
HISTORY, REORGANIZATION AND CORPORATE DEVELOPMENT

OUR HISTORY

Overview

The history of our Group can be traced back to June 2014 when Jiangsu Strawbear, a principal operating entity of our Group in the PRC, was established by Mr. Liu, our founder and one of our Controlling Shareholders. See “Directors and Senior Management” for the relevant industry experience of Mr. Liu.

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on January 3, 2018, and as a result of the Reorganization, our Company became the offshore holding company of the current business of our Group.

Key Milestones

The following table sets forth the key milestones of our Group:

<u>Year</u>	<u>Milestones</u>
2014	Jiangsu Strawbear, one of our principal operating entities in the PRC, was established by Mr. Liu.
2015	We released Legend Of Zu Mountain (蜀山戰紀之劍俠傳奇), our first TV series.
2016	We released The Impossible Mission (不可能完成的任務), one of our signature TV series, winner of various awards conferred by Zhejiang, Shenzhen, Henan, Shanghai and Beijing TV. Horgos Strawbear, one of our principal operating entities in the PRC, was established.
2017	Jiangsu Strawbear first obtained the Television Drama Production Permit (Class A) (《電視劇製作許可證(甲種)》). We released Starry April (繁星四月), winner of Excellence Award of Television Category of the 34th Jiangsu Literary and Art Award • Television Award (第34屆「江蘇省文藝大獎•電視獎」電視劇類優秀獎) conferred by Jiangsu Provincial Federation of Literary and Art Circles (江蘇省文學藝術界聯合會) and Jiangsu Provincial Television Artists Association (江蘇省電視藝術家協會).
2018	Our Company was incorporated as an exempted company with limited liability in the Cayman Islands. We entered into contractual arrangements with Jiangsu Strawbear and its registered shareholders, pursuant to which we obtained effective control over the Consolidated Affiliated Entities.

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Year	Milestones
	<p>We received series A-1 investment from Taurus Holding, a wholly-owned subsidiary of iQIYI, Inc.</p> <p>We released Legend Of Zu Mountain 2 (蜀山戰紀2踏火行歌), winner of Excellence Award of Television Category of the 34th Jiangsu Literary and Art Award • Television Award (第34屆「江蘇省文藝大獎•電視獎」電視劇類優秀獎) conferred by Jiangsu Provincial Federation of Literary and Art Circles (江蘇省文學藝術界聯合會) and Jiangsu Provincial Television Artists Association (江蘇省電視藝術家協會).</p>
2019	<p>We acquired Hangzhou Yide, one of our principal operating entities in the PRC.</p> <p>We released Treasure Adventure (國寶奇旅), winner of Five-one Project Award of Jiangsu (江蘇省五個一工程獎), Second Prize of the Jiangsu TV Series Award (江蘇省電視劇獎二等獎) and First Prize of the 2019 Jiangsu Outstanding Copyright Work (2019年江蘇省優秀版權作品一等獎).</p>
2020	<p>We received series A-2 investment from Taurus Holding, a wholly-owned subsidiary of iQIYI, Inc.</p> <p>We acquired Nova Film, one of our principal operating entities in the PRC.</p> <p>We released The Love Lasts Two Minds (兩世歡), one of the most popular web series in the PRC in 2020.</p> <p>We released Inside Man (局中人), which was appraised and recommended by the People's Daily (人民日報).</p>

CORPORATE DEVELOPMENT

As of the Latest Practicable Date, we had four principal operating entities in the PRC to carry out our business, namely Jiangsu Strawbear, Horgos Strawbear, Hangzhou Yide and Nova Film, details of which are set out below.

Jiangsu Strawbear

As of the Latest Practicable Date, Jiangsu Strawbear principally engaged in (i) licensing the broadcasting rights of our self-produced drama series to TV channels and online video platforms or third party distributors, (ii) licensing the broadcasting rights of outright-purchased drama series from online video platforms or drama series producers to TV channels or third party distributors or online video platforms, and (iii) production services for made-to-order drama series per online video platforms' orders.

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Establishment and early development

On June 13, 2014, Jiangsu Strawbear was established as a limited liability company in the PRC with an initial registered capital of RMB10 million. In order to facilitate the SAMR registration process, Jiangsu Strawbear was then registered as held by Mr. Liu as to 100%, while 20% and 1% equity interest in Jiangsu Strawbear were held by Mr. Liu on behalf of Ms. Liu and Ms. Zhao, respectively.

On December 22, 2015, Mr. Liu entered into an equity transfer agreement with Ms. Liu and Ms. Zhao respectively, pursuant to which Mr. Liu transferred 20% and 1% equity interest in Jiangsu Strawbear to Ms. Liu and Ms. Zhao at considerations of RMB2 million and RMB100,000, respectively with reference to the then registered capital of Jiangsu Strawbear, and the abovementioned shareholding entrustment arrangement was terminated accordingly. Upon the completion of such equity transfer, Jiangsu Strawbear was held by Mr. Liu, Ms. Liu and Ms. Zhao as to 79.0%, 20.0% and 1.0%, respectively.

Investment by Hainan Alibaba Investment Fund

With a view to enriching our general working capital in support of our further business development, Mr. Liu, Ms. Liu, Ms. Zhao, Jiangsu Strawbear and Hainan Alibaba Pictures Entertainment Industry Investment Fund (Limited Partnership) (海南阿里巴巴影業文化產業基金合夥企業(有限合夥)) (“**Hainan Alibaba Investment Fund**”) entered into a capital increase agreement on October 21, 2016 (the “**Alibaba Investment Agreement**”), pursuant to which Hainan Alibaba Investment Fund subscribed for 15% equity interest in Jiangsu Strawbear by way of capital injection at a consideration of RMB225 million, among which RMB1,764,706 was recorded as the registered capital with the remaining funds allocated to the capital reserve. Such consideration was determined based on arm’s length negotiation between the parties with reference to (i) the profitability and growth prospects of Jiangsu Strawbear and (ii) the valuation multiples of comparable companies in the market, and was fully settled on September 14, 2017. Upon the completion of such investment, Jiangsu Strawbear was held by Mr. Liu, Ms. Liu, Hainan Alibaba Investment Fund and Ms. Zhao as to approximately 67.15%, 17.00%, 15.00% and 0.85%, respectively.

