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## RISK FACTORS

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*An investment in our Shares involves various risks. You should carefully consider all the information in this prospectus and in particular the risks and uncertainties described below before making an investment in our Shares.*

*The occurrence of any of the following events could materially and adversely affect our business performance, financial condition, results of operations or prospects. If any of these events occurs, the trading price of our Shares could decline and you may lose all or part of your investment. You should seek professional advice from your relevant advisers regarding your prospective investment in the context of your particular circumstances.*

### RISKS RELATING TO OUR BUSINESS AND INDUSTRY

**Our success depends, in a significant part, on the general prosperity and development of China’s overall entertainment industry, and factors affecting the entertainment industry, especially the development of the drama series market, could have a material and adverse effect on our business, financial condition and results of operations.**

Our business is subject to the general prosperity and development of the overall entertainment industry in the PRC, which may fluctuate significantly from time to time. According to the Frost & Sullivan Report, the market size of the entertainment industry in the PRC grew from RMB438.3 billion in 2015 to RMB763.2 billion in 2019, representing a CAGR of 14.9%. According to the same source, the size of the drama series market in the PRC grew from RMB83.0 billion in 2015 to RMB99.1 billion in 2019, representing a CAGR of 4.5%. Such growth may not sustain in future periods, and is subject to various factors beyond our control, including the general economic conditions, people’s leisure time, spending power and demand for entertainment services, and changes and uncertainties of relevant laws, rules and regulations, none of which can be predicted with certainty. See “Industry Overview.” Any fluctuation or downturn in the overall development of the entertainment industry in the PRC may reduce demand for our drama series and thus materially and adversely affect our business, financial condition and results of operations.

**iQIYI was our single largest customer in 2018, 2019 and the six months ended June 30, 2020. If we fail to maintain our business relationship with iQIYI or if iQIYI loses its leading market position or popularity, our business, financial condition and results of operations could be materially and adversely affected.**

We produce made-to-order drama series for and license the broadcasting rights of our self-produced and outright-purchased drama series to iQIYI. During the Track Record Period, iQIYI was our second largest customer for the year ended December 31, 2017 and single largest customer for the years ended December 31, 2018, 2019 and the six months ended June 30, 2020. In addition, Taurus Holding, a subsidiary of iQIYI Inc., has been our substantial shareholder since November 2018. Our revenue derived from iQIYI amounted to RMB116.2 million, RMB244.7 million, RMB208.5 million and RMB401.3 million for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively, accounting for approximately 21.4%, 36.0%, 27.2% and 69.2% of our total revenue for the same periods, respectively. According to the Frost & Sullivan Report, iQIYI, as a leading online video platform, had a market share of 29.8%, 31.6% and 30.2% in 2017, 2018 and 2019, respectively, in terms of revenue generated from membership services, online advertising services and content distribution services in the PRC. Due to iQIYI’s leading market position and popularity among

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audiences, they are in great need of, and procure a large quantity of, drama series. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, we commenced production of nil, one, three and nil made-to-order drama series for iQIYI, respectively, accounting for nil, 100.0%, 75.0% and nil of the total made-to-order web series that we commenced production of for the same periods, respectively. In addition, we licensed the broadcasting rights of one, two, three and three self-produced and outright-purchased drama series to iQIYI for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively, accounting for approximately 20.0%, 40.0%, 60.0% and 100.0% of the total drama series that we licensed out for the same periods, respectively. For details regarding our relationship with iQIYI, see “Business — Our Customers — Top Customers — Business Relationship with iQIYI.” To the extent we fail to maintain our business relationship with iQIYI on comparable contract terms or at all, we may have to source new online video platforms to procure our production services and the broadcasting rights of our self-produced and outright-purchased drama series, which could materially and adversely affect our business, financial condition and results of operations.

In the event that iQIYI loses its leading market position or becomes less attractive to audiences, leading to a significant decrease in its audience base and cash inflow, which in turn, would affect its budget in procuring our production services and the broadcasting rights of our self-produced and outright-purchased drama series. As a result, our business, results of operations and prospects could be materially and adversely affected.

Additionally, any negative publicity associated with iQIYI, or any negative development with respect to iQIYI’s financial condition, maintenance of its platform infrastructure or compliance with legal or regulatory requirements in the PRC, would have an adverse impact on the attractiveness of its platform, which in turn would lead to a decrease in the procurement of our production services and the broadcasting rights of our self-produced and outright-purchased drama series and would materially and adversely affect our business, results of operations and prospects.

**Our income is generally project-based and non-recurring in nature and a failure to obtain new contracts could materially affect our financial performance.**

Our drama series projects are generally non-recurring in nature. In general, our engagements with customers, including TV channels and online video platforms, are on a project basis. A customer that accounts for a significant portion of our income for a particular period may not generate any income to us in subsequent periods. After the completion of a drama series, our customers are not obliged to engage us again in the future for new projects. In addition, we may generate one-off income from time to time, such as revenue from IP derivatives and product placement. As such, our revenue and profitability could fluctuate significantly from period to period. We cannot guarantee that we will be able to continue to develop new drama series, continue our business relationship with our existing customers or have one-off income from time to time. Our operations and financial condition would be adversely affected if we are unable to develop new drama series successfully, secure new customers, or maintain reasonable or favorable key commercial terms in the new contracts, which may lead to a decrease in the number and the price of drama series in a particular year or period, and in turn, a decrease in revenue.

**Our financial performance for a particular period highly depends on a limited number of drama series projects during the same period, which may result in wide fluctuations of financial performance.**

Our results of operations are largely affected by the financial performance of a limited number of drama series. Our investment in and revenue generated from each of our drama series varied significantly.

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During the Track Record Period, our investment in a single drama series varied from RMB3.0 million to RMB209.7 million, with revenue generated ranging from RMB4.2 million to RMB352.8 million. As a result, the range of gross profits generated from such drama series projects varied significantly. In addition, profit margin generated from our drama series projects may vary depending on its investment size and the general industry environment at the time when we broadcast such drama series. Generally, a drama series with large scale of investment is more likely to generate higher revenue and gross profit to us, therefore, we may accept a relatively lower profit margin when we license the broadcasting rights of such drama series. Consequently, the revenue contribution and the corresponding profit margin of certain drama series in a given period may significantly affect our results of operations during the same period. See “Financial Information — Description of Key Statement of Profit or Loss Items — Revenue” and “Financial Information — Description of Key Statement of Profit or Loss Items — Gross Profit and Gross Profit Margin.”

**Our success is primarily dependent on, among others, the popularity and audience acceptance of the drama series we produce and/or distribute, which is random and difficult to predict, and we may not be able to respond effectively to changes in market trends.**

The commercial success of our drama series depends partially upon acceptance by the audience, which cannot be accurately predicted. There are no objective standards to predict the success and popularity of a particular drama series, which depend on many factors, including the critical acclaim they receive, the reputation and popularity of directors and actors involved, the appeal of the screenplays, the genre and specific subject matter, the quality of content and the preference of audiences. The commercial success of a drama series also depends upon the public’s or a distribution channel’s acceptance of its content, general economic conditions and other tangible and intangible factors, all of which can change and cannot be accurately predicted or controlled with certainty.

The commercial success of a drama series is largely determined by our ability to develop and produce content that appeals to a broad audience, to respond effectively to changes in audience preferences and to efficiently adapt to the latest market trends. The failure to achieve any of the foregoing could have a material adverse effect on our business, financial condition, results of operations, liquidity and prospects. In addition, in the event of constant failures of our drama series, our brand and reputation would be harmed and we may not be able to maintain our well-established relationships with major TV channels and top online video platforms, which may adversely and materially affect our distribution capability.

**The production and distribution of drama series are extensively regulated in the PRC, and our production and distribution of drama series are subject to various PRC laws, rules and regulations. Our failure to comply with existing laws, rules and regulations as well as evolving laws, rules and regulations could materially and adversely affect our business, financial condition and results of operations.**

Pursuant to the relevant PRC laws and regulations, TV series can only be produced by entities that hold both a Radio and Television Programs Production and Operation Permit (《廣播電視節目製作經營許可證》) and a Television Drama Production Permit (《電視劇製作許可證》). See “Regulatory Overview — Regulations in Relation to Production and Distribution of Television Programmes” and “Business — Licenses and Permits.” If we fail to obtain, maintain or renew licenses or permits required for our business, we could be subject to liabilities, penalties and operational disruption and our business could be materially and adversely affected. In particular, we were one of the 73 holders of the Television Drama

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Production Permit (Class A) (《電視劇製作許可證(甲種)》) in the PRC as of December 31, 2019, which is effective for two years and needs to be renewed by application to the NRTA upon expiration on March 31, 2021. This Television Drama Production Permit (Class A) enables us to go through simplified procedures of applications for the relevant public record and content review, having which, we do not have to apply for individual production permit prior to the commencement of production of each particular drama series. We cannot assure you that we will successfully renew this Class A production permit in the future, failing which our production schedule and efficiency, business, results of operations, financial conditions or liquidity may be adversely affected.

In addition, before distribution of a TV series, we, or other co-investors as specified in the relevant agreement, need to submit the Application for Content Examination (內容審查申請) to the relevant provincial counterpart of the NRTA, which will issue a Television Drama Distribution License (《國產電視劇發行許可證》) after passing its examination. See “Business — Our Business Process — Self-produced Drama Series — Distribution and Promotion.” The distribution license is a prerequisite requirement for the distribution and broadcast of TV series in the PRC. However, there is no assurance that competent authorities will approve the content of our TV series and issue a Television Drama Distribution License to us. According to the Administrative Regulations on Content of Television Series (《電視劇內容管理規定》), TV series in the PRC are prohibited from portraying certain themes and topics, such as superstition, defamation and those promoting obscenity, gambling or violence as well as damaging public interest, social morality or cultural traditions. In order to obtain censorship approval, we may have to incur additional costs and expenses to revise the content of our TV series based on competent authorities’ requests, and the distribution or broadcasting schedules of such TV series may be affected, which may in turn affect our results of operations and liquidity. In addition, if any of our TV series fails to obtain censorship approval, we may have to discard it, even if already completed, resulting in a total investment loss. Any of the aforesaid circumstances may materially and adversely affect our business, financial condition and results of operations.

Furthermore, even if a TV series has already been granted the Television Drama Distribution License, the NRTA may still, due to public interest concerns, require editing of or terminate the distribution or broadcast of such TV series. If any of these events occurs, our business, financial condition and results of operations would be materially and adversely affected.

Moreover, there is no assurance that the competent authorities will not impose additional or more stringent laws or regulations on the investment, development, production, distribution and broadcast of drama series in the future. For example, the NRTA has issued a policy to impose restrictions on the maximum compensation that actors can individually and collectively receive as a certain percentage of the total investment of a drama series, which may limit our capability of selecting suitable actors, and in turn may affect the appeal and popularity of our drama series. See “Regulatory Overview — Regulations in Relation to Production and Distribution of Television Programmes — Content Examination and Distribution Licensing System.” Any such additional or more stringent laws or regulations may lead to an increase in our compliance costs, which could result in an adverse effect on our results of operations.

