company is a party), such corresponding alterations (if any) shall be made to:

(i) the number or nominal amount of Shares comprised in each option so far as unexercised;

(ii) the Subscription Price;

(iii) the method of exercise of the option; or

(iv) any combination thereof,

as the auditors or a financial adviser engaged by our Company for such purpose shall, at the request of our Company, certify in writing, either generally or as regards any particular grantee, to be in their opinion fair and reasonable, provided always that any such adjustments should give each grantee the same proportion of the equity capital of our Company (or as nearly as possible but not greater than the same proportion of the equity capital of our Company) as that to which that grantee was previously entitled prior to such adjustments, and no adjustments shall be made which will enable a Share to be issued at less than its nominal value. The capacity of the auditors or financial adviser (as the case may be) is that of experts and not of arbitrators and their certification shall, in the absence of manifest error, be final and binding on our Company and the grantees. The costs of the auditors or financial adviser (as the case may be) shall be borne by our Company.

Retirement, death or permanent physical or mental disability of an Eligible Person

If a grantee ceases to be an Eligible Person by reason of (i) death of the grantee, (ii) termination of the grantee's employment or contractual engagement with our Group or our Group's affiliate by reason of his/her permanent physical or mental disablement, or (iii) retirement of the grantee, the option may be exercised within the Option Period, or such other period as the Board or its delegate(s) may decide in their sole discretion.

In the case of death of a grantee, the option may be exercised within that period by the personal representatives of the grantee. In the case where a grantee no longer has any legal capacity to exercise the option, the option may be exercised within that period by the persons charged with the duty of representing the grantee under the relevant laws in Hong Kong.

If the option is not exercised within the times mentioned above, the option shall lapse.

Termination of employment of an Eligible Person

If a grantee, being an employee whose employment is terminated by our Group or its affiliate by reason of the employer terminating the contract of employment without notice or payment in lieu of notice, or the grantee having been convicted of any criminal offense involving his integrity or honesty, the option shall immediately lapse.

If a grantee is declared bankrupt or becomes insolvent or makes any arrangements or composition with his/her creditors generally, the option shall immediately lapse.

If a grantee being an employee ceases to be an Eligible Person due to termination of his/her employment or contractual engagement with our Group by reason of redundancy, the option may be exercised within three months of such cessation or within the Option Period, whichever is the shorter, or such other period as the Board or its delegate(s) may decide in their sole discretion.

If a grantee ceases to be an Eligible Person other than in any of the circumstances described above, unless otherwise provided in the letter containing the offer, a grantee may exercise his/her option within three months of such cessation or within the Option Period, whichever is the shorter, or such other period as the Board or its delegate(s) may decide in their sole discretion.

Rights on takeover and schemes of compromise or arrangement

If a general offer by way of takeover or otherwise (other than by way of scheme of arrangement) is made to all our Shareholders (other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror) and such offer becomes or is declared unconditional prior to the expiry date of the relevant option, our Company shall forthwith give notice thereof to the grantee and the grantee shall be entitled to exercise the option to its full extent or, if our Company shall give the relevant notification, to the extent notified by our Company, at any time within such period as shall be notified by our Company.

If a compromise or arrangement between our Company and our members or creditors is proposed, our Company shall give notice to the grantee on the same date as we dispatch the notice to each member or creditor of our Company summoning the meeting to consider such a compromise or arrangement, and thereupon the grantee (or his personal representatives) may, until the expiry of the period commencing with such date and ending with the earlier of the date 2 calendar months thereafter or the date on which such compromise or arrangement is sanctioned by the court, exercise any of his options (to the extent not already exercised) whether in full or in part, but the exercise of an option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the court and becoming effective, and upon such compromise or arrangement becoming effective, all options shall lapse except insofar as previously exercised under the Post-IPO Share Option Scheme. Our Company may require the grantee to transfer or otherwise deal with the Shares issued as a result of the exercise of options in these circumstances so as to place the grantee in the same position, as nearly as possible, as would have been the case had such Shares been subject to such compromise or arrangement. If the option is not exercised within the time specified, the option shall lapse.

Rights on a voluntary winding up

In the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it dispatches such notice to each member of our Company give notice thereof to all grantees (together with a notice of the existence of the provisions of this rule) and thereupon, each grantee (or his personal representatives) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than 2 business days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid. If the option is not exercised within the time specified, the option shall lapse.

