

OVERVIEW

We are a major drama series producer and distributor in the PRC, covering the investment, development, production and distribution of TV series and web series. According to the Frost & Sullivan Report, we ranked fourth among all drama series producers and distributors in the PRC in terms of the number of the first-run broadcast TV series in 2019, representing a market share of 6.0%. We also ranked sixth among all drama series producers and distributors in the PRC in 2019 in terms of (i) the revenue generated from drama series and (ii) the number of episodes of drama series distributed for the first-run and re-run broadcast, representing a market share of 1.8% and 2.1%, respectively, according to the same source.

We generate revenue primarily from (i) licensing the broadcasting rights of our self-produced drama series to TV channels, 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, third party distributors or online video platforms; and (iii) production services for made-to-order drama series per online video platforms' orders.

To satisfy our demand for drama series production, we generally maintain 20 to 30 IP reserves simultaneously in accordance with our internal policy. As of the Latest Practicable Date, in addition to our drama series that had been broadcast and to be broadcast, we had reserved in aggregate 31 IPs, consisting of six original screenplays based on our own initial ideas, and 25 adapted screenplays based on licensed IPs. In the meantime, some of our IPs are also high ranking stories on leading online literature platforms.

We believe our platform business model gives us a competitive advantage over industry peers and empowers us to effectively integrate premium industry resources, such as well-recognized screenwriters, producers, directors and actors, filming and production studios as well as external quality control specialists, into our well-established ecosystem to achieve synergies. Our industry resource integration capability also ensures the quality and success of our drama series, which is evidenced by their audience reception. For example, our self-produced drama series, *The Impossible Mission* (不可能完成的任務) won the Jiangsu Province Government Television Award (江蘇省新聞出版廣電政府獎電視劇獎) from Jiangsu Provincial Administration of Radio and Television. *Treasure Adventure* (國寶奇旅) won the First Prize of the 2019 Jiangsu Province Outstanding Copyright Award (2019年江蘇省優秀版權作品一等獎) from Copyright Administration of Jiangsu Province, and Five-one Project Award of Jiangsu Province (江蘇省五個一工程獎) from the Standing Committee of Jiangsu Provincial Committee of the Communist Party of China. *Second Time Is A Charm* (第二次也很美) was the Annual Viewership Ratings Champion during the prime time of Dragon TV in 2019 (二零一九年東方衛視黃金時段年度收視率冠軍). Given our market leadership, close relationship with premium industry resources and quality self-produced drama series, we were the only drama series producer that possessed Television Drama Production Permit (Class A) (《電視劇製作許可證(甲種)》) in Jiangsu Province as well as one of the 73 holders nationwide as of December 31, 2019, in recognition of our contributions to the drama series industry.

We place high value on the investment in drama series. Our management and project initiation committee keep track of, continuously seek for and make cautious selection in investment opportunities in drama series. As of June 30, 2020, we had invested in an aggregate of 16 drama series that had completed production, among which 11 are our self-produced drama series. We were the sole or largest investor in eight out of 11 of our self-produced drama series that had completed production as of the same date. We have strong distribution capability and have maintained well-established relationships with the

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top five TV channels and top three online video platforms in the PRC. According to the Frost & Sullivan Report, we were the only drama series producer and distributor that distributed new drama series on all of the aforementioned eight dominant distribution channels in 2019. Leveraging our strong distribution capability, we are from time to time approached by other developers or producers to assist with the distribution of their drama series. As of the Latest Practicable Date, we had 32 drama series that had been broadcast, and three drama series to be broadcast by the fourth quarter of 2021, including one self-produced drama series and two made-to-order drama series.

We experienced stable growth during the Track Record Period. Our revenue increased from RMB542.9 million in 2017 to RMB679.1 million in 2018 and further increased to RMB765.1 million in 2019.

OUR COMPETITIVE STRENGTHS

We believe our previous success is attributable to the following competitive strengths:

A major drama series producer and distributor

We are a major drama series producer and distributor in the PRC, covering the investment, development, production and distribution of TV series and web series. According to the Frost & Sullivan Report, we ranked fourth among all drama series producers and distributors in the PRC in terms of the number of the first-run broadcast TV series in 2019, representing a market share of 6.0%. We also ranked sixth among all drama series producers and distributors in the PRC in 2019 in terms of (i) the revenue generated from drama series and (ii) the number of episodes of drama series distributed for the first-run and re-run broadcast, representing a market share of 1.8% and 2.1%, respectively, according to the same source.

Due to our track record in producing quality drama series, we were the only drama series producer that possessed Television Drama Production Permit (Class A) in Jiangsu Province as of December 31, 2019. In addition, only 73 drama series producers had such permit in the PRC, including only 29 non-stated-owned enterprises, as of the same date. As the holder of the Television Drama Production Permit (Class A), we are exempt from application for an individual production permit from the relevant competent authorities for each drama series that we plan to produce, which simplifies the relevant approval procedures of our drama series and accelerates our production process. In addition, according to the Frost & Sullivan Report, we were the only drama series producer and distributor that distributed new drama series on both the top five TV channels, including Jiangsu TV, Zhejiang TV, Dragon TV, Hunan TV and Beijing TV, and the top three online video platforms, including iQIYI, Youku and Tencent Video in 2019. According to the Frost & Sullivan Report, we ranked first among all drama series producers and distributors in terms of the number of the first-run broadcast TV series on the top five TV channels during prime time in 2019 in the PRC. We also ranked sixth among all drama series producers and distributors in terms of the number of drama series broadcast on the top three video online platforms in 2019 in the PRC, according to the same source. In recognition of our achievements in our business innovation and rapid growth, we received various awards, including the Cultural and Technology Enterprise of Nanjing (南京市重點文化科技企業) in 2017 and Gazelle Enterprise of Nanjing (南京市瞪羚企業) granted by Nanjing Municipal People's Government in 2018 in honor of fast growing innovation enterprise. In addition, the drama series that we produced and distributed also won a variety of awards from the TV channels and online video platforms as well as the government. For example, *Second Time Is A Charm* (第二次也很美) was the Annual Viewer Ratings Champion during the prime time of Dragon TV in 2019 (二零一九年東方

衛視黃金時段年度收視率冠軍) and Treasure Adventure (國寶奇旅) won the First Prize of the 2019 Jiangsu Province Outstanding Copyright Award (2019年江蘇省優秀版權作品一等獎) from Copyright Administration of Jiangsu Province. For details about our awards, see “— Awards and Recognitions.”