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**We rely on major TV channels and top online video platforms for the distribution and broadcast of our drama series, with which we have limited bargaining power, and the loss of any one of them would materially and adversely affect our business, financial conditions, results of operations and prospects.**

During the Track Record Period, we derived a significant portion of our revenue from a limited number of customers, mainly comprising major TV channels, including Dragon Television, Hunan Television, Jiangsu Television, Beijing Television and Zhejiang Television, and top online video platforms, including iQIYI, Youku and Tencent Video. According to Frost & Sullivan, these eight distribution channels collectively own the largest audience base and have the greatest demand and the most sufficient procurement budget for drama series in the PRC. Therefore, we have limited bargaining power in negotiating key terms, including the price per episode and the broadcasting time slot, with these eight distribution channels. For example, these top online video platforms have internally adopted strict procurement policy imposing maximum price for each episode of drama series. These top distribution channels may also delay or change their broadcasting schedules of our drama series, affecting the secondary sales and popularity of our drama series, which may have an adverse impact on our results of operations and liquidity. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, our revenue derived from these eight distribution channels accounted for approximately 80.6%, 95.5%, 63.2% and 91.3% of our total revenue for the same periods, respectively.

We cannot assure you that we will be able to continue to maintain good business relationships with these major TV channels and top online video platforms or we will not lose any of them. As our contracts with these major TV channels and top online video platforms are generally on a project-by-project basis, there can be no assurance that these major TV channels and top online video platforms will continue to cooperate with us or maintain their current procurement budget level for our future projects. If we fail to identify sufficient and suitable alternative distribution channels on commercially acceptance terms, or at all, we may not be able to sustain our licensing and production revenue from our drama series, thus materially and adversely affecting our profitability, business, results of operations and prospects.

**The production and distribution of a drama series are subject to uncertainties. There is no guarantee that the production or distribution of our drama series can be kept within budget and on schedule.**

Unforeseen circumstances during production, such as accidents, equipment damage or malfunction, damages to cassettes (or digital files thereof), unavailability of filming locations, delay in obtaining the requisite permits or licenses, natural disasters and unavailability of producers, directors or actors due to injuries or health issues, other engagement or a ban from the entertainment industry as a result of their personal behavior, may disrupt the production progress. The distribution of our drama series may also be delayed due to the changes in production schedule or failure to obtain the relevant distribution licenses, leading to the delay in the initial broadcasting of our drama series. Any delay or adjustment in production or distribution schedule may increase the production or distribution cost. If we are unable to pass such increased cost onto our customers, our expected investment return would be reduced. In addition, a delay in production or distribution schedule may cause a breach of the agreements with our customers and enable them to terminate the agreements, which would materially and adversely affect our business, financial condition and results of operations.

In circumstances where the production cost of a drama series significantly exceeds its budget, we and other co-investors may be required to contribute additional financial resources. Failure to obtain additional financial resources for a drama series project may result in substantial delay in production progress. In addition, when we are providing production services, we may need to bear the overrun costs pursuant to the relevant agreements, unless otherwise provided in the relevant agreements. Any of the above circumstances may materially and adversely affect our business, financial condition and results of operations.

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**If we are unable to compete effectively in the drama series industry, our business, financial condition and results of operations may be materially and adversely affected.**

We operate in a fragmented, rapidly evolving and highly competitive market. We compete with existing drama series producers and/or distributors for audiences, distribution channels and their procurement budgets, as well as talents. We may also face competition from new market entrants in the future.

Some of our competitors may have broader audience reach, greater brand recognition, stronger relationships with leading distribution channels, longer operating histories, or greater financial, technological or marketing resources. As a result, they may have better resources, such as quality directors, cast and production crew, or be able to respond more quickly and effectively to new or changing opportunities, audience preferences, market trends, regulatory requirements or technologies than us. We cannot assure you that we will be able to compete successfully against current or future competitors. Such competition may pose challenges to our business operations, and materially and adversely affect our market share and profitability.

**We rely on the contribution of industry professionals participating in the development, production and promotion of our drama series. Our failure to retain the services of such professionals, unsatisfied services provided by them or even any negative news about them in the future may materially and adversely affect our business and results of operations.**

We rely on the contribution of industry professionals participating in the development, production and promotion of our drama series, including screenwriters, producers, directors and actors, filming and production crew, and promotion agencies. There can be no assurance that they will continue to work with us on acceptable terms or at all, or that the costs associated with attracting alternative talents and/or third party service providers will be reasonable. The drama series industry in the PRC also lacks quality talents, for which drama series producers compete intensively. We cannot assure you that we will be able to acquire suitable quality talents for each of our drama series. If we fail to acquire and retain highly qualified industry professionals on favorable terms or if talents with whom we work lose their current popularity, our revenue and profitability could be adversely affected. Any failure by our third party services providers to perform their obligations under the relevant agreements, comply with the applicable laws and regulations and industry standards, or satisfy our specific requirements and expectations may have an adverse and material impact on our business, financial condition and results of operations. In addition, any lawsuits, personal misbehaviors, rumors or negative news related to screenwriters, directors and major cast members of our drama series could negatively affect the distribution of corresponding drama series and may even result in termination of the licensing agreements, which will materially and adversely affect our business, financial condition and results of operations.

**The production and distribution of drama series is a lengthy and capital-intensive process, and our capacity to generate cash or obtain financing on favorable terms may be insufficient to meet our anticipated cash requirements.**

The production and distribution of drama series require substantial capital and may require significant time between the commencement of production and the initial broadcasting. A significant amount of time may elapse between our operating expenditure and the cash inflow after distribution of such drama series. As of the Latest Practicable Date, we had six drama series in our production pipeline. See “Business — Our Drama Series – Our Pipeline Drama Series Projects.” During the Track

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Record Period, we utilized bank and other borrowings, capital contributions from Shareholders, and cash generated from our operations to fund our drama series projects. However, there is no assurance that we will have sufficient cash flow or financial resources to fund our pipeline drama series projects. Any disagreement with, or discontinuation in the cooperation with, our co-investors may result in the delay, suspension or termination of the production of our drama series, which in turn may have a material and adverse impact on our business, reputation, results of operations and financial conditions.

To the extent that we continue to engage debt financing in the future, the incurrence of indebtedness would result in increased finance costs and could result in operating and financing covenants that may, among other things, restrict our operational flexibility or our ability to pay dividends, which could also be burdensome to our operations. If we fail to service the debt obligations or are unable to comply with such debt covenants, we could be in default under the relevant debt obligations and our liquidity and financial conditions may be adversely affected.

In addition, our ability to raise additional capital may depend on our business performance, market conditions and the overall economic environment. We are unable to assure you that we will be able to obtain bank borrowings and other external financing or resources on commercially acceptable terms or in a timely manner or at all in the future. If we are unable to obtain necessary financing or if we fail to obtain such financing on favorable terms or in a timely manner due to factors beyond our control, our business, results of operations and growth prospects may be materially and adversely affected.

**Any change in or discontinuation of preferential tax treatment or government grants that currently are or may be available to us in the future may have a material and adverse impact on our results of operations.**

Our PRC subsidiaries and our Consolidated Affiliated Entities are subject to the statutory EIT rate of 25%, except Horgos Strawbear. According to the Notice of the Preferential EIT Policy in relation to Kashgar and Horgos as Two Special Economic Development Zones in Xinjiang (《關於新疆喀什霍爾果斯兩個特殊經濟開發區企業所得稅優惠政策的通知》), Horgos Strawbear enjoys a full-exemption of EIT during the period from 2019 to 2023. As a result, we recorded tax effect of tax exemption granted to subsidiaries of RMB4.4 million in 2019. Although such preferential tax treatment applied to Horgos Strawbear in the six months ended June 30, 2020, we did not record any tax reduction in the same period as Horgos Strawbear did not record any taxable profits.

The local governments have also granted us various financial subsidies in recognition of our contribution to the local economy and the drama series industry. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, we recorded government grants of RMB2.5 million, RMB0.9 million, RMB20.4 million and RMB2.4 million, respectively, in our consolidated statements of profit or loss. See “Financial Information — Description of Key Statement of Profit or Loss Items — Other Income and Gains.” These financial subsidies have been given on a one-off basis and at the discretion of the local government authorities.

There can be no assurances that we will continue to enjoy these preferential tax treatment or financial subsidies at the historical levels, or at all. Any change, suspension or discontinuation of these preferential tax treatment and financial subsidies to us could adversely affect our financial condition, results of operations and cash flows.

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**Any increase in production costs may materially and adversely affect our profitability and results of operations.**

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, our production costs amounted to RMB26.8 million, RMB296.2 million, RMB443.8 million and RMB417.5 million, respectively, representing approximately 6.9%, 63.1%, 67.5% and 93.9%, respectively, of our total cost of sales during the same periods. Although the NRTA has issued a policy to impose restrictions on the maximum compensation that actors can individually and collectively receive as a certain percentage of the total investment of a drama series, the costs of producing quality drama series have increased in recent years and may continue to increase in the future, which may make it more difficult for a drama series we have invested in to generate a profit. Remuneration of quality screenwriters, directors and actors and other key production crew has been increasing. Other production costs have also been increasing due to higher expenditures on filming studios and advanced filming equipment and technologies. If such increases in production costs cannot be offset by a corresponding increase in licensing revenue or production revenue, our profitability may be adversely affected, which in turn, may materially and adversely affect our results of operations.

**We have a limited operating history which may make it difficult to evaluate our future prospects.**

Established in 2014, we have a limited operating history. Our results of operations experienced fluctuations during the Track Record Period due to our project-based business nature. Our revenue increased at a CAGR of 18.9% from RMB542.9 million in 2017 to RMB765.1 million in 2019, and our net profit decreased at a CAGR of 11.3% from RMB64.0 million in 2017 to RMB50.4 million in 2019. Our revenue decreased by 10.5% from RMB647.7 million for the six months ended June 30, 2019 to RMB579.8 million for the six months ended June 30, 2020, and our net profit increased by 43.1% from RMB37.8 million for the six months ended June 30, 2019 to RMB54.1 million for the six months ended June 30, 2020. Our short operating history makes it difficult to assess our future prospects or forecast our future results.

The risks and challenges we might face involve our abilities to, among other things:

- complete and/or release our on-going drama series projects on schedule or at all;
- develop suitable ideas and concepts as well as quality screenplays to produce new drama series projects;
- enhance and maintain the value of our brand;
- develop and maintain relationships with our suppliers, customers and business partners, in particular these major TV channels and top online video platforms;
- successfully compete with other market players;
- continue to attract, retain and motivate skilled employees;
- generate anticipated or reasonable returns on our investments or realize synergies from our strategic acquisitions; and
- defend ourselves against litigation, regulatory interference and intellectual property claims.



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In addition, the execution of our business strategies and future plans is also expected to require management attention and efforts and incur additional expenditures. There is no assurance that we will be able to successfully implement our business strategies or future plans, and any failure to do so may have an adverse effect on our business and results of operations. In particular, we plan to continue to expand our drama series production and distribution business, acquire quality IPs, and make adequate investments or acquisitions. Our insights and expertise in existing businesses may not be as useful as we expect in implementing such plans. We cannot assure you that these efforts will be successful. Even if our business strategies or future plans are implemented, there is no assurance that they will successfully increase our market share or enhance our market position.