Hainan Alibaba Investment Fund is a limited liability partnership established in the PRC on August 1, 2016 and an Independent Third Party. The general partner of Hainan Alibaba Investment Fund is Hainan Alibaba Pictures Investment Management Limited (海南阿里巴巴影業投資管理有限公司), which was established in the PRC on June 29, 2016 and is held as to 40% by Zhejiang Dongyang Alibaba Films Co., Ltd. (浙江東陽阿里巴巴影業有限公司), a company ultimately controlled by Alibaba Pictures Group Limited (阿里巴巴影業集團有限公司).

Reduction in the registered capital

In consideration of our continued growth and our future business strategy, as well as to allow our Group greater access to the international capital markets, we commenced our preparation to set up an offshore holding structure in early 2018. As it was not feasible for Hainan Alibaba Investment Fund, as an RMB investment fund, to roll over its interest in Jiangsu Strawbear to offshore shareholding in a relatively cost-effective manner within a short period of time to conform with our overall group restructuring plan, after deliberate considerations and upon mutual consensus between our Group and Hainan Alibaba Investment Fund, it was determined that Jiangsu Strawbear shall repurchase the 15% equity interest held by Hainan Alibaba Investment Fund in Jiangsu Strawbear to facilitate our restructuring process. Accordingly, on February 1, 2018 and July 31, 2018, Jiangsu Strawbear and Hainan

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Alibaba Investment Fund entered into a registered capital reduction agreement and a supplemental agreement thereof, respectively, pursuant to which Jiangsu Strawbear repurchased the 15% equity interest held by Hainan Alibaba Investment Fund in Jiangsu Strawbear at a consideration of RMB270 million. Such consideration was determined based on arm's length negotiation between the parties with reference to (i) the then financial positions of our Group and (ii) the valuation multiples of comparable companies in the market, and was fully settled on August 10, 2018 by us utilizing borrowings from our Controlling Shareholders, which had been fully repaid as of the Latest Practicable Date.

Our PRC Legal Advisors have confirmed that such reduction in the registered capital of Jiangsu Strawbear was effectively completed on August 16, 2018 and all the shareholders' rights of Hainan Alibaba Investment Fund in Jiangsu Strawbear ceased on the same day. Upon completion, the registered capital of Jiangsu Strawbear was decreased from RMB11,764,706 to RMB10,000,000 and Jiangsu Strawbear was held by Mr. Liu, Ms. Liu, and Ms. Zhao as to 79.0%, 20.0%, and 1.0%, respectively.

Horgos Strawbear

On August 4, 2016, Horgos Strawbear was established as a limited liability company in the PRC with a registered capital of RMB3 million. Since its establishment and up to the Latest Practicable Date, Horgos Strawbear had been wholly owned by Jiangsu Strawbear.

As of the Latest Practicable Date, Horgos Strawbear principally engaged in the business of production and distribution of TV series and web series.

Hangzhou Yide

Hangzhou Yide is a limited liability company established in the PRC on June 25, 2015. On January 31, 2019, Jiangsu Strawbear entered into an equity transfer agreement with Hangzhou Yide and its then existing shareholders, all being Independent Third Parties, pursuant to which Jiangsu Strawbear agreed to acquire the entire equity interest in Hangzhou Yide from its then existing shareholders at a total consideration of RMB180 million. Such consideration was determined after arm's length negotiation between the parties with reference to a valuation report issued by an Independent Third Party valuer. Pursuant to a written confirmation issued by Jiangsu Strawbear, Nanjing Strawbear (one of our wholly-owned subsidiaries in the PRC) was designated by Jiangsu Strawbear to acquire the entire equity interest in Hangzhou Yide.

As of the Latest Practicable Date, RMB164 million out of the abovementioned consideration had been settled, and Nanjing Strawbear currently expects to pay the remaining consideration of RMB16 million utilizing our Group's internal financial resources within seven business days following the provision of the written confirmation for completion of filming of certain drama series developed based on the IP licensed by Hangzhou Yide by the end of 2021.

Despite the above outstanding consideration, as confirmed by our PRC Legal Advisors, the equity transfer of Hangzhou Yide was completed on January 31, 2019 when Nanjing Strawbear was recorded as the sole shareholder of Hangzhou Yide in its registry of shareholders filed with the SAMR. Therefore, Hangzhou Yide became our wholly-owned subsidiary on the same day, and the financial statements of Hangzhou Yide have been consolidated into that of our Group since then.

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As of the Latest Practicable Date, Hangzhou Yide principally engaged in the business of literature copyright agency and development. As IP development is one of the backbones of our drama series business, we believe that the acquisition of Hangzhou Yide, which possesses sizeable premium IP resources, will further expand our IP sources and enhance our capabilities of IP development.

Nova Film

Nova Film is a limited liability company established in the PRC on May 29, 2012. On December 31, 2019, Jiangsu Strawbear entered into an investment agreement (the “**Nova Investment Agreement**”) with Nova Film and certain of its then existing shareholders, all being Independent Third Parties then, pursuant to which Jiangsu Strawbear agreed to acquire 89% equity interest in Nova Film from Mr. Mi Chunlin (米春林), one of its then existing shareholders, at a consideration of RMB12.5 million. Such consideration was determined after arm’s length negotiation between the parties with reference to the net assets value of Nova Film as of December 31, 2019 and was settled without any actual cash payment through offsetting our previous loan of an equivalent amount to Nova Film, which was thereafter lent to Mr. Mi Chunlin for his repurchase of certain equity interest in Nova Film then held by an Independent Third Party. Pursuant to a tripartite agreement entered into among Jiangsu Strawbear, Mr. Mi Chunlin and Nova Film on May 16, 2020, Nova Film transferred to Jiangsu Strawbear its creditor’s right against Mr. Mi Chunlin under the above loan, and pursuant to an agreement entered into between Jiangsu Strawbear and Mr. Mi Chunlin on May 16, 2020, the consideration payable by Jiangsu Strawbear to Mr. Mi Chunlin under the Nova Investment Agreement shall be deemed as fully settled when the filing of the updated registration with the competent local counterpart of the SAMR for the equity transfer of Nova Film is completed. Such filing was completed on June 23, 2020 and the consideration payable by Jiangsu Strawbear under the Nova Investment Agreement was therefore deemed as fully settled on the same day. Also on June 23, 2020, Jiangsu Strawbear made a capital contribution of RMB1 million to Nova Film. Upon the completion of such equity transfer and capital contribution, the registered capital of Nova Film increased from RMB9 million to RMB10 million, which was held by Jiangsu Strawbear and an Independent Third Party as to 90.1% and 9.9%, respectively.