Ranking of Shares

The Shares to be allotted and issued upon the exercise of an option shall be identical to the then existing issued shares of our Company and subject to all the provisions of the Memorandum and Articles and will rank *pari passu* with fully paid Shares in issue on the date the name of the grantee is registered on the register of members of our Company or if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members, save that the grantee shall not have any voting rights, or rights to participate in any dividends or distributions (including those arising on a liquidation of our Company) declared or recommended or resolved to be paid to our Shareholders on the register on a date prior to such registration.

Duration

The Post-IPO Share Option Scheme shall be valid and effective for the period of ten years commencing on the Listing Date (after which, no further options shall be offered or granted), but in all other respects the provisions of the Post-IPO Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the rules of the Post-IPO Share Option Scheme.

Alteration of the Post-IPO Share Option Scheme

The Board may amend or vary any of the provisions of the Post-IPO Share Option Scheme (including without limitation amendments in order to comply with changes in legal or regulatory requirements and amendments in order to waive any restrictions, imposed by the provisions of the Post-IPO Share Option Scheme, which are not found in Chapter 17 of the Listing Rules) at any time (but not so as to affect adversely any rights which have accrued to any grantee at that date).

Those specific provisions of the Post-IPO Share Option Scheme which relate to the matters set out in Rule 17.03 of the Listing Rules cannot be altered to the advantage of Eligible Person, and no changes to the authority of the administrator of the Post-IPO Share Option Scheme in relation to any alteration of the terms of the Post-IPO Share Option Scheme shall be made, without the prior approval of Shareholders in general meeting. Any alterations to the terms of the Post-IPO Share Option Scheme which are of a material nature, or any change to the terms and conditions of Options granted, must also, to be effective, be approved by our Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Post-IPO Share Option Scheme. The options and the Post-IPO Share Option Scheme so altered must comply with Chapter 17 of the Listing Rules. Any change to the authority of the Directors or scheme administrators in relation to any alteration to the terms of the Post-IPO Share Option Scheme must be approved by Shareholders of our Company in general meeting.

Notwithstanding any provisions to the contrary in the Post-IPO Share Option Scheme, if on the relevant date of exercise there are restrictions or conditions imposed by the relevant laws and regulations to which the grantee is subject and the grantee has not obtained approval, exemption or waiver from the relevant regulatory authorities for the subscription of and dealing in the Shares, the grantee may sell the options to such transferee, subject to the approval by the Board, which shall not unreasonably withhold or delay such approval. In the event that the options are transferred to a connected person of our Company, no Shares shall be allotted and issued upon the exercise of the options by a connected person of our Company unless the Board is satisfied that the allotment and issue of Shares will not result in any breach of the Listing Rules, the Articles, the Cayman Companies Law or the Takeovers Code.

Termination

Our Shareholders by ordinary resolution in general meeting or the Board may at any time resolve to terminate the operation of the Post-IPO Share Option Scheme prior to the expiry of the Post-IPO Share Option Scheme and in such event no further options will be offered or granted but the provisions of the Post-IPO Share Option Scheme shall remain in full force to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Post-IPO Share Option Scheme. Options complying with the provisions of Chapter 17 of the Listing Rules which are granted during the life of the Post-IPO Share Option Scheme and remain unexercised and unexpired immediately prior to the termination of the operation of the Post-IPO Share Option Scheme shall continue to be valid and exercisable in accordance with their terms of issue after the termination of the Post-IPO Share Option Scheme.

Details of the options granted, including options exercised or outstanding, under the Post-IPO Share Option Scheme shall be disclosed in the circular to our Shareholders seeking approval of the new scheme established after the termination of the Post-IPO Share Option Scheme.

E. OTHER INFORMATION

1. Estate duty

Our Directors have been advised that no material liability for estate duty is likely to fall upon any member of our Group.

2. Litigation

Save as disclosed in this document, no member of our Group is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company that would have a material adverse effect on our Company's results of operations or financial condition.

3. Joint Sponsors

The Joint Sponsors have made an application on behalf of our Company to the Listing Committee for listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option), the Shares to be issued pursuant to awards under the Post-IPO Share Award Scheme and the Shares to be issued pursuant to the exercise of options granted under the Post-IPO Share Option Scheme. All necessary arrangements have been made enabling such Shares to be admitted into CCASS.

The Joint Sponsors satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

The Joint Sponsors' fee in relation to the Listing is US$666,667.