**Information on our pipeline projects may not prove to be accurate or indicative of our future results of operations.**

In this prospectus, we have disclosed our project pipeline with details such as our planned investment. See “Business — Our Drama Series — Our Pipeline Drama Series Projects.” For these pipeline projects, we have applied for public record and registered with the local counterparts of the NRTA. The project description, planned investment percentage and amounts, expected broadcasting time and other information related to our pipeline projects represent our best efforts to describe their status as of June 30, 2020 or the Latest Practicable Date, as applicable. However, such information may prove to be different from actual outcomes due to a number of factors. For example,

- we may not be able to enter into definitive agreement to distribute projects that have completed production;
- projects that we have completed production may not be distributed on time, or if they are, they may not be broadcast on time, both of which will affect the timing of recognition of revenue;
- our signed definitive distribution agreements may not be fully performed in accordance with their terms, or may be amended, modified, altered, terminated, or canceled;
- the genre, content or length of the pipeline projects may be subject to change during the production, post-production or regulatory review stages;
- the expected broadcasting time may be subject to change as a result of a delay in the production or distribution process or the broadcasting schedule of our customers; and
- the pipeline projects may not be successful or gain popularity among audiences and distribution platforms.

Our project pipeline may also be delayed or suspended due to *force majeure* events, such as the recent coronavirus outbreak in China. For details, see “— Risks Relating to Our Business and Industry — The occurrence of any *force majeure* events, natural disasters, acts of war or outbreaks of contagious diseases in the PRC may have a material and adverse effect on our business and results of operations.” As a result, investors are cautioned not to rely on our project pipeline information presented in this prospectus as an accurate indicator of our future earnings.

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**Our business depends significantly on our production capabilities and brand perception, and our brand image may be materially and adversely impacted by negative publicity.**

We believe that maintaining and enhancing our Strawbear (稻草熊) brand is critical to our relationships with our business partners and customers. To the extent our drama series is perceived as of low quality or otherwise not appealing, our brand perception may be adversely impacted.

We are not directly involved in certain pre-production, filming or post-production activities of the drama series production process. Instead, we rely on the cast and filming and production crew to maintain their quality of performance and services. In addition, as there are no objective standards to assess the quality of a particular drama series, when we are providing production services, there is no assurance that the quality of the content we produce will meet the requirements and expectations of the distribution channels and audiences. Any failure to do so may have a negative impact on our reputation and our ability to maintain relationships with them, which in turn may have a material and adverse effect on our business and results of operations.

Furthermore, negative publicity, whether or not justified, involving us, our management, our business partners or our industry may harm our brand. In particular, given the nature of the entertainment industry, we are more exposed and susceptible to negative publicity. Damage to our reputation and our brand may reduce demand for our content and have a material and adverse effect on our business, results of operations and financial condition. Moreover, any attempt to rebuild our reputation and restore the value of our brand may be costly and time consuming, and such efforts may not ultimately be successful.

**The continuous and collaborative efforts of our senior management and key employees are crucial to our success, and our business may be harmed if we lose their services.**

Our success depends on the continuous and collaborative efforts of our senior management team and other key employees, including those from production and distribution departments, in particular their familiarity with our business operations and their experience, expertise and influence in the entertainment industry in the PRC. In particular, we rely on the expertise, experience and leadership of Mr. Liu, our founder and chief executive officer, who was former manager of Phoenix Legend Films Co., Ltd. (鳳凰傳奇影業有限公司), with approximately 20 years of relevant experience in media industry. We do not maintain key person insurance. Competition for competent candidates in the industry is intense and the pool of competent candidates is limited. If we lose the services of one or more of our key personnel, we may not be able to find suitable or qualified replacements easily or at all and may incur additional expenses to recruit and train new personnel. Consequently, our business could be severely disrupted, the implementation of our business strategies could be delayed, and our financial condition and results of operations could be materially and adversely affected. In addition, if any member of our key personnel joins a competitor or forms a competing business, we may lose crucial technological know-how, business secrets, customers and other valuable resources. Each of our key personnel has entered into a confidentiality and non-compete agreement with us. We cannot assure you, however, the extent to which any of these agreements will be enforceable under the applicable laws. See “— Risks Relating to the PRC — The legal system in the PRC has inherent uncertainties that could limit the legal protections available to our Shareholders.”

**We are subject to risks of piracy and intellectual property infringement.**

Due to technological advances and upgrades, acts of piracy and copyright infringement are prevalent in many parts of the world as well as the PRC, which is primarily due to (i) technological advances allowing conversion of drama series into digital formats; (ii) the availability of digital copies of drama series; and (iii) the difficulty in enforcing intellectual property rights in the PRC. This trend

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facilitates the creation, transmission and sharing of high quality unauthorized copies of drama series. The proliferation of unauthorized copies of our products may result in the loss of audience and have a negative impact on the TV viewership ratings and online video views, and in some cases, reduce our licensing revenue, which may materially and adversely affect our business and results of operations. In order to minimize the risks of piracy and infringement, we may have to incur significant financial and human resources to implement security and anti-piracy measures.

In addition, due to our business nature, we are particularly vulnerable to disputes relating to the infringement of intellectual property rights. There is no assurance that we will not face intellectual property claims relating to the creative content of our drama series or disputes over entitlements to intellectual property rights in the future. Any such claims or disputes may result in prolonged legal proceedings, which may divert our management's attention from our business and cause us to incur substantial costs. If any claim or action is asserted against us, we may seek to settle such claim by obtaining a license from the plaintiff covering the disputed intellectual property rights. There is no assurance, however, that under such circumstances, such license, or any other form of settlement, would be available on reasonable terms or at all. In case of such event, we may be liable for damages, which may materially and adversely affect our results of operations and financial condition.

**We are exposed to credit risk arising from our large amounts of trade and notes receivables. Failure to collect our trade and notes receivables in a timely manner or at all could have a material and adverse impact on our business, financial condition, liquidity and prospects.**

Our cash flow and profitability are subject to the timely settlement of payments by our customers for the drama series we licensed out and the production services we provided to them. Our customers primarily include TV channels, online video platforms and sometimes third party distributors. During the Track Record Period, we generally granted a credit period ranging from 15 days to 365 days from the date of billing to our customers. In practice, however, collection period for certain customers, particularly TV channels, may be longer than the credit period stipulated in our agreements. As of December 31, 2017, 2018 and 2019 and June 30, 2020, our trade and notes receivables (before deduction of loss allowance) amounted to approximately RMB294.5 million, RMB185.3 million, RMB491.9 million and RMB789.0 million, respectively, of which 48.7%, 81.5%, 23.2% and 25.8%, respectively, represented trade and notes receivables due from TV channels as of the same dates. We recorded impairment on trade and notes receivables of RMB4.6 million, RMB5.0 million, RMB6.5 million and RMB12.4 million as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively. In 2017, 2018 and 2019 and the six months ended June 30, 2020, the turnover days of our trade and notes receivables was approximately 139 days, 129 days, 162 days and 201 days, respectively. As a result, we recorded impairment losses on trade and notes receivables charged to our consolidated statements of profit or loss of approximately RMB3.8 million, RMB1.9 million, RMB1.5 million and RMB5.9 million in 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively. We also recorded written-off of trade and notes receivables of RMB1.6 million in 2018, as a result of uncollectible trade receivables of two drama series from a provincial TV channel.

Due to our growing drama series pipeline, the long trade and notes receivables collection period for certain customers, as well as the long inventory turnover days amounting to 171 days in 2017, 331 days in 2018, 404 days in 2019 and 328 days in the six months ended June 30, 2020, our cash conversion cycle (calculated as inventory turnover days plus trade and notes receivables turnover days and minus

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trade payables turnover days) increased from 223 days in 2017 to 294 days in 2018 and further to 376 days in 2019, while decreased to 350 days in the six months ended June 30, 2020. The mismatch between our cash inflow received from customers and cash outflow paid to suppliers as a result of the long credit period we grant to our customers as well as the long cash conversion cycle as a result of the increasing balances and turnover days of our inventories and trade and notes receivables could have a material and adverse impact on our cash position and business operations.

We cannot assure you that we will be able to collect all or any of our trade and notes receivables or collect the amount for any unbilled work on time, or at all, after meeting the agreed program payment milestones. Our customers may face unexpected circumstances, including, but not limited to, financial difficulties caused by fiscal constraints or change in fiscal policy of the government or delay of the broadcast of our drama series due to the changes in government policies. Our customers, particularly TV channels, may delay or even default in their payment obligation. As a result, we may not be able to receive such customers' payment of uncollected debts in full, or at all, and we may need to make provisions for trade and notes receivables or drama series copyrights. The occurrence of such event would materially and adversely affect our financial condition and results of operations.

**We recorded negative cash flow from operating activities during the Track Record Period and may be subject to liquidity risks, which could constrain our operational flexibility and materially and adversely affect our business, financial condition and results of operations.**

We recorded negative operating cash flow of RMB56.7 million and RMB64.0 million, respectively, in 2017 and 2018. Our operating cash outflow was primarily due to the increases in inventories, trade and notes receivables, prepayments and other assets as well as income tax paid, as a result of more drama series produced and distributed by us in line with our business growth. For details, see "Financial Information — Liquidity and Capital Resources — Cash Flows — Operating Activities."

We cannot assure you that we will be able to generate positive cash flows from operating activities in the future. If we record net operating cash outflows in the future, our working capital may be constrained, which may adversely affect our financial condition. Our future liquidity primarily depends on our ability to maintain adequate cash inflows from our operating activities and adequate external financing. If we fail to obtain sufficient funding in a timely manner and on reasonable terms, or at all, our business, financial condition and results of operations may be materially and adversely affected.

**We may not be able to provide production services or license the broadcasting rights of our drama series to our customers in a timely manner or at all, which may subject us to refund of the production services fees or licensing fees we receive from our customers in advance.**

We derive revenue mainly from licensing of the broadcasting rights of our drama series or provision of drama series production services. Generally our customers pay us the production services fees in advance and sometimes they also pay us the licensing fees in advance, both of which are initially recorded as contract liabilities and are recognized as revenue when the relevant production services or broadcasting rights are rendered or transferred to our customers. We recorded contract liabilities of RMB80.0 million, RMB41.8 million, RMB535.8 million and RMB405.4 million as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively. The delivery of the production services or broadcasting rights of our drama series to our customers may be disrupted by unforeseeable events, such as outbreak of contagious diseases, occurrence of force majeure events, regulatory changes and/or natural disasters. In such events, we may be unable to fulfil our obligation in respect of the contract liabilities and

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may need to refund a portion or all of our contract liabilities not yet recognized as revenue to our customers, which could result in an adverse impact on our cash position and expose us to liquidity risk. In the event we are unable to successfully render the production services or broadcasting rights of our drama series to our customers in the future, we may be subject to claims to refund a portion or all of our contract liabilities, which could materially and adversely affect our business, results of operations and financial condition.