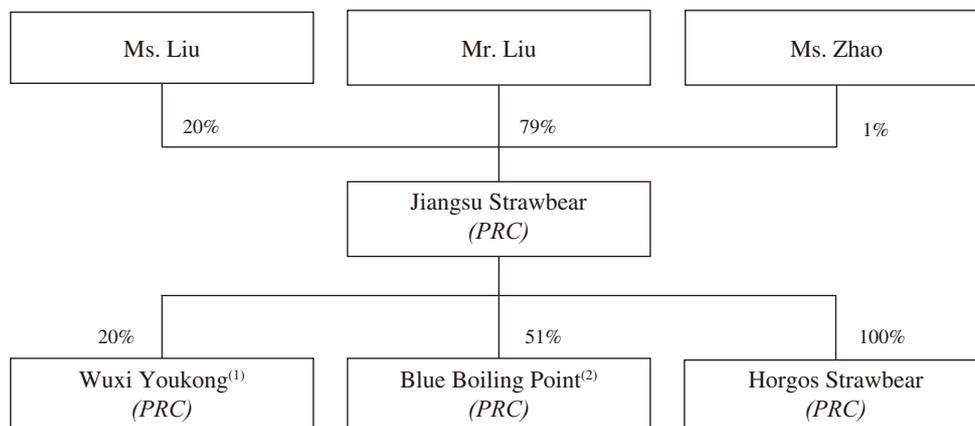
As an industry-leading visual arts post-production studio, Nova Film provided visual effects post-production services to our Group since 2015 and up to our acquisition in June 2020. Mr. Mi Chunlin was a former director of Nova Film who resigned from his directorship at Nova Film with effect from May 16, 2020. Save as disclosed in this prospectus, our Company has no other past or present relationships with Mr. Mi Chunlin. As of the Latest Practicable Date, Nova Film principally engaged in the business of special effects editing and other post-production work for films and drama series. We believe that our acquisition of Nova Film will enable us to further enhance our comprehensive drama series production capabilities.

REORGANIZATION

In order to optimize our corporate structure to further develop the business of our Group and to more readily access the international capital markets, we underwent the Reorganization in preparation for the Global Offering and the Listing, details of which are set out below.

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The following chart sets forth the corporate and shareholding structure of our Group prior to the Reorganization:



Notes:

- (1) The remaining 80% equity interest in Wuxi Youkong was held by four individuals, all being Independent Third Parties.
- (2) The remaining 49% equity interest in Blue Boiling Point was held by Ms. Zhao. We deregistered Blue Boiling Point on December 20, 2019, as it had no executable projects at the time and we had no further development plan for it.

Offshore Reorganization

Incorporation of shareholders' SPVs

Each of Mr. Liu, Ms. Liu, Ms. Zhao and Ms. Zhai (all being the registered shareholders of Jiangsu Strawbear and ultimate beneficial owners of our Company after completion of the Reorganization) incorporated a wholly-owned investment holding company in the BVI, details of which are set out below:

<u>Company name</u>	<u>Date of incorporation</u>	<u>Shareholder</u>	<u>Equity interest</u>
Master Sagittarius	December 18, 2017	Mr. Liu	100%
Gold Pisces	December 19, 2017	Ms. Liu	100%
Ice Princess	December 19, 2017	Ms. Zhao	100%
Gold Fish	January 30, 2018	Ms. Zhai	100%

Incorporation of our Company

On January 3, 2018, our Company was incorporated as an exempted company with limited liability in the Cayman Islands with an authorized share capital of US\$50,000 divided into 50,000 Shares with a par value of US\$1.00 each. Immediately thereafter, (i) one Share was allotted and issued at par value to the initial subscriber, and was subsequently transferred to Master Sagittarius; and (ii) 789 Shares, 200 Shares and 10 Shares were allotted and issued at par value to Master Sagittarius, Gold Pisces and Ice Princess, respectively. Upon completion, our Company was held by Master Sagittarius, Gold Pisces and Ice Princess as to 79.0%, 20.0% and 1.0%, respectively, and became the offshore holding company of our current business.

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Incorporation of offshore subsidiaries

On January 9, 2018, Strawbear Pictures was incorporated in the BVI with an authorized share capital of US\$50,000 divided into 50,000 shares with a par value of US\$1.00 each. On the same day, 1,000 shares were allotted and issued to our Company for a consideration of US\$1,000.00, and Strawbear Pictures became a directly wholly-owned subsidiary of our Company. On January 31, 2018, Strawbear Film was incorporated in Hong Kong with a total issued share capital of US\$1,000 divided into 1,000 shares with a par value of US\$1.00 each. On the same day, 1,000 shares were allotted and issued to Strawbear Pictures for a consideration of US\$1,000, and Strawbear Film became an indirectly wholly-owned subsidiary of our Company. Both Strawbear Pictures and Strawbear Film are investment holding companies without substantive business operations.