4. Consent of experts

This document contains statements made by the following experts:

Name	Qualification
Macquarie Capital Limited	A licensed corporation to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 7 (providing automated trading services) regulated activities under the SFO
China Merchants Securities (HK) Co., Limited	A licensed corporation to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
Commerce & Finance Law Offices	Qualified PRC lawyers
Walkers (Hong Kong)	Legal advisers as to Cayman Islands law

Name	Qualification
PricewaterhouseCoopers	Certified Public Accountants under the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong) and Registered Public Interest Entity Auditor under the Financial Reporting Council Ordinance (Chapter 588 of the Laws of Hong Kong)
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry consultant
Cushman & Wakefield Limited	Independent property valuer

As at the Latest Practicable Date, none of the experts named above has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

Each of the experts named above have given and have not withdrawn their respective written consents to the issue of this document with copies of their reports, letters, opinions or summaries of opinions (as the case may be) and the references to their names included herein in the form and context in which they are respectively included.

5. Binding effect

This document shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

6. Bilingual document

The English language and Chinese language versions of this document are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

7. Preliminary expenses

We have not incurred any material preliminary expenses in relation to the incorporation of our Company.

8. Disclaimers

(a) Save as disclosed in this document, within the two years immediately preceding the date of this document:

(i) there are no commissions (but not including commission to sub-underwriters) for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any shares in or debentures of our Company; and

(ii) there are no commissions, discounts, brokerages or other special terms granted in connection with the issue or sale of any capital of any member of our Group, and no Directors, promoters or experts named in the part headed "– Other information – Consent of experts" received any such payment or benefit.

(b) Save as disclosed in this document:

(i) there are no founder, management or deferred shares in our Company or any member of our Group;

(ii) we do not have any promoter and no cash, securities or other benefit has been paid, allotted or given within the two years immediately preceding the date of this document, or are proposed to be paid, allotted or given to any promoters;

(iii) none of the Directors or the experts named in the part headed "– Other information – Consent of experts" above has any interest, direct or indirect, in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this document, acquired or disposed of by or leased to, any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;

(iv) there are no bank overdrafts or other similar indebtedness by our Company or any member of our Group;

(v) there are no hire purchase commitments, guarantees or other material contingent liabilities of our Company or any member of our Group;

(vi) there are no outstanding debentures of our Company or any member of our Group;

(vii) there are no other stock exchange on which any part of the equity or debt securities of our Company is listed or dealt in or on which listing or permission to deal is being or is proposed to be sought;

(viii) no capital of any member of our Group is under option, or is agreed conditionally or unconditionally to be put under option; and

(ix) there are no contracts or arrangements subsisting at the date of this document in which a Director is materially interested or which is significant in relation to the business of our Group.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this document delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

(a) copies of the **WHITE**, **YELLOW**, and **GREEN** Application Forms;

(b) the written consents referred to in the section headed "Statutory and general information – Other information – Consents of experts" in Appendix V; and

(c) copies of the material contracts referred to in the section headed "Statutory and general information – Further information about our business – Summary of material contracts" in Appendix V.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Skadden, Arps, Slate, Meagher & Flom at 42/F Edinburgh Tower, The Landmark, 15 Queen's Road Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of this document:

(a) the Memorandum and the Articles of Association;

(b) the material contracts referred to in the section headed "Statutory and general information – Further information about our business – Summary of material contracts" in Appendix V;

(c) the service contracts and the letters of appointment with our Directors referred to in the section headed "Statutory and general information – Further information about our Directors – Particulars of Directors' service contracts and appointment letters" in Appendix V;

(d) the report issued by Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., a summary of which is set forth in the section headed "Industry overview";

(e) the PRC legal opinions issued by Commerce & Finance Law Offices, our PRC Legal Adviser on PRC law, in respect of certain general corporate matters and property interests in the PRC of our Group;

(f) the Accountant's Report and the report on the unaudited pro forma financial information of our Group from PricewaterhouseCoopers, the texts of which are set out in Appendices I and II;

(g) the audited consolidated financial statements of our Company for the three financial years ended December 31, 2017, 2018 and 2019;

(h) the Valuation Report prepared by Cushman & Wakefield Limited, the text of which is set out in "Property valuation report" in Appendix III;

(i) the letter of advice prepared by Walkers (Hong Kong), our legal adviser on Cayman Islands law, summarizing certain aspects of Cayman company law referred to in Appendix V;

(j) the Cayman Companies Law;

(k) the written consents referred to in the section headed "Statutory and general information – Other information – Consents of experts" in Appendix V; and

(l) the terms of the Post-IPO Share Award Scheme and of the Post-IPO Share Option Scheme.

CATHAY MEDIA

華夏視聽

CATHAY MEDIA AND EDUCATION GROUP INC.

華夏視聽教育集團