**We are exposed to fair value changes for financial assets at fair value through profit or loss.**

During the Track Record Period, we purchased low-risk financial assets at fair value through profit or loss, which represented wealth management products that do not have a stated maturity and are redeemable at will issued by PRC commercial banks, because we believe we can make better use of such cash by making appropriate short-term investments to enhance our income without interfering with our normal business operation or capital expenditures. We purchased financial assets at fair value through profit or loss of RMB201.0 million in 2017 and have not purchased any such financial assets since 2018. The balance of our financial assets at fair value through profit or loss amounted to RMB20.0 million as of December 31, 2017, which was redeemed in 2018. The fair value of financial assets at fair value through profit or loss is valued by using observable measurements, such as the market interest rates of instruments with similar terms and risks, and net changes in their fair value are recorded as our operating income or loss, and therefore directly affect our results of operations. We did not incur any fair value losses for financial assets at fair value through profit or loss during the Track Record Period. However, we cannot assure you that we will not make similar investments in the future, and as the market interest rates of similar instruments may fluctuate, we cannot assure you that we will not incur any such fair value losses in the future. If we incur such fair value losses, our results of operations, financial condition and prospects may be adversely affected.

**We may not fully recover our prepayments, prepayments under the co-investment arrangements and loans receivables, which may affect our business, results of operation, financial condition and prospects in the future.**

During the Track Record Period, we recorded significant prepayments and prepayments under co-investment arrangements. Our prepayments primarily represent production services fees and screenwriting fees we prepaid to the relevant third party services providers. We recorded prepayments of RMB44.2 million, RMB114.5 million, RMB113.0 million and RMB99.7 million as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively. Our prepayments under the co-investment arrangements mainly represent the investments we made in the drama series. We recorded prepayments under the co-investment arrangements of RMB19.7 million, RMB4.3 million, RMB45.4 million and RMB74.4 million as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively. If our suppliers fail to provide qualified production services or screenplays to us in a timely manner or at all, we may be exposed to prepayment default risk; if the drama series that we invest in are not successfully developed, produced or distributed or are loss-making, we may not be able to recover our prepayments under the co-investment arrangements in part or in full, both of which may in turn materially and adversely affect our business and financial position. Moreover, any material adverse change to the business, results of operations or financial condition of our suppliers or co-producers may subject us to prepayment default risks and have an adverse impact on us.

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In addition, we also recorded loans receivables of nil, RMB95.3 million, RMB160.7 million and RMB69.3 million as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively, which mainly represented (i) our investments with fixed return in the drama series produced by other market players; (ii) lendings to our co-investors for the production of our self-produced drama series; and (iii) lendings to third parties. If the drama series we invest in with fixed return or our self-produced drama series where we lend money to the co-investors are not successfully developed, produced or distributed or are loss-making, or if there is any material adverse change to the business, results of operations or financial condition of the debtors, we may not be able to recover our loans receivables in part or in full, which may in turn materially and adversely affect our business and financial position.

We cannot guarantee that we can fully recover our prepayments, prepayments under the co-investment arrangements and loans receivables. Failure to recover these assets may materially and adversely affect our business, results of operations and financial position in the future.

**We are exposed to inventory risks if we are not able to license the broadcasting rights of our self-produced and outright-purchased drama series according to our distribution plan.**

Our inventories comprise raw materials (i.e. screenplays and IP rights), work-in-progress (i.e. drama series in production) and finished goods (i.e. drama series which have obtained the Television Drama Distribution License but yet to be distributed, and purchased broadcasting rights of drama series). As of December 31, 2017, 2018 and 2019 and June 30, 2020, our inventories amounted to approximately RMB314.5 million, RMB536.7 million, RMB919.1 million and RMB681.1 million, respectively, representing approximately 36.5%, 50.7%, 49.5% and 37.9% of our total current assets, respectively. As of December 31, 2017, 2018 and 2019 and June 30, 2020, we recorded impairment on inventories of RMB2.9 million, RMB16.0 million, RMB16.0 million and RMB13.8 million, respectively. We also recorded write-down of inventories of RMB13.8 million in 2018 in cost of sales in our consolidated statements of profit or loss as a result of our failure to distribute one self-produced drama series.

Our planning department and distribution and promotion department set up a distribution plan for each of our drama series. However, the distribution of a drama series is subject to uncertainties, including the evolving market trends, the broadcasting schedule of TV channels or online video platforms, as well as regulatory or industry policies, which are beyond our control. In the event that we are not able to distribute our self-produced and outright-purchased drama series according to our distribution plan, the relevant inventories may become obsolete and be impaired. As a result, our financial condition and results of operations could be materially and adversely affected.

**We are exposed to impairment on goodwill and other intangible assets arising from the changes in the business prospects of our acquisitions, which could adversely affect our results of operations and financial condition.**

We recorded net carrying amount of goodwill of nil, nil, RMB108.3 million and RMB113.0 million as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively, in connection with our previous acquisition of Hangzhou Yide and Nova Film. Goodwill accounted for 5.7% of our total assets as of June 30, 2020. We also recorded net carrying amount of other intangible assets, comprising primarily contract backlog and patents, of RMB28,000, RMB24,000, RMB42.9 million and RMB27.2 million as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively, primarily in connection with our previous acquisition of Hangzhou Yide and Nova Film. We undertake impairment reviews on goodwill and other intangible assets annually or more frequently if events or changes in circumstances indicate

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that the carrying value may be impaired. We compare the carrying value of goodwill or other intangible assets to their recoverable amount, which is the higher of value in use and the fair value less costs to sell. We recognize any impairment immediately as an expense and it is not subsequently reversed. As of June 30, 2020, we did not identify any impairment indicator of our goodwill and other intangible assets, nor did we record any impairment losses on goodwill and other intangible assets. However, if the carrying value of our goodwill or other intangible assets is considered to exceed their recoverable amount and our goodwill or other intangible assets are therefore determined to be impaired in the future, we would be required to write down the carrying value or record a provision of impairment loss on goodwill or other intangible assets in our financial statements during the period in which our goodwill or other intangible assets are determined to be impaired, and this impairment would adversely affect our results of operations and our financial condition. See Notes 2.4, 15 and 16 to the Accountants' Report set forth in Appendix I to this prospectus.

**The fair value measurement of our convertible redeemable preferred shares is subject to significant uncertainties and risks, and changes in such fair value may affect our financial performance.**

The fair value measurement of our convertible redeemable preferred shares is subject to significant uncertainties and risks, and changes in such fair value may affect our financial performance. Our Series A Preferred Shares are classified as financial liabilities measured at fair value through profit or loss, or FVTPL. The fair value measurement of our preferred shares involves estimates and assumptions that are subject to significant uncertainties and risks.

The fair value of the financial liabilities at FVTPL is established by using valuation techniques, including the market approach or backsolve method. Valuation techniques are certified by an independent qualified professional valuer before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. Valuation models established by the valuer make the maximum use of market inputs and rely as little as possible on our specific data. However, some significant unobservable inputs, such as fair value of our ordinary shares, possibilities under different scenarios such as initial public offering, liquidation and redemption, and discount for lack of marketability, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted when necessary. Should any of the estimates and assumptions change, it may lead to changes in the fair value of financial liabilities at FVTPL. In addition, the valuation methodologies may involve a significant degree of management judgment and are inherently uncertain, which may result in material adjustment to the carrying amounts of certain liabilities and in turn may materially and adversely affect our results of operations.

As of December 31, 2018 and 2019 and June 30, 2020, the fair value of our financial liabilities at FVTPL was RMB274.5 million, RMB289.5 million and RMB401.5 million, respectively. The losses or gains of fair value change from convertible redeemable preferred shares represent changes in the fair value of our preferred shares. We recorded a gain on fair value change of RMB1.0 million in 2018 and a loss on fair value change of RMB15.0 million and RMB3.7 million, respectively, in 2019 and the six months ended June 30, 2020, all of which take into account exchange gains or losses. We expect to continue to recognize the fair value changes of the preferred shares after June 30, 2020 to the Listing Date, which may be a loss. After the automatic conversion of all preferred shares into Shares upon the Listing, we do not expect to recognize any further loss or gain on fair value changes from preferred shares in the future.

**Any disagreements or discontinuations of co-investment arrangements for drama series production could disrupt our operations or put our assets at risk.**

We co-invest or co-produce drama series through co-investment arrangements with other industry players, such as major drama series producers, from time to time. This is an important part of how we do

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business, as we believe we can leverage our co-investors' and co-producers' industry expertise and financial resources to produce high quality contents efficiently. Generally, we enter into strategic cooperation agreements with leading drama series investors and producers with terms ranging from three to five years to enhance our cooperation and relationships. While co-investment arrangements may provide various advantages, occasions may arise when we do not agree with the business goals or objectives of our co-investors or co-producers, or other factors may arise that make the continuation of the relationships unwise or untenable. Any such disagreements or discontinuation of our relationships with the co-investors or co-producers could disrupt our operations, or put assets dedicated to the co-investment arrangements at risk. If we are unable to resolve issues with co-investors or co-producers, we may need to terminate the co-investment arrangements. The unwinding of an existing co-investment arrangement could prove to be difficult or time-consuming, and the loss of revenue related to the termination or unwinding of a co-investment arrangement could adversely affect our results of operations. We cannot assure you that we will be able to maintain good relationships with our co-investors or co-producers.

**If online video platforms transact with TV channels directly, we may be exposed to the risk of disintermediation and our outright-purchased drama series business may be adversely and materially affected.**

We conduct our outright-purchased drama series business on a back-to-back basis. We generally purchase the licensing rights of specified drama series from online video platforms pursuant to TV channels' or third-party distributors' planned orders and license such broadcasting rights to TV channels or third-party distributors. During the Track Record Period, our revenue generated from the licensing of outright-purchased drama series in 2017, 2018, 2019 and the six months ended June 30, 2020 accounted for approximately 77.9%, 33.0%, 24.0% and 0.4% of our total revenue in the same periods. See "Business — Our Business Model — Licensing of Broadcasting Rights of Outright-purchased Drama Series." Although it is uncommon and not economically efficient for leading online video platforms to transact with TV channels directly according to Frost & Sullivan, there may be a risk that online video platforms transact with TV channels directly circumventing us. We cannot assure you that the online video platforms from which we purchase the broadcasting rights of drama series will not transact with TV channels directly in the future. Occurrence of such event may expose us to the risk of disintermediation, and our outright-purchased drama series business, results of operations and financial position would be adversely and materially affected.