Share allotment and transfer of our Company

On March 5, 2018, our Company allotted and issued an aggregate of 9,000 Shares at par value to the then existing Shareholders of our Company. Upon completion, the then shareholding structure of our Company is set out as below:

<u>Name of shareholder</u>	<u>Number of Shares</u>	<u>Percentage of shareholding</u>
Master Sagittarius	7,900 Shares	79.0%
Gold Pisces	2,000 Shares	20.0%
Ice Princess	100 Shares	1.0%
Total	10,000 Shares	100%

On March 5, 2018 and November 1, 2018, Master Sagittarius, Gold Pisces and Ice Princess transferred an aggregate of 200 Shares, and Master Sagittarius and Gold Pisces further transferred an aggregate of 600 Shares, respectively to Gold Fish at nil consideration. Such share transfers are recorded as share-based compensation in our financial statements, details of which are set out in Note 34 to the Accountants' Report as set out in Appendix I to this prospectus. Upon completion, the then shareholding structure of our Company is set out as below:

<u>Name of shareholder</u>	<u>Number of Shares</u>	<u>Percentage of shareholding</u>
Master Sagittarius	7,262 Shares	72.62%
Gold Pisces	1,840 Shares	18.40%
Gold Fish	800 Shares	8.00%
Ice Princess	98 Shares	0.98%
Total	10,000 Shares	100%

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Series A-1 investment of Taurus Holding

On November 29, 2018, Taurus Holding subscribed for 1,765 Series A Preferred Shares at a consideration of US\$40 million. See “— Pre-IPO Investments” below for details. Upon completion, the then shareholding structure of our Company is set out as below:

<u>Name of shareholder</u>	<u>Class of Shares</u>	<u>Number of Shares</u>	<u>Percentage of shareholding</u>
Master Sagittarius	Shares	7,262	61.73%
Gold Pisces	Shares	1,840	15.64%
Taurus Holding	Series A Preferred Shares	1,765	15.00%
Gold Fish	Shares	800	6.80%
Ice Princess	Shares	98	0.83%
Total		11,765	100%

Share subdivision of our Company

On May 11, 2020, our Company’s issued and unissued 50,000 shares of a par value of US\$1.00 each were subdivided into 2,000,000,000 shares with a par value of US\$0.000025 each. As a result, (i) the authorized share capital of our Company shall be US\$50,000 divided into 2,000,000,000 shares of US\$0.000025 par value each, and (ii) the issued share capital of our Company shall be 400,000,000 Shares and 70,600,000 Series A Preferred Shares of US\$0.000025 par value each. Upon completion, the then shareholding structure of our Company is set out as below:

<u>Name of shareholder</u>	<u>Class of Shares</u>	<u>Number of Shares</u>	<u>Percentage of shareholding</u>
Master Sagittarius	Shares	290,480,000	61.73%
Gold Pisces	Shares	73,600,000	15.64%
Taurus Holding	Series A Preferred Shares	70,600,000	15.00%
Gold Fish	Shares	32,000,000	6.80%
Ice Princess	Shares	3,920,000	0.83%
Total		470,600,000	100%

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Series A-2 investment of Taurus Holding

On May 21, 2020, Taurus Holding subscribed for 26,720,000 Series A Preferred Shares at a consideration of US\$15,138,810.52. See “— Pre-IPO Investments” below for details. Upon completion, the then shareholding structure of our Company is set out as below:

<u>Name of shareholder</u>	<u>Class of Shares</u>	<u>Number of Shares</u>	<u>Percentage of shareholding</u>
Master Sagittarius	Shares	290,480,000	58.41%
Taurus Holding	Series A Preferred Shares	97,320,000	19.57%
Gold Pisces	Shares	73,600,000	14.80%
Gold Fish	Shares	32,000,000	6.43%
Ice Princess	Shares	3,920,000	0.79%
Total		497,320,000	100%

Onshore Reorganization

Equity transfer of Jiangsu Strawbear

In order for Ms. Zhai to indirectly hold the Shares of our Company through Gold Fish in compliance with the requirements of SAFE Circular 37, Ms. Zhai entered into an equity transfer agreement with Mr. Liu on September 7, 2018, pursuant to which Mr. Liu transferred 0.1% equity interest in Jiangsu Strawbear to Ms. Zhai at a consideration of RMB211,516.98. Such consideration was determined with reference to the net assets value of Jiangsu Strawbear as of August 31, 2018 and was fully settled on February 19, 2019.

On September 7, 2018, Ms. Zhang entered into an equity transfer agreement with Mr. Liu, pursuant to which Ms. Zhang acquired 1% equity interest in Jiangsu Strawbear from Mr. Liu at a consideration of RMB2,115,169.84. Such consideration was determined with reference to the net assets value of Jiangsu Strawbear as of August 31, 2018 and was fully settled on March 2, 2019.

Upon the completion of the abovementioned equity transfers, Jiangsu Strawbear was held by Mr. Liu, Ms. Liu, Ms. Zhao, Ms. Zhang and Ms. Zhai as to 77.9%, 20.0%, 1.0%, 1.0% and 0.1%, respectively.

During the Reorganization, Ms. Zhang subsequently decided not to roll over her abovementioned interest in Jiangsu Strawbear to offshore shareholding as she did not complete the relevant registration under SAFE Circular 37 within the timeframe under the reorganization plan. Nonetheless, Ms. Zhang, as the registered shareholder and ultimate beneficial owner of the 1% equity interest in Jiangsu Strawbear, has duly executed all requisite agreements and documents underlying the Contractual Arrangements together with the other registered shareholders of Jiangsu Strawbear such that our Company has been able to assert management control over the operations of and enjoy all economic benefits of the Consolidated Affiliated Entities. See “— Reorganization — Onshore Reorganization — Contractual arrangements” and “Contractual Arrangements” for further details. As a compensation for Ms. Zhang’s loss, Mr. Liu has made a one-off cash payment to Ms. Zhang, the amount of which is the same as Ms. Zhang’s initial

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acquisition costs and agreed by Ms. Zhang in view of the very short period of time between her acquisition of equity interest in Jiangsu Strawbear in September 2018 and the execution of the Contractual Arrangements in November 2018. Such arrangement was considered as the most efficient way to facilitate the reorganization process of our Group, which was beneficial to both of our Group and Ms. Zhang as one of our Directors and senior management members whose interests are aligned with our Group. Save as disclosed above, there was no side arrangement between Mr. Liu and Ms. Zhang regarding the 1% equity interest in Jiangsu Strawbear. As confirmed by our PRC Legal Advisors, such separate cash compensation between Mr. Liu and Ms. Zhang does not affect Ms. Zhang's status as the shareholder of and her shareholder's rights attaching to the 1% equity interest in Jiangsu Strawbear, or the completion of the reorganization of the Group (including the Contractual Arrangements) in compliance with the applicable PRC laws and regulations.

Establishment of Nanjing Strawbear

On September 17, 2018, Nanjing Strawbear was established in the PRC as a wholly foreign-owned enterprise with limited liability with a registered capital of US\$1 million. As of the Latest Practicable Date, the registered capital of Nanjing Strawbear had not been paid up, and as advised by our PRC Legal Advisors, it shall be fully contributed before September 6, 2048. Since its establishment and up to the Latest Practicable Date, Nanjing Strawbear had been wholly owned by Strawbear Film.

As of the Latest Practicable Date, Nanjing Strawbear principally engaged in the business of brand integration, marketing agency and technical consulting services.

Contractual arrangements

In order for us to conduct the TV/web series and web films production and distribution business in compliance with applicable PRC laws and regulations, Nanjing Strawbear, our indirectly wholly-owned subsidiary in the PRC, entered into series of contractual arrangements with Jiangsu Strawbear and its registered shareholders on November 20, 2018, which were amended and restated on February 20, 2019, to assert management control over the operations of and enjoy all economic benefits of Jiangsu Strawbear and its subsidiaries. For further details, see "Contractual Arrangements."

Disposal of equity interest in Wuxi Youkong and establishment of Wuxi Strawbear

Wuxi Youkong was established as a limited liability company in the PRC on November 1, 2017 principally engaging in the business of screenplay development and assessment, which, as advised by our PRC Legal Advisors, is not subject to the foreign investment restriction under the Negative List. To ensure that the Contractual Arrangements are narrowly tailored in accordance with the requirements of the Stock Exchange, on May 6, 2020, Jiangsu Strawbear disposed its entire 20% equity interest in Wuxi Youkong to an individual, who is an Independent Third Party, at a consideration of RMB355,694.03, which represents the book value of the net assets of Wuxi Youkong as of December 31, 2019 and was fully settled on July 6, 2020. As Jiangsu Strawbear was merely a minority shareholder of Wuxi Youkong before the above disposal, Wuxi Youkong was not our subsidiary and the financial statements of Wuxi Youkong were never consolidated into that of our Group. During the period when Jiangsu Strawbear was a shareholder of Wuxi Youkong, our Group was not involved in the daily operation of Wuxi Youkong and was not aware of any material non-compliance incidents involving Wuxi Youkong.

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With an aim to strengthen our ability of producing high-quality upstream original content sources in house for our drama series, while maintaining our established business relationship with Wuxi Youkong, our Group and Wuxi Youkong jointly set up Wuxi Strawbear as a limited liability company in the PRC on June 4, 2020 with its equity interest held by Nanjing Strawbear and Wuxi Youkong as to 60% and 40%, respectively, such that our Group is able to carry out the business of screenplay development and assessment at our subsidiary level through Wuxi Strawbear and leverage the experience and resources of Wuxi Youkong in the meantime.

The registered capital of Wuxi Strawbear is RMB1 million, which had not been fully paid up as of the Latest Practicable Date, and as advised by our PRC Legal Advisors, it shall be fully contributed before December 31, 2039.

As of the Latest Practicable Date, Wuxi Strawbear principally engaged in the business of screenplay development and assessment.

PRC Regulatory Compliance

As confirmed by our PRC Legal Advisors, our Group has obtained all regulatory approvals in connection with the Reorganization as required under the relevant PRC laws and regulations, and the Reorganization has been properly and legally completed in compliance with all applicable PRC laws and regulations.

VOTING ARRANGEMENT AND LOCK-UP ARRANGEMENTS

Pursuant to the Voting Arrangement Agreements, Ms. Liu, Ms. Zhai, Ms. Zhao, Ms. Zhang and their respective wholly-owned holding companies (where applicable) had confirmed and agreed that they had and would continue to, for so long as they are interested in the Shares and/or hold any interest in any member of our Group, directly or indirectly, defer their voting powers to and follow the directions of Mr. Liu and/or his wholly-owned holding companies (where applicable) at the shareholders' meetings of the members of our Group. By entrusting their voting powers to Mr. Liu and/or his wholly-owned holding companies (where applicable), the other signing parties of the Voting Arrangement Agreements believe that the consistent leadership and management supported with stronger control will be beneficial to the overall strategic planning and decision-making process of our Group.

Save as disclosed above, there is no side arrangement among Mr. Liu, Ms. Liu, Ms. Zhai, Ms. Zhao, Ms. Zhang and their respective wholly-owned companies in relation to the voting arrangement.

Each of Golden Basin (through which Ms. Zhai holds the Shares in the Company) and Glesason Global (through which Ms. Liu holds the Shares in the Company) has entered into a deed of lock-up undertaking in favor of, among others, the Company, to give certain lock-up undertakings in respect of their Shares in the Company. See “Underwriting — Undertakings by Other Shareholders” for details.

MAJOR ACQUISITIONS

On January 31, 2019, Nanjing Strawbear acquired the entire equity interest in Hangzhou Yide from its then existing shareholders at a total consideration of RMB180 million. Upon the completion of such acquisition, Hangzhou Yide became a wholly-owned subsidiary of Nanjing Strawbear. See “— Corporate Development — Hangzhou Yide” for further details.

On June 23, 2020, Jiangsu Strawbear acquired 89% equity interest in Nova Film from one of its then existing shareholders at a consideration of RMB12.5 million. Upon the completion of such acquisition, Nova Film became a non-wholly-owned subsidiary of Jiangsu Strawbear. See “— Corporate Development — Nova Film” for further details.

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Except for the remaining consideration of RMB16 million for the acquisition of Hangzhou Yide to be paid by Nanjing Strawbear, our PRC Legal Advisors have confirmed that each of the abovementioned acquisitions has been properly and legally completed and settled in compliance with all applicable PRC laws and regulations, and our Group has obtained all regulatory approvals in connection with such acquisitions.