**Future strategic investments or mergers and acquisitions may have a material and adverse effect on our business, financial condition and results of operations.**

As part of our business growth strategy, we may in the future invest in, merge with or acquire businesses that we believe can enhance our production or distribution capabilities and competitive position. Our ability to implement such strategy will depend on our ability to identify suitable targets, our ability to reach agreements with them on commercially reasonable terms and the availability of financing to complete any such investment, merger or acquisition, as well as our ability to obtain any required shareholder or government approvals. Our future strategic investments or mergers and acquisitions could subject us to uncertainties and risks, including:

- high acquisition and financing costs;
- potential ongoing financial obligations and unforeseen or hidden liabilities;



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- potential loss of key business relationships and the reputation of the targets;
- failure to achieve our intended objectives, benefits or revenue-enhancing opportunities;
- costs associated with, and difficulties in, integrating acquired businesses and assets into our own;
- potentially significant impairment charges of goodwill and intangible assets arising from acquisitions;
- amortization expenses of other intangible assets;
- potential claims or litigation regarding our Board's exercise of its duty of care and other duties required under applicable laws and regulations in connection with any of our significant acquisitions or investments approved by the Board; and
- diversion of our resources and management attention from our existing business.

In addition, the assets or businesses we invest in, merge with or acquire may not generate results as we expect. There is no assurance that we will be able to effectively integrate the acquired business with our existing business, which would divert management and other resources. Furthermore, the acquired business may not achieve our expectations due to circumstances beyond our control, such as loss of key personnel. Our failure to address any of the above uncertainties and risks may have a material and adverse effect on our liquidity, financial condition and results of operations.

**If we do not effectively manage our growth, our operating performance may deteriorate.**

We have experienced stable growth in terms of our revenue since our inception. We expect continued growth in our business through organic expansion and acquisitions or strategic alliances. Our expansion has placed, and will continue to place, substantial demands on our managerial, financial, operational and other resources. Our planned expansion will also require us to maintain the consistency of the quality of our drama series to ensure that our market reputation and leadership do not suffer as a result of any deviations, whether actual or perceived. Our future results of operations depend to a large extent on our ability to manage this expansion and growth successfully. In particular, continued growth may subject us to the following additional challenges:

- challenge in the recruitment, training and retaining of highly skilled personnel and external counsels, including screenwriters, directors and actors, filming and production studios, distribution and promotion services providers and quality control specialists for our growing operations;
- challenge in successfully improving and upgrading the quality and appeal of our drama series to accommodate the evolving demands and preferences of audiences;
- challenge in maintaining effective operational, financial and management controls; and

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- challenge in responding to evolving industry standards and governmental regulations that impact our growing business, particularly in the areas of actor management and content examination.

There can be no assurances that our current procedures, resources and controls will be adequate to support our contemplated growth. If we fail to manage our growth effectively, our business, results of operations and prospects may be materially and adversely affected.

**Legal disputes or proceedings may expose us to significantly liabilities, divert our management’s attention and materially and adversely impact our reputation.**

During the ordinary course of our business operations, we may be involved in legal disputes or proceedings relating to, among other things, contractual disputes. Such legal disputes or proceedings may expose us to adverse publicity, subject us to substantial liabilities and may have a material and adverse effect on our reputation, business and financial condition.

If we become involved in material or protracted legal proceedings or other legal disputes in the future, we may need to incur substantial legal expenses and our management may need to devote significant time and attention to handle such proceedings and disputes, diverting their attention from our business operations. In addition, the outcome of such proceedings or disputes may be uncertain and could result in settlement or outcomes which may materially and adversely affect our financial condition and results of operations.

**Any acts of bribery, corrupt practices or other improper conducts of our employees may materially and adversely affect our business, reputation, results of operations and financial condition.**

In recent years, the State Council and various PRC government authorities have intensified and stepped up their efforts to combat bribery, corrupt practices and other improper conducts in the PRC. We cannot assure you that our employees will not be engaged in acts of bribery, corruption or other improper conducts. There is also no assurance that our internal control and risk management systems will prevent or detect any improper or illegal acts of our employees. The failure of our employees to comply with the PRC anti-corruption and other related laws and regulations may subject us to substantial financial losses and may have a negative impact on our reputation. In addition, if any of our co-investors are subject to investigations, claims or legal proceedings as a result of such improper or illegal acts, they may be subject to fines and penalties and thus may not be able to contribute their portion of investment funds to our projects on schedule or at all, thereby delaying the project progress. Any of the abovementioned circumstances may materially and adversely affect our business, reputation, results of operations and financial condition.

**Our limited insurance coverage could expose us to significant costs and business disruption.**

Insurance companies in the PRC generally do not offer as extensive an array of insurance products as insurance companies do in countries with more developed economies. To the best of our Directors’ knowledge, no insurance products that have been specifically designed for protecting the risks related to the Contractual Arrangements have been made available on the market. In line with general industry practice in the PRC, we do not maintain business interruption insurance or key man life insurance. See “Business — Insurance.” Any disruption in our business operations, litigation or natural disasters may

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result in our incurring substantial costs and the diversion of our resources, and we have no insurance to cover such losses. As a result, our business, financial condition and results of operations could be materially and adversely affected.

**The occurrence of any *force majeure* events, natural disasters, acts of war or outbreaks of contagious diseases in the PRC may have a material and adverse effect on our business and results of operations.**

Any occurrence of *force majeure* events, natural disasters such as earthquakes, tornadoes, floods and droughts, acts of war, or outbreaks of contagious diseases or epidemics such as avian influenza, swine influenza, severe acute respiratory syndrome (SARS), Middle East respiratory syndrome coronavirus (MERS-CoV), or coronavirus disease 2019 (COVID-19), may disrupt the production of our drama series and normal social activities, and thus may have a material and adverse effect on the production, distribution and broadcasting schedules of our drama series. In particular, the recent outbreak of COVID-19 has endangered the health of many people residing in the PRC and significantly disrupted travel and local economy. Any of the aforesaid circumstances may materially and adversely affect our business and results of operations.

**Our Controlling Shareholders have substantial control over our Company and their interests may not be aligned with the interests of the other Shareholders.**

Prior to and immediately following the completion of the Global Offering, our Controlling Shareholders will retain substantial control over our Company. Subject to our Articles of Association and the Cayman Islands Companies Act, the Controlling Shareholders will be able to exercise significant control and exert significant influence over our business or otherwise on matters of significance to us and other Shareholders by voting at the general meeting of the Shareholders and at Board meetings. The interests of our Controlling Shareholders may differ from the interests of other Shareholders and they are free (other than on any matters that they are required to abstain from voting) to exercise their votes according to their interests. To the extent that the interests of the Controlling Shareholders conflict with the interests of other Shareholders, the interests of other Shareholders can be disadvantaged and harmed.

### **RISKS RELATING TO OUR CONTRACTUAL ARRANGEMENTS**

**If the PRC government finds that the agreements that establish the structure for operating our businesses in the PRC do not comply with applicable PRC laws and regulations, or if these laws and regulations or their interpretations change in the future, we could be subject to severe consequences, including the nullification of the Contractual Arrangements and the relinquishment of our interest in our Consolidated Affiliated Entities.**

Current PRC laws and regulations impose certain restrictions and prohibitions on foreign ownership of companies that engage in the TV programs and other related businesses. In particular, under the Negative List, investment in “radio and television program production and operation enterprises” is prohibited. For details, see “Regulatory Overview — Regulations in Relation to Foreign Investment.”

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On March 15, 2019, the 2<sup>nd</sup> Session of the 13th National People's Congress (第十三屆全國人民代表大會第二次會議) approved the Foreign Investment Law of the People's Republic of China (《中華人民共和國外商投資法》) (the “**FIL**”), which became effective on January 1, 2020. According to the FIL, the “foreign investment” refers to investment activities carried out directly or indirectly by foreign natural persons, enterprises or other organizations (hereinafter referred to as “**Foreign Investors**”), including the following: (1) Foreign Investors establishing foreign-invested enterprises in the PRC alone or collectively with other investors; (2) Foreign Investors acquiring shares, equities, properties or other similar rights of Chinese domestic enterprises; (3) Foreign Investors investing in new projects in the PRC alone or collectively with other investors; and (4) Foreign Investors investing through other ways prescribed by laws and regulations or the State Council. For details, see “Regulatory Overview — Regulations in Relation to Foreign Investment.”

The Company was incorporated under the laws of the Cayman Islands, and Nanjing Strawbear, our wholly-owned PRC subsidiary, is considered a foreign-invested enterprise and thereby shall be subject to the FIL. To comply with PRC laws and regulations, we conduct our drama series investment, production and distribution related businesses in the PRC through Jiangsu Strawbear, based on the Contractual Arrangements, which enable us to (i) have the power to direct the activities that most significantly affect the economic performance of Jiangsu Strawbear; (ii) receive substantially all of the economic benefits from Jiangsu Strawbear in consideration for the services provided by the Nanjing Strawbear; and (iii) have an exclusive option to purchase all or part of the equity interests and assets of Jiangsu Strawbear when and to the extent permitted by PRC laws, or request Jiangsu Strawbear or any existing shareholder of it to transfer any or part of the equity interest and assets of Jiangsu Strawbear to another PRC person or entity designated by us at any time at our discretion. Because of these Contractual Arrangements, we are the primary beneficiary of Jiangsu Strawbear and hence treat Jiangsu Strawbear as our consolidated affiliated entity, and consolidate its and its subsidiaries' results of operations into ours. Our Consolidated Affiliated Entities hold the licenses, approvals and key assets that are essential for our business operations.

In the opinion of our PRC Legal Advisors, (i) the ownership structures of our Company, Nanjing Strawbear and our Consolidated Affiliated Entities are in compliance with existing PRC laws and regulations, (ii) the Contractual Arrangements are valid, binding and enforceable, and will not result in any violation of PRC laws or regulations currently in effect, and (iii) the business operations of our Company, Nanjing Strawbear and our Consolidated Affiliated Entities, as described in this prospectus, had been in compliance with existing PRC laws and regulations, including the FIL, in all material aspects during the Track Record Period and up to the Latest Practicable Date. There are, however, substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. The relevant PRC regulatory authorities have broad discretion in determining whether a particular contractual structure violates PRC laws and regulations. Particularly, the FIL stipulates that foreign investment includes “Foreign Investors investing in the PRC through many other methods under laws, administrative regulations or provisions prescribed by the State Council.” We cannot assure you that Contractual Arrangements will not be deemed as a form of foreign investment under laws, regulations or provisions prescribed by the State Council in the future, as a result of which, it will be uncertain whether the Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and the impact on the above-mentioned Contractual Arrangements. Thus, we cannot assure you that the PRC government will not ultimately take a view contrary to the opinion of our PRC Legal Advisors. If the PRC government finds that the Contractual Arrangements do not comply with its restrictions or prohibitions on foreign investment in businesses, or the Contractual Arrangements are determined as illegal or invalid by the PRC government, or if the PRC government otherwise finds that

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we, Nanjing Strawbear or any of our Consolidated Affiliated Entities are in violation of PRC laws or regulations or lack the necessary permits or licenses to operate our business, the relevant PRC regulatory authorities, including the MOFCOM and NRTA, would have broad discretion in dealing with such violations or failures, including, without limitation:

- revoking our business and operating licenses;
- discontinuing or restricting our operations;
- imposing fines or confiscating any of our income that they deem to have been obtained through illegal operations;
- imposing conditions or requirements with which we or our PRC subsidiaries and our Consolidated Affiliated Entities may not be able to comply;
- requiring us or our PRC subsidiaries and our Consolidated Affiliated Entities to restructure the relevant ownership structure or operations;
- restricting or prohibiting our use of the proceeds from the Global Offering or other of our financing activities to finance the business and operations of our Consolidated Affiliated Entities; or
- taking other regulatory or enforcement actions that could be harmful to our business.