PRE-IPO SHARE OPTION SCHEME

Our Company adopted the Pre-IPO Share Option Scheme on May 11, 2020. Following the adoption of the Pre-IPO Share Option Scheme and as of the Latest Practicable Date, 37,648,000 Pre-IPO Share Options, representing 5.68% of the issued share capital of our Company immediately after the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the Pre-IPO Share Options), had been conditionally granted to Mr. Liu, our founder, an executive Director and the chief executive officer of our Company, to recognize his significant contribution to our Group. On November 18, 2020, Mr. Liu transferred all of the 37,648,000 Pre-IPO Share Options to Gorgeous Horizon which is indirectly wholly owned by Employee Trust Hong Kong, the trustee of the Strawbear Employee Trust. The Strawbear Employee Trust is a trust established by Mr. Liu as the settlor and protector and Mr. Liu's wholly-owned holding company Master Sagittarius as the beneficiary. Pursuant to the terms of the Pre-IPO Share Option Scheme, Mr. Liu shall not exercise the outstanding options granted to him under the Pre-IPO Share Option Scheme prior to the Listing. No further options may be granted under the Pre-IPO Share Option Scheme after the Listing. For details, see "Appendix IV — Statutory and General Information — D. Other Information — (1) Pre-IPO Share Option Scheme."

ESTABLISHMENT OF PERSONAL TRUSTS

The LXF Family Trust was established by Mr. Liu as the settlor and the protector and Family Trust Singapore as the trustee. On November 18, 2020, Leading Glory allotted and issued 9,900 shares at par value of US\$1.00 each to Master Genius which is wholly owned by Family Trust Singapore, representing 99% of the enlarged share capital of Leading Glory. The LXF Family Trust is a discretionary trust and the beneficiary of which is Master Sagittarius, a wholly-owned holding company of Mr. Liu.

The LSS Family Trust was established by Ms. Liu as the settlor and the protector and Family Trust Singapore as the trustee. On November 18, 2020, Glesason Global allotted and issued 9,900 shares at par value of US\$1.00 each to Beyond Vast which is wholly owned by Family Trust Singapore, representing 99% of the enlarged share capital of Glesason Global. The LSS Family Trust is a discretionary trust and the beneficiary of which is Gold Pisces, a wholly-owned holding company of Ms. Liu.

The Gold Fish Trust was established by Ms. Zhai as the settlor and the protector and Family Trust Singapore as the trustee. On November 18, 2020, Golden Basin allotted and issued 9,900 shares at par value of US\$1.00 each to Smart Century which is wholly owned by Family Trust Singapore, representing 99% of the enlarged share capital of Golden Basin. The Gold Fish Trust is a discretionary trust and the beneficiary of which is Gold Pisces, a wholly-owned holding company of Ms. Zhai.

Under all three trusts, certain discretions of Family Trust Singapore as the trustee are only exercisable by it at the direction of the respective settlors, namely Mr. Liu, Ms. Liu and Ms. Zhai (the "Settlor(s)"). Under each of the trust deeds, the Settlor has the power to appoint protector who has the power to appoint or remove trustees. Based on the terms of all three trust deeds, for so long as Family Trust Singapore holds or controls any Shares, all voting rights attaching to such Shares shall be exercised by the Settlor and/or such other person(s) as the Settlor may wish to appoint.

HISTORY, REORGANIZATION AND CORPORATE DEVELOPMENT

PRE-IPO INVESTMENTS

Pursuant to a series A preferred share purchase agreement entered into by and among, *inter alia*, our Company and Taurus Holding on each of November 29, 2018 and May 18, 2020, our Company issued and allotted 1,765 Series A Preferred Shares of a par value of US\$1.00 each and 26,720,000 Series A Preferred Shares of a par value of US\$0.000025 each to Taurus Holding, a wholly-owned subsidiary of iQIYI, Inc., respectively.

The following table sets forth other key particulars of the Pre-IPO Investments:

	<u>Series A-1 Investment</u>	<u>Series A-2 Investment</u>
Number of Shares subscribed for	1,765 Series A Preferred Shares of a par value of US\$1.00 each	26,720,000 Series A Preferred Shares of a par value of US\$0.000025 each
Date of relevant agreement with the Pre-IPO Investor	November 29, 2018	May 18, 2020
Date on which the consideration was fully settled	December 27, 2018	May 28, 2020
Percentage of shareholding upon completion of the Pre-IPO Investments	15%	19.57% ⁽¹⁾
Percentage of shareholding upon completion of the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the Pre-IPO Share Options)	10.65%	14.68% ⁽¹⁾
Consideration paid	US\$40,000,000	US\$15,138,810.52
Cost per share paid by the Pre-IPO Investor ⁽²⁾	US\$0.57 (equivalent to approximately HK\$4.39)	US\$0.57 (equivalent to approximately HK\$4.39)
Discount to the Offer Price ⁽³⁾	21.98%	21.98%
Basis of determination of the consideration	The consideration of the series A-1 investment was determined after arm's length negotiation among the parties, taking into account the valuation conducted by the Pre-IPO Investor based on the business prospect, results of operation and financial condition of our Group and the potential add-value it could bring to our Group as a top online video platform. The consideration of the series A-2 investment was determined with reference to the consideration of the series A-1 investment.	

HISTORY, REORGANIZATION AND CORPORATE DEVELOPMENT

	<u>Series A-1 Investment</u>	<u>Series A-2 Investment</u>
Use of proceeds from the Pre-IPO Investments	The proceeds from the Pre-IPO Investments were mainly used for the repayment of our certain outstanding loans. As of the Latest Practicable Date, substantially all of the proceeds from the Pre-IPO Investments had been utilized.	
Lock-up	The Shares held by the Pre-IPO Investor are subject to a lock-up period of six months after the Listing.	
Strategic benefits of the Pre-IPO Investments	Our Directors are of the view that our Company can benefit from the commitment of the Pre-IPO Investor which is a top online video platform in the PRC to our Company and can achieve synergies from our enhanced strategic cooperation. The continuing series of investments from the Pre-IPO Investor demonstrate its confidence in the operation of our Group and serve as an endorsement of our Group's performance, strength and prospects.	

Notes:

- (1) The percentage of shareholding is calculated based on the total number of Series A Preferred Shares held by the Pre-IPO Investor after the Pre-IPO Investments.
- (2) The cost per share paid has taken into account the Share Subdivision, details of which are set out in “— Reorganization — Offshore Reorganization — Share subdivision of our Company.”
- (3) Assuming the Offer Price is fixed at HK\$5.63, being the mid-point of the indicative Offer Price range.