Any of these actions could cause significant disruption to our business operations, and may materially and adversely affect our business, financial condition and results of operations. In addition, it is unclear what impact the PRC government actions would have on us and on our ability to consolidate the financial results of our Consolidated Affiliated Entities in our consolidated financial statements, if the PRC governmental authorities find our legal structure and contractual arrangements to be in violation of PRC laws, rules and regulations. If any of these penalties results in our inability to direct the activities of our Consolidated Affiliated Entities that most significantly impact their economic performance and/or our failure to receive the economic benefits from our Consolidated Affiliated Entities, we may not be able to consolidate our Consolidated Affiliated Entities into our consolidated financial statements in accordance with the HKFRS, thus adversely affecting our results of operations.

**Our Contractual Arrangements may not be as effective in providing operational control as direct ownership. Jiangsu Strawbear and its shareholders may fail to perform their obligations under our Contractual Arrangements.**

Due to the PRC restrictions or prohibitions on foreign ownership of companies that engage in drama series investment, production and distribution related businesses in the PRC, we operate a substantial portion of our business in the PRC through our Consolidated Affiliated Entities, in which we have no ownership interest. We rely on the Contractual Arrangements to control and operate our Consolidated Affiliated Entities' business. The Contractual Arrangements are intended to provide us with effective control over our Consolidated Affiliated Entities and allow us to obtain economic benefits from them. See "Contractual Arrangements" for further details.

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Although we have been advised by our PRC Legal Advisors that our Contractual Arrangements constitute valid and binding obligations enforceable against each party of such agreements in accordance with their terms, these Contractual Arrangements may not be as effective in providing control over our Consolidated Affiliated Entities as direct ownership. If Jiangsu Strawbear or its shareholders fail to perform their respective obligations under the Contractual Arrangements, we may incur substantial costs and expend substantial resources to enforce our rights. All of these Contractual Arrangements are governed by and interpreted in accordance with PRC laws, and disputes arising from these Contractual Arrangements will be resolved through arbitration or litigation in the PRC. However, there are very few precedents and little official guidance as to how contractual arrangements in the context of a variable interest entity should be interpreted or enforced under the PRC laws. There remain significant uncertainties regarding the outcome of arbitration or litigation. These uncertainties could limit our ability to enforce these Contractual Arrangements. In the event we are unable to enforce these Contractual Arrangements or we experience significant delays or other obstacles in the process of enforcing these Contractual Arrangements, we may not be able to exert effective control over our Consolidated Affiliated Entities and may lose control over the assets owned by our Consolidated Affiliated Entities. As a result, we may be unable to consolidate our Consolidated Affiliated Entities in our consolidated financial statements and our ability to conduct our business may be negatively affected.

**We may lose the ability to use, or otherwise benefit from, the licenses, approvals and assets held by our Consolidated Affiliated Entities that are material to our business operations if our Consolidated Affiliated Entities declare bankruptcy or become subject to a dissolution or liquidation proceeding.**

We do not have priority pledges and liens against the assets of our Consolidated Affiliated Entities. If our Consolidated Affiliated Entities undergo an involuntary liquidation proceeding, third-party creditors may claim rights to some or all of their assets and we may not have priority against such third-party creditors on the assets of our Consolidated Affiliated Entities. If our Consolidated Affiliated Entities liquidate, we may take part in the liquidation procedures as a general creditor under the PRC Enterprise Bankruptcy Law (《中華人民共和國企業破產法》) and recover any outstanding liabilities owed by our Consolidated Affiliated Entities to Nanjing Strawbear under the applicable service agreement.

The Contractual Arrangements provide that the shareholders of Jiangsu Strawbear are prohibited from voluntarily liquidating our Consolidated Affiliated Entities without obtaining our prior consent. In addition, under the Contractual Arrangements, the shareholders of Jiangsu Strawbear do not have the right to issue dividends to themselves or otherwise distribute the retained earnings or other assets of Jiangsu Strawbear without our consent. In the event that the shareholders of Jiangsu Strawbear initiate a voluntary liquidation proceeding without our authorization or attempt to distribute the retained earnings or assets of Jiangsu Strawbear without our prior consent, we may need to resort to legal proceedings to enforce the terms of the Contractual Arrangements. Any such legal proceeding may be costly and may divert our management's time and attention away from the operation of our business, and the outcome of such legal proceeding will be uncertain.

**The shareholders of Jiangsu Strawbear may have conflicts of interest with us, which may materially and adversely affect our business.**

We have designated PRC nationals to be the shareholders of Jiangsu Strawbear. These persons may have conflicts of interest with us. Our Consolidated Affiliated Entities are beneficially owned by certain members of our management team, namely, Mr. Liu, Ms. Zhang and Ms. Zhai. Conflicts of interest may arise between the roles of these individuals as shareholders, directors and/or officers of our Company and

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as shareholders, directors and/or officers of Jiangsu Strawbear. We rely on these individuals to abide by the laws of the Cayman Islands which impose fiduciary duties upon directors and officers of our Company. Such duties include the duty to act *bona fide* in what they consider to be in the best interest of our Company as a whole and not to place themselves in a position in which there is a conflict between their duties to our Company and their personal interests. On the other hand, PRC laws also provide that a director or a management officer owes a loyalty and fiduciary duty to the company he or she directs or manages. We cannot assure you that when conflicts arise, shareholders of Jiangsu Strawbear will act in the best interest of our Company or that conflicts will be resolved in our favor. These individuals may breach or cause Jiangsu Strawbear to breach the existing Contractual Arrangements. If we cannot resolve any conflicts of interest or disputes between us and these shareholders, we would have to rely on legal proceedings, which may be expensive, time-consuming and disruptive to our operations. There is also substantial uncertainty as to the outcome of any such legal proceedings.

**If we exercise the option to acquire equity ownership of Jiangsu Strawbear, the ownership transfer may subject us to certain limitations and substantial costs.**

Pursuant to the Contractual Arrangements, Nanjing Strawbear or its designated person(s) has the exclusive right to purchase all or any part of the equity interests in Jiangsu Strawbear from its shareholders at a nominal price, unless the relevant PRC government authorities or PRC laws request that another amount be used as the purchase price and in which case the purchase price shall be the lowest amount under such request.

The equity transfer may be subject to approvals from and filings with the MOFCOM and SAMR and/or their local counterparts. In addition, the equity transfer price may be subject to review and tax adjustment with reference to its market value by the relevant tax authority. The shareholders of Jiangsu Strawbear will pay the equity transfer price they receive to Nanjing Strawbear or its designated person(s) under the Contractual Arrangements. The amount to be received by Nanjing Strawbear may also be subject to EIT, in which case such tax amounts could be substantial.

**Our Contractual Arrangements may be subject to scrutiny by the PRC tax authorities, and a finding that we owe additional taxes could substantially reduce our consolidated net income and the value of your investment.**

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 Contractual Arrangements among our PRC subsidiaries and our Consolidated Affiliated Entities do not represent an arms-length price and adjust our Consolidated Affiliated Entities' income in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction, for PRC tax purposes, of expense deductions recorded by our Consolidated Affiliated Entities, which could in turn increase its tax liabilities. In addition, the PRC tax authorities may impose late payment fees and other penalties to our Consolidated Affiliated Entities for under-paid taxes. Our results of operations may be materially and adversely affected if our tax liabilities increase or if we are found to be subject to late payment fees or other penalties.

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### RISKS RELATING TO THE PRC

**China’s economic, political and social conditions and government policies may continue to affect our business.**

Substantially all of our businesses, assets, operations and revenues are located in or derived from our operations in the PRC and, as a result, our business, financial condition and results of operations are subject, to a significant degree, to the economic, political, social and regulatory environment in the PRC. The PRC government regulates the economy and the industries by imposing industrial policies and regulating the PRC’s macro economy through fiscal and monetary policies.

The PRC economy has undergone a transition from a planned economy to a market-oriented economy. The PRC government has, in recent years, taken various actions to introduce market forces for economic reform, to reduce State ownership of productive assets and to promote the establishment of sound corporate governance in business entities. However, a substantial portion of productive assets in the PRC are still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating the economy and the industries by issuing industrial policies. The PRC government still retains significant control over the PRC’s economic growth through the allocation of resources, monetary policies and preferential treatments to particular industries or enterprises.

Our performance has been and will continue to be affected by China’s economy, which in turn is influenced by the global economy. The uncertainties relating to the global economy as well as the political environment in various regions of the world will continue to impact China’s economic growth. While China’s economy has experienced significant growth in the past few decades, growth has been uneven across different regions and economic sectors and there is no assurance that such growth can be sustained. The global economic slowdown and the turmoil in the global financial markets that began in the second half of 2008, continued weakness in the U.S. economy and the sovereign debt crisis in Europe have collectively added downward pressure to economic growth in the PRC.

We are unable to predict all the risks and uncertainties that we face as a result of current economic, political, social, and regulatory developments and many of these risks are beyond our control. All such factors may materially and adversely affect our business and operations as well as our financial performance.

**The M&A Rules and certain other PRC regulations establish complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in the PRC.**

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》), or the M&A Rules, adopted by six PRC regulatory agencies in 2006 and amended in 2009, and some other regulations and rules concerning mergers and acquisitions established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time consuming and complex, including requirements in some instances that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. Moreover, the “Anti-Monopoly Law” (《反壟斷法》) requires that the SAMR shall be notified in advance of any concentration of undertaking if certain thresholds are triggered. In addition, the “Rules of Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors” issued by the



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MOFCOM (《商務部實施外國投資者併購境內企業安全審查制度的規定》) that became effective in September 2011 specify that mergers and acquisitions by foreign investors that raise “national defense and security” concerns and mergers and acquisitions through which foreign investors may acquire *de facto* control over domestic enterprises that raise “national security” concerns are subject to strict review by the MOFCOM, and the rules prohibit any activities attempting to bypass a security review, including by structuring the transaction through a proxy or contractual control arrangement. In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the above mentioned regulations and other relevant rules to complete such transactions could be time consuming, and any required approval processes, including obtaining approval from the MOFCOM or its local counterparts may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

**We may be deemed to be a PRC tax resident enterprise under the EIT Law, which may materially and adversely affect our profitability and the value of your investments.**

We are a company incorporated under the laws of the Cayman Islands. Pursuant to the EIT Law and its implementation rules, if an enterprise incorporated outside the PRC has its “de facto management bodies” within the PRC, such enterprise would generally be deemed as a “PRC resident enterprise” for tax purposes and be subject to an EIT rate of 25% on its global income. “De facto management bodies” is defined as the body that has actual overall management and control over the business, personnel, accounts and properties of an enterprise. In April 2009, July 2011 and January 2014, the SAT issued several circulars to clarify certain criteria for the determination of the “de facto management bodies” for foreign enterprises controlled by PRC enterprises. We are currently not regarded as a PRC tax resident enterprise. However, if we are regarded as a PRC tax resident enterprise by the PRC tax authorities, we would have to pay PRC EIT at a rate of 25% for our entire global income, which may materially and adversely affect our profits and hence our retained profit available for distribution to our Shareholders.

**You may be subject to PRC withholding tax on dividends from us and PRC income tax on any gain realized on the transfer of our Shares.**

Under the EIT law and its implementation rules, subject to any applicable tax treaty or similar arrangement between the PRC and your jurisdiction of residence that provides otherwise, PRC withholding tax at a rate of 10% is normally applicable to dividends from a PRC source paid to investors that are “non-resident enterprises,” which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but whose relevant income is not effectively connected with the establishment or place of business. Any gain realized on the transfer of shares by such investors is generally subject to a 10% PRC income tax if such gain is regarded as income derived from sources within the PRC.

Under the PRC Individual Income Tax law (《中華人民共和國個人所得稅法》) and its implementation rules, dividends from sources within the PRC paid to foreign individual investors who are not PRC residents are generally subject to a PRC withholding tax at a rate of 20% and gains from PRC sources realized by such investors on the transfer of shares are generally subject to PRC income tax at a rate of 20% for individuals. Any PRC tax may be reduced or exempted under applicable tax treaties or similar arrangements.

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If we are treated as a PRC resident enterprise as described under “— We may be deemed to be a PRC tax resident enterprise under the EIT Law, which may materially and adversely affect our profitability and the value of your investments,” dividends we pay with respect to our Shares, or the gain realized from the transfer of our Shares, may be treated as income derived from sources within the PRC and as a result be subject to the PRC income taxes described above. If PRC income tax is imposed on gains realized through the transfer of our Shares or on dividends paid to our non-residents investors, the value of your investment in our Shares may be materially and adversely affected.

### **Fluctuations in exchange rates could result in foreign currency exchange losses.**

The value of the RMB against the Hong Kong dollar, the U.S. dollar and other currencies fluctuates, is subject to changes resulting from the PRC government’s policies and depends to a large extent on domestic and international economic and political developments as well as supply and demand in the local market. It is difficult to predict how market forces or government policies may impact the exchange rate between the RMB and the Hong Kong dollar, the U.S. dollar or other currencies in the future. In addition, the PBOC regularly intervenes in the foreign exchange market to limit fluctuations in RMB exchange rates and achieve policy goals.

The proceeds from the Global Offering will be received in Hong Kong dollars. As a result, any appreciation of the RMB against the Hong Kong dollar may result in the decrease in the value of our proceeds from the Global Offering. Conversely, any depreciation of the RMB may adversely affect the value of, and any dividends payable on, the Shares in foreign currency. In addition, there are limited instruments available for us to reduce our foreign currency risk exposure at reasonable costs. All of these factors could materially and adversely affect our business, financial condition, results of operations and prospects, and could reduce the value of, and dividends payable on, our Shares in foreign currency terms.

### **The PRC government’s control of foreign currency conversion and restrictions on the remittance of RMB out of the PRC may limit our foreign exchange transactions and our ability to pay dividends and meet other obligations, and affect the value of your investment.**

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenue in RMB. We may convert a portion of our revenue into other currencies to meet our foreign currency obligations, such as payments of dividends declared in respect of our Shares, if any. Shortage in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency out of China, or otherwise satisfy their foreign currency denominated obligations.

Under existing PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the SAFE, by complying with certain procedural requirements. However, approval from or registration with appropriate governmental authorities is required where RMB 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.

In light of the flood of capital outflows of China in 2016 due to the weakening of the RMB, the PRC government has imposed more restrictive foreign exchange policies and stepped up scrutiny of major outbound capital movements. More restrictions and substantial vetting process are put in place by SAFE to regulate cross-border transactions falling under the capital account. The PRC government may at its discretion further restrict access to foreign currencies in the future for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our Shareholders.

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**PRC regulation of loans to and direct investments in PRC entities by offshore holding companies may delay or prevent us from using the proceeds of the Global Offering to make loans or additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.**

Any funds we transfer to our PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, are subject to approval by or registration with relevant governmental authorities in the PRC. According to the relevant PRC regulations on foreign-invested enterprises in the PRC, capital contributions to our PRC subsidiaries are subject to the requirement of making necessary filings in the Foreign Investment Comprehensive Management Information System (外商投資綜合管理信息系統) (the “FICMIS”) and registration with other governmental authorities in the PRC. In addition, (i) any foreign loan procured by our PRC subsidiaries is required to be registered with SAFE, or its local counterparts, and (ii) each of our PRC subsidiaries may not procure loans which exceed the difference between its registered capital and its total investment amount as recorded in FICMIS. Any medium or long-term loan to be provided by us to our Consolidated Affiliated Entities must be recorded and registered by the NDRC and the SAFE or its local counterparts. We may not be able to complete such recording or registrations on a timely basis, if at all, with respect to future capital contributions or foreign loans by us directly to our PRC subsidiaries. If we fail to complete such recording or registration, our ability to use the proceeds of this Global Offering and to capitalize our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

On March 30, 2015, the SAFE promulgated the “Notice 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金結匯管理方式的通知》) (the “SAFE Circular 19”), which took effect on June 1, 2015. SAFE Circular 19 launched a nationwide reform of the administration of the settlement of the foreign exchange capitals of foreign-invested enterprises and allows foreign-invested enterprises to settle their foreign exchange capital at their discretion, but continues to prohibit foreign-invested enterprises from using RMB funds converted from their foreign exchange capital for expenditures beyond their business scopes. On June 9, 2016, the SAFE promulgated the “Notice on Reforming and Standardizing the Administrative Provisions on Capital Account Foreign Exchange” (《國家外匯管理局關於改革和規範資本專案結匯管理政策的通知》) (the “SAFE Circular 16”). SAFE Circular 19 and SAFE Circular 16 continue to prohibit foreign-invested enterprises from, among other things, using RMB funds converted from their foreign exchange capital for expenditure 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 not for self-use. SAFE Circular 19 and SAFE Circular 16 may significantly limit our ability to transfer to and use in the PRC the proceeds from this Global Offering, which may materially and adversely affect our business, financial condition and results of operations.

**The heightened scrutiny over acquisitions from the PRC tax authorities may have a material and adverse impact on our business, acquisition or restructuring strategies or the value of your investment in us.**

On February 3, 2015, the SAT issued the “Public Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises” (《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 “Circular 7”), which abolished certain provisions in the “Notice on Strengthening the Administration of Enterprise Income Tax on non-Resident Enterprises” (《關於加強非居民企業股權轉讓企業所得稅管理的通知》) (the “Circular 698”), which was previously

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issued by the SAT on December 10, 2009, as well as certain other rules providing clarification on Circular 698. Circular 7 provided comprehensive guidelines relating to, and also heightened the PRC tax authorities' scrutiny over, indirect transfers by a non-resident enterprise of assets (including equity interests) of a PRC resident enterprise (the "**PRC Taxable Assets**").

For example, Circular 7 specifies that the PRC tax authorities are entitled to reclassify the nature of an indirect transfer of PRC Taxable Assets, when a non-resident enterprise transfers PRC Taxable Assets indirectly by disposing of equity interests in an overseas holding company directly or indirectly holding such PRC Taxable Assets, by disregarding the existence of such overseas holding company and considering the transaction to be a direct transfer of PRC Taxable Assets, if such transfer is deemed to have been conducted for the purposes of avoiding EIT and without any other reasonable commercial purpose.

Except as provided in Circular 7, transfers of Chinese taxable property under the following circumstances shall be automatically deemed as having no reasonable commercial purpose, and are subject to EIT: (i) more than 75% of the value of the overseas enterprise is directly or indirectly from Chinese taxable properties; (ii) more than 90% of the total assets (cash excluded) of the overseas enterprise are directly or indirectly composed of investment in the PRC at any time during the year prior to the indirect transfer of Chinese taxable property, or more than 90% of the income of the overseas enterprise is directly or indirectly from China during the year prior to the indirect transfer of Chinese taxable property; (iii) the overseas enterprise and its subsidiaries directly or indirectly hold Chinese taxable property and have registered with the relevant authorities in the host countries (regions) in order to meet the local legal requirements in relation to organization forms, yet proved to be inadequate in their ability to perform their intended functions and withstand risks as their alleged organization forms suggest; or (iv) the income tax from the indirect transfer of Chinese taxable property payable abroad is lower than the income tax in the PRC that may be imposed on the direct transfer of such PRC Taxable Assets.

Although Circular 7 contains certain exemptions (including, (i) where a non-resident enterprise derives income from the indirect transfer of PRC Taxable Assets by acquiring and selling shares of a listed overseas holding company which holds such PRC Taxable Assets on a public market; and (ii) where there is an indirect transfer of PRC Taxable Assets, but if the non-resident enterprise had directly held and disposed of such PRC Taxable Assets, the income from the transfer would have been exempted from EIT under an applicable tax treaty or arrangement), it remains unclear whether any exemptions under Circular 7 will be applicable to the transfer of our Shares or to any future acquisition by us outside of the PRC involving PRC Taxable Assets, or whether the PRC tax authorities will reclassify such transaction by applying Circular 7. Therefore, the PRC tax authorities may deem any transfer of our Shares by our Shareholders that are non-resident enterprises, or any future acquisition by us outside of the PRC involving PRC Taxable Assets, to be subject to the foregoing regulations, which may subject our Shareholders or us to additional PRC tax reporting obligations or tax liabilities.

Provisions of Circular 7, which impose PRC tax liabilities and reporting obligations, do not apply to "a non-resident enterprise acquiring and disposing of the equity interests of the same offshore listed company in a public market" (the "**Public Market Safe Harbor**"), which is determined by whether the parties and number and price of the shares acquired and disposed are not previously agreed upon, but determined in accordance with general trading rules in the public securities markets, according to one implementing rule for Circular 698. In general, transfers of the Shares by Shareholders on the Stock Exchange or other public markets would not be subject to the PRC tax liabilities and reporting obligations

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imposed under the Circular 7 if the transfers fall under the Public Market Safe Harbor. As stated in the section headed “Information about this Prospectus and the Global Offering,” potential investors should consult their professional advisors if they are in any doubt as to the tax implications of subscribing for, purchasing, holding, disposing of and dealing in the Shares.

**We may be subject to penalties, including restrictions on our ability to inject capital into our PRC subsidiaries and our PRC subsidiaries’ ability to distribute profits to us, if our PRC resident Shareholders or beneficial owners fail to comply with relevant PRC foreign exchange regulations.**

The SAFE has promulgated several regulations that require PRC residents and PRC corporate entities to register with and obtain approval from local counterparts of the SAFE in connection with their direct or indirect offshore investment activities. The “Notice on Issues Relating to Foreign Exchange Control for Overseas Investment and Financing and Round tripping by Chinese Residents through Special Purpose Vehicles” (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》), or the SAFE Circular 37, was promulgated by the SAFE in July 2014 and requires PRC residents or entities to register with SAFE or its local counterparts in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. These regulations apply to our Shareholders who are PRC residents and may apply to any offshore acquisitions that we make in the future.