Special Rights Granted to the Pre-IPO Investor

Taurus Holding was granted certain special rights under the Pre-IPO Investments including, among others, (i) the right to elect Directors and the right of participation in the meetings of the Board; (ii) the right to receive financial statements and other information about our Company and inspect facilities, records and books of each member of our Group. (iii) registration rights including demand and piggyback registration rights; (iv) the pre-emptive right to purchase up to all of any new securities which our Company may propose to issue; (v) rights of first refusal and co-sale in certain circumstances; (vi) the drag along right to force non-approving shareholders to join in the sale of our Company's shares on same terms as Taurus Holding approved in certain circumstances; (vii) the right to convert outstanding Series A Preferred Shares into ordinary shares and adjust the applicable conversion ratios under certain circumstances (the “**Conversion Rights**”); (viii) the right to request our Company to redeem all or part of the outstanding Series A Preferred Shares in certain circumstances (the “**Redemption Rights**”); (ix) certain liquidation and dividend preferences attached to the Series A Preferred Shares; and (x) veto rights over certain corporate actions.

Except for (i) the Redemption Rights which were terminated immediately prior to the first submission of the listing application form and other relevant documents by our Company to the Stock Exchange for the purpose of the Global Offering; and (ii) the Conversion Rights which will automatically be exercised in full so that all the Series A Preferred Shares will be converted into the Shares on 1:1 basis upon completion of the Global Offering, all the other special rights granted to Taurus Holding will be automatically terminated immediately prior to the Listing.

HISTORY, REORGANIZATION AND CORPORATE DEVELOPMENT

Information about the Pre-IPO Investor

Taurus Holding was incorporated in the BVI with limited liability on November 28, 2018 and is wholly owned by iQIYI, Inc. (Stock Code: IQ. NASDAQ).

Public Float

Immediately following the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the Pre-IPO Share Options), Taurus Holding will be interested in approximately 14.68% of the total issued share capital of our Company and will be a substantial Shareholder of our Company. Therefore, Taurus Holding will be a core connected person of our Company and the Shares held by Taurus Holding will not be counted towards the public float for the purpose of Rule 8.08 of the Listing Rules upon the Listing.

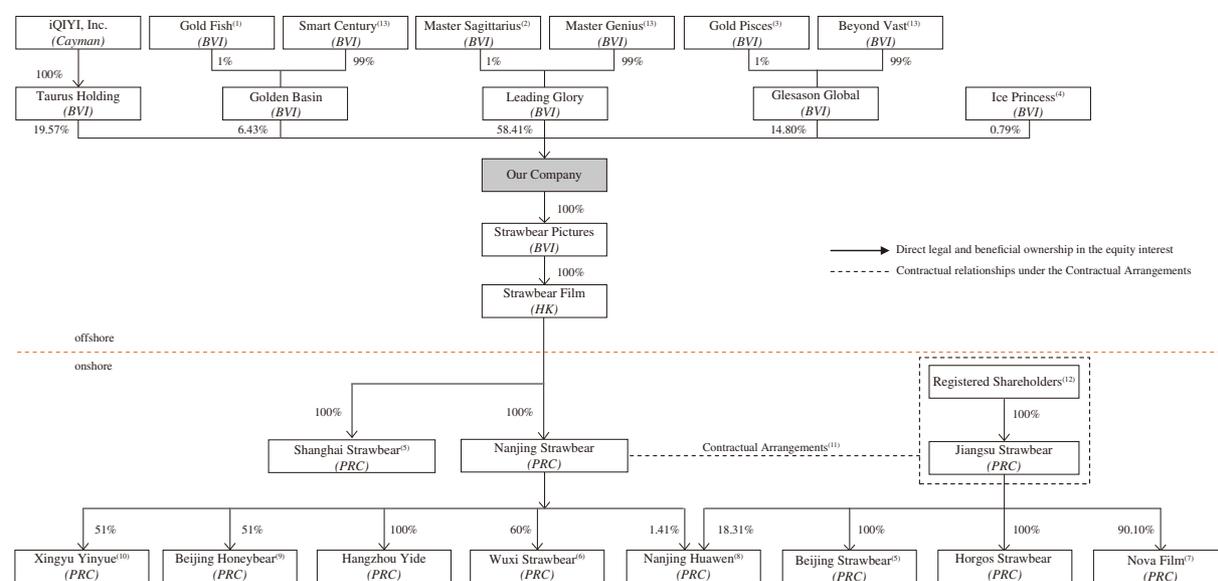
Compliance with Interim Guidance and Guidance Letters

The Joint Sponsors have confirmed that the Pre-IPO Investments are in compliance with the Guidance Letter HKEX-GL29-12 issued by the Stock Exchange in January 2012 and as updated in March 2017, the Guidance Letter HKEX-GL43-12 issued by the Stock Exchange in October 2012 and as updated in July 2013 and March 2017 and the Guidance Letter HKEX-GL44-12 issued by the Stock Exchange in October 2012 and as updated in March 2017.

CORPORATE STRUCTURE

Corporate Structure before the Global Offering

The following chart sets forth the shareholding structure of our Group after the Reorganization and the Pre-IPO Investments and immediately before the Global Offering:



HISTORY, REORGANIZATION AND CORPORATE DEVELOPMENT

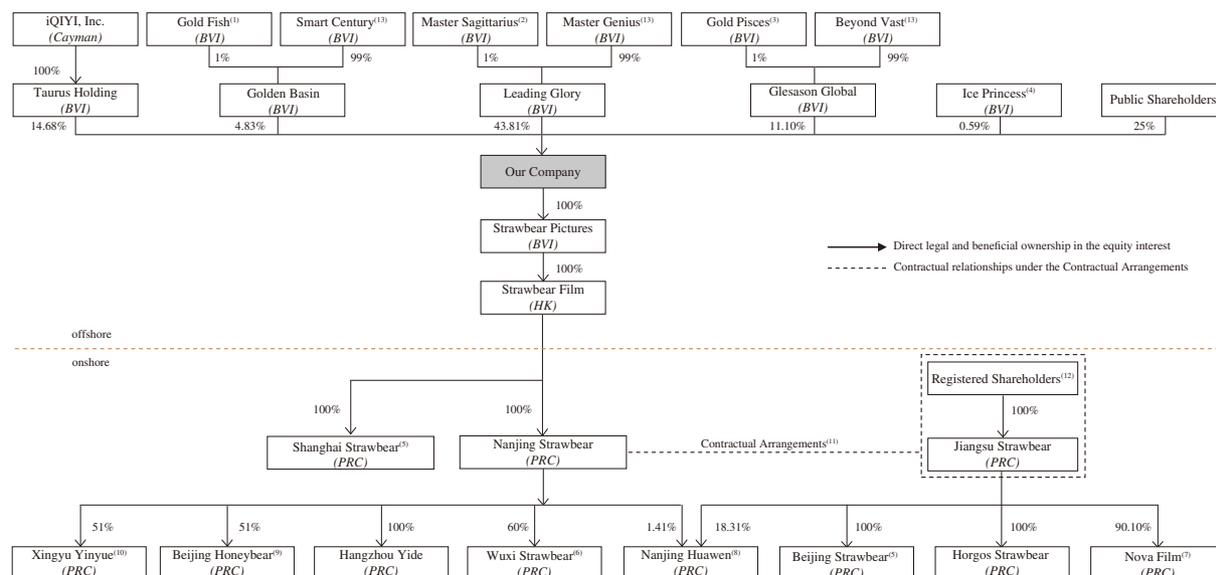
Notes:

- (1) Gold Fish is wholly owned by Ms. Zhai. On June 18, 2020, Gold Fish transferred its entire equity interest in the Company at par value to Golden Basin.
- (2) Master Sagittarius is wholly owned by Mr. Liu. On June 18, 2020, Master Sagittarius transferred its entire equity interest in the Company at par value to Leading Glory.
- (3) Gold Pisces is wholly owned by Ms. Liu. On June 18, 2020, Gold Pisces transferred its entire equity interest in the Company at par value to Glesason Global.
- (4) Ice Princess is wholly owned by Ms. Zhao.
- (5) Shanghai Strawbear and Beijing Strawbear were established along with the Reorganization and had been our wholly-owned subsidiaries since establishment. Neither of them is a principal operating subsidiary of our Group.
- (6) The remaining 40% equity interest in Wuxi Strawbear is held by Wuxi Youkong, which is in turn held by five individuals, all being Independent Third Parties.
- (7) The remaining 9.9% equity interest in Nova Film is held by an individual, being an Independent Third Party.
- (8) Details of the remaining equity interest in Nanjing Huawen are set out in “Contractual Arrangements — Background.” The financial statements of Nanjing Huawen are not consolidated into that of our Group.
- (9) Beijing Honeybear had been our non-wholly-owned subsidiary since its establishment on September 10, 2020 and is not a principal operating subsidiary of our Group. The remaining 49% equity interest in Beijing Honeybear is held by an Independent Third Party.
- (10) Xingyu Yinyue had been our non-wholly-owned subsidiary since its establishment on November 19, 2020 and is not a principal operating subsidiary of our Group. The remaining 49% equity interest in Xingyu Yinyue is held by an Independent Third Party.
- (11) We entered into the Contractual Arrangements with Jiangsu Strawbear and its registered shareholders. See “Contractual Arrangements” for details.
- (12) For details of the Registered Shareholders, see “Contractual Arrangements.”
- (13) Each of Smart Century, Master Genius and Beyond Vast is wholly owned by Family Trust Singapore, the trustee of the Gold Fish Trust, the LXF Family Trust and the LSS Family Trust.

HISTORY, REORGANIZATION AND CORPORATE DEVELOPMENT

Corporate Structure Immediately following the Global Offering

The following charts set forth the shareholding structure of our Group immediately after the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the Pre-IPO Share Options):



Notes:

(1) – (13): Please refer to the corresponding notes to the chart set out in “— Corporate Structure — Corporate Structure before the Global Offering.”

PRC REGULATORY REQUIREMENTS

M&A Rules

According to the Regulations on Merger with and Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (the “M&A Rules”) jointly issued by the MOFCOM, the SASAC, the SAT, the CSRC, the SAIC and the SAFE on August 8, 2006, effective as of September 8, 2006 and amended on June 22, 2009, a foreign investor is required to obtain necessary approvals when it (i) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (ii) subscribes the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (iii) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets; or (iv) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign invested enterprise. The M&A Rules, among other things, further purport to require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange, especially in the event that the special purpose vehicle acquires shares of or equity interests in the PRC companies in exchange for the shares of offshore companies.

HISTORY, REORGANIZATION AND CORPORATE DEVELOPMENT

Pursuant to article 11 of the M&A Rules, where a domestic company, enterprise or natural person intends to acquire its or his/her related domestic company in the name of an offshore company which it or he/she lawfully established or controls, the acquisition shall be subject to the examination and approval of the MOFCOM.

Our PRC Legal Advisors are of the opinion that prior CSRC and MOFCOM approvals for the Listing and trading of our Shares on the Stock Exchange is not required because (i) none of our PRC subsidiaries was established through a merger or acquisition of equity interest or assets of a PRC domestic company owned by PRC companies or individuals as defined under the M&A Rules that are the beneficial owners of our Company and (ii) no provision in the M&A Rules clearly classified contractual arrangements as a type of transaction subject to the M&A Rules.

SAFE Registration in the PRC

Pursuant to the SAFE Circular 37, (a) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests to an overseas SPV that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing, and (b) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the overseas SPV, including, among other things, a change of overseas SPV's PRC resident shareholder(s), the name of the overseas SPV, terms of operation, or any increase or reduction of the overseas SPV's capital, share transfer or swap, and merger or division. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be restricted from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Furthermore, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.

Pursuant to the SAFE Circular 13, the power to accept SAFE registration was delegated from local SAFE to local banks where the assets or interests in the domestic entity are located.

As advised by our PRC Legal Advisors, each of our individual beneficial owners who are PRC citizens has duly completed the relevant registrations as required under SAFE Circular 37 and SAFE Circular 13 as of September 11, 2018.