Under these foreign exchange regulations, PRC residents who make, or have previously made, prior to the implementation of these foreign exchange regulations, direct or indirect investments in offshore companies are required to register those investments. In addition, any PRC resident who is a direct or indirect shareholder of an offshore company is required to update the previously filed registration with the local counterpart of the SAFE, with respect to that offshore company, to reflect any material change involving its round-trip investment, capital variation, such as an increase or decrease in capital, transfer or swap of shares, merger or division. If any PRC shareholder fails to make the required registration or update the previously filed registration, the PRC subsidiary of that offshore parent company may be restricted from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to their offshore parent company, and the offshore parent company may also be restricted from injecting additional capital into its PRC subsidiary. Moreover, failure to comply with the various foreign exchange registration requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions, including (i) the requirement by the SAFE to return the foreign exchange remitted overseas or into the PRC within a period of time specified by the SAFE, with a fine of up to 30% of the total amount of foreign exchange remitted overseas or into the PRC and deemed to have been evasive or illegal and (ii) in circumstances involving serious violations, a fine of no less than 30% of and up to the total amount of remitted foreign exchange deemed evasive or illegal.

We have requested PRC residents that to our knowledge hold direct or indirect interest in our Company to make the necessary applications, filings and amendments as required by applicable foreign exchange regulations. Each of our individual beneficial owners who is required to complete the registration under SAFE Circular 37 has duly completed the foreign exchange registrations in relation to their offshore investments as PRC residents. However, there can be no assurance that the subsequent amendment of registration, when required, can be successfully completed in a timely manner. We cannot assure you that the SAFE or its local counterparts will not release explicit requirements or interpret the relevant PRC laws and regulations otherwise. Failure by any such Shareholders to comply with Circular 37 or other related regulations could subject us to fines or legal sanctions, restrict our investment

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activities in the PRC and overseas or cross-border investment activities, limit our subsidiaries' ability to make distributions, pay dividends or other payments to us or affect our ownership structure, which could adversely affect our business and prospects.

As there is uncertainty concerning the reconciliation of these foreign exchange regulations with other approval requirements, it is unclear how these regulations, and any future regulation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant governmental authorities. We cannot predict how these regulations will affect our business operations or future strategy. For example, we may be subject to a more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign-currency-denominated borrowings, which may materially and adversely affect our results of operations and financial condition. In addition, if we decide to acquire a PRC domestic company, we cannot assure you that we or the owners of such company, as the case may be, will be able to obtain the necessary approvals or complete the necessary filings and registrations required by the foreign exchange regulations. This may restrict our ability to implement our acquisition strategy and could materially and adversely affect our business and prospects.

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

In February 2012, SAFE promulgated the “Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock 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劃外匯管理有關問題的通知》) (the “SAFE Circular 7”), replacing the previous rules issued by SAFE in March 2007. Under the SAFE Circular 7 and other relevant rules and regulations, PRC residents who participate in a stock incentive plan in an overseas publicly listed company are required to register with SAFE or its local counterparts 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. Also, SAFE Circular 7 stipulates that PRC residents who participate in a share incentive plan of an overseas non-publicly-listed special purpose company may register with SAFE or its local counterparts before they exercise the share options. We and our PRC employees who have been granted share options will be subject to these regulations upon the completion of this Global Offering. Failure of our PRC share option holders to complete their SAFE registrations may subject these PRC residents to fines of up to RMB300,000 for entities and up to RMB50,000 for individuals, and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiary, limit our PRC subsidiaries' ability to distribute dividends to us, or otherwise materially and adversely affect our business.

The SAT has also issued relevant rules and regulations concerning employee share incentives. Under these rules and regulations, our employees working in the PRC will be subject to PRC individual income tax upon exercise of the share options. Our PRC subsidiaries have obligations to file documents

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with respect to the granted share options with relevant tax authorities and to withhold individual income taxes for their employees upon exercise of the share options. If our employees fail to pay or we fail to withhold their individual income taxes according to relevant rules and regulations, we may face sanctions imposed by the competent governmental authorities.

**The legal system in the PRC has inherent uncertainties that could limit the legal protections available to our Shareholders.**

The PRC legal system is based on written statutes and their interpretation by the Supreme People's Court of the PRC and may not be as comprehensive or developed as that of other jurisdictions. Prior court decisions may be cited for reference but have limited precedential value. Accordingly, the outcome of dispute resolutions may not be consistent or predictable.

Although efforts have been made by the PRC Government to enhance protection of foreign investment in the PRC, the PRC has not yet developed a fully integrated legal system. Newly enacted laws and regulations may not sufficiently cover all aspects of economic activities in the PRC and there is much uncertainty in their application, interpretation and enforcement. Furthermore, the PRC legal system is partly based on government policies and administrative rules that may take effect retrospectively. As a result, we may not be aware of our violations of certain policies or rules in a timely manner.

The legal protection available to us under the PRC laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted, which may result in the diversion of our resources and management attention. In addition, the outcome of dispute resolutions may not be consistent or predictable and it may be difficult to enforce judgments and arbitration awards in the PRC.

These uncertainties relating to the interpretation, implementation and enforcement of the PRC laws and regulations and a system of jurisprudence that gives only limited precedential value to prior court decisions can affect the legal remedies and protections available to you, and may adversely affect the value of your investment.

**You may experience difficulties in effecting service of legal process and enforcing judgments or bringing original actions in the PRC or Hong Kong based on foreign laws against us and our Directors and management.**

We are an exempted company incorporated in the Cayman Islands and substantially all of our assets are located in the PRC and substantially all of our current operations are conducted in the PRC as well. In addition, a majority of our current Directors and officers are nationals and residents of China and substantially all of the assets of these persons are located in the PRC. It may not be possible for investors to effect service of process upon us or those persons in the PRC for disputes brought in courts outside the PRC. The PRC has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by courts of most other jurisdictions. On July 14, 2006, Hong Kong and the PRC entered into 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 Pursuant to Choice of Court Agreements Between Parties Concerned" (《最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) (the "**Arrangement**"), pursuant to which a party with an enforceable final court judgment rendered by any designated PRC court or any designated Hong Kong court requiring payment of money in a civil and

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commercial case according to a written choice of court agreement, may apply for recognition and enforcement of the judgment in the relevant Hong Kong court or PRC court. A written choice of court agreement is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it may not be possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in the dispute did not agree to enter into a choice of court agreement in writing. As a result, it may be difficult or impossible for investors to effect service of process against certain of our assets or Directors in the PRC in order to seek recognition and enforcement of foreign judgments in the PRC.

### **RISKS RELATING TO THE GLOBAL OFFERING**

**There has been no prior public market for our Shares and there can be no assurance that an active market would develop after the Global Offering.**

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 Representatives (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. Factors such as variations in our revenue, earnings and cash flows or any other developments of us may affect the volume and price at which our Shares will be traded.

**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, the PRC, 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 the PRC 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.

**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 in terms of the pro forma net tangible book value. If we issue additional Shares in the future, purchasers of our Shares in the Global Offering may experience further dilution in their shareholding percentage.



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**The actual or perceived sale or availability for sale of substantial amounts of our Shares, especially by our Directors, executive officers 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.

**There is no assurance if and when we will pay dividends in the future.**

Distribution of dividends will be at the discretion of our Board and subject to Shareholders' approval. A decision to declare or pay dividends and the amount of such dividends will depend on our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors that our Directors consider relevant. See "Financial Information — Dividends." As a result, there can be no assurance whether, when and in what manner we will pay dividends in the future.

**Since there may be a gap of several Business Days between pricing and trading of our Shares, holders of our Shares are subject to the risk that the price of our Shares could fall during the period before trading of our Shares begins.**

The Offer Price of our Shares is expected to be determined on the Price Determination Date. However, our Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be several Business Days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price of our Shares could fall before trading begins as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time trading begins.

**We have significant discretion as to how we will use the net proceeds of the Global Offering, and you may not necessarily agree with how we use them.**

Our management may spend the net proceeds from the Global Offering in ways you may not agree with or that do not yield a favorable return to our shareholders. We plan to use the net proceeds from the Global Offering mainly (i) to fund our drama series production; (ii) to fund potential investment in, or merger and acquisition of, companies that may enhance our market position and ramp up our drama series development, production and distribution capabilities; (iii) to acquire IPs to guarantee the stable growth of our drama series production and distribution; and (iv) for working capital and general corporate purposes. For details, see "Future Plans and Use of Proceeds — Use of Proceeds." However, our management will have discretion as to the actual application of our net proceeds. You are entrusting your funds to our management, whose judgment you must depend on, for the specific uses we will make of the net proceeds from this Global Offering.

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**The laws of the Cayman Islands relating to the protection of the interests of minority shareholders may be different from those in Hong Kong.**

Our corporate affairs are governed by the Articles of Association, the Cayman Islands Companies Act and the common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders may differ in some respects from those established under statutes or judicial precedents in existence in Hong Kong. This may mean that the remedies available to our minority Shareholders may be different from those available under the laws of Hong Kong or other jurisdictions. A summary of the constitution of our Company and the Cayman Islands Company Act is set out in Appendix III to this prospectus.

**Facts and statistics in this prospectus may come from various sources and may not be fully reliable.**

Some of the facts and statistics in this prospectus are derived from various publications of governmental agencies or publicly available sources and obtained during communications with various government agencies or Independent Third Parties that our Directors believe are reliable. However, our Directors cannot guarantee the quality or reliability of such materials. Our Directors believe that the sources of the information are appropriate and have taken reasonable care in extracting and reproducing such information. They do not believe that such information is false or misleading in any material aspect or that any material fact has been omitted that would render such information false or misleading. The information has not been independently verified by our Group, the Joint Sponsors or any other party involved in the Global Offering and no representation is given as to its accuracy or completeness. Due to the possibly flawed or ineffective sampling or discrepancies between published information and market practices or other reasons, such facts and statistics maybe inaccurate or may not be comparable to official statistics. You should not place undue reliance on them. You should consider how much weight or importance such facts or statistics carry and should not place undue reliance on them.

**Prospective investors should read the entire prospectus carefully and are strongly cautioned against placing any reliance on the information in any press article or other media coverage which contains information not being disclosed or which is inconsistent with the information included in this prospectus.**

You are strongly advised to read the entire prospectus carefully and are cautioned against placing any reliance on the information in any press article or any other media coverage which contains information not disclosed or not consistent with the information included in this prospectus.

Prior to the completion of the Global Offering, there may be press and media coverage regarding our Group and the Global Offering. Our Directors would like to emphasize to prospective investors that we do not accept any responsibility for the accuracy or completeness of such information and such information is not sourced from or authorized by our Directors or our management team. Our Directors make no representation as to the appropriateness, accuracy, completeness and reliability of any information or the fairness or appropriateness of any forecast, view or opinion expressed by the press or other media regarding our Group or our Shares. In making decisions as to whether to invest in our Shares, prospective investors should rely only on the financial, operational and other information included in this prospectus.