During the Track Record Period, leveraging our major market position and extensive industry knowledge, we achieved stable growth. During the Track Record Period and up to the Latest Practicable Date, we had an aggregate of 31 broadcast drama series, among which 23 were distributed by us consisting of self-produced and outright-purchased drama series. In addition, as of the Latest Practicable Date, we also had three drama series to be broadcast. Our revenue increased from RMB542.9 million in 2017 to RMB765.1 million in 2019, representing a CAGR of 18.7%.

The PRC drama series market has experienced rapid growth in the past few years, which in turn has also contributed to our sustainable and profitable growth. According to the Frost & Sullivan Report, the size of the drama series market in the PRC, comprising licensing or distribution revenue and advertising revenue, increased at a CAGR of 4.5% from RMB83.0 billion in 2015 to RMB99.1 billion in 2019, and is expected to further increase at a CAGR of 4.1% from RMB99.1 billion in 2019 to RMB121.3 billion in 2024. In particular, as online video platforms are flexible in providing drama series of diversified genres to different groups of audiences that have varying preferences, they have gained great popularity among audiences, thus having higher procurement budgets for drama series, and are becoming a key driver for the drama series market in the PRC. Furthermore, the relevant competent authorities have imposed stricter policies, from the themes, to content production and further to restrictions on talents costs, on the drama series market in the past few years. We have not only extensive industry experiences and regulatory knowledge but also considerable industry resources, both of which enable us to better adapt to the evolving market and capture new opportunities.

We believe that our extensive experiences and major position in the drama series market have well-positioned us to achieve steady growth and will further facilitate us to seize future opportunities and support our profitable growth.

A large and diversified pool of IP rights

We believe that a large and diversified pool of IP rights is one of the backbones of our drama series business. With an emphasis on IP development, we obtain premium IPs from a variety of sources, and generally maintain an adequate level of 20 to 30 IP reserves simultaneously to satisfy our demands for drama series production and distribution. In the meantime, some of our IPs are also high ranking stories on leading online literature platforms.

We develop initial ideas or story concepts based on various sources, such as novels, comics, real-life stories and social events, after predicting the prevalence of the genres and themes of drama series and the popularity of such IP ideas. To cater to the diverse needs of audiences with different preferences, we regularly conduct internal research on various IP topics based on recent market focuses and trends. We then invite reputable screenwriters with experience in and knowledge of that particular genre or theme to create screenplay based on our concept development. Our self-produced drama series developed from our own ideas achieved great success. For example, due to the popularity of our Legend Of Zu Mountain (蜀山戰紀之劍俠傳奇), it has been adapted into mobile games and literary works. We have also entered into a licensing agreement with a merchandise manufacturer to produce and launch toys, clothes and home textiles featuring our Legend Of Zu Mountain 2 (蜀山戰紀2踏火行歌).

Apart from our own initiatives, we also acquire IPs, including screenplays or creative materials, through various methods, such as acquiring from well-known screenwriters, investing in or acquiring companies that hold quality IPs, or forming strategic partnership with top publishing companies, online literature platforms and other industry players. For instance, we acquired Hangzhou Yide in January 2019, which possesses sizeable premium IP resources. We have also entered into a strategic cooperation agreement with Booky Picture (博集影業), an affiliate of CS-Booky (博集天卷), one of the top publishing companies in China, pursuant to which, we have the preferential right to purchase its quality IPs on a cost-effective basis. Under this strategic cooperation arrangement, Booky Pictures can also participate in the production and distribution of the drama series developed from their IPs. In March 2020, we entered into an IP co-development agreement with Booky Pictures, pursuant to which we and Booky Pictures will jointly invest in, develop and produce the drama series to be developed from the IP, Two Capitals (兩京十五日), and share half of the net licensing fees as specified in the agreement; while we are the sole global distributor and are entitled to the distribution commission in addition to our proportional net licensing fees. Two Capitals is a popular history novel written by Ma Boyong (馬伯庸), whose adaptation right and filming right are acquired by Booky Pictures.

As of the Latest Practicable Date, in addition to the drama series broadcast and to be broadcast, we had engaged screenwriters to create six original screenplays based on our own initial ideas and 25 adapted screenplays based on licensed IPs. As of the Latest Practicable Date, we owned all the copyrights of the screenplays of our six pipeline drama series projects.

We believe our large pool of IP reserves enables us to produce a wide and diversified array of drama series and contributes to the success of our drama series business. We will continue to focus on and benefit from our IP development.

Our platform business model enables us to effectively integrate premium industry resources

Empowered by our platform business model and leveraging our premium industry resources, we can effectively integrate the principal industry participants, such as IP owners, core crew, filming and production studios, external quality control specialists, and distribution channels, into our well-established ecosystem to achieve synergies and industrialization, rather than focus on any single stage of the investment, development, production or distribution in the drama series industry chain.

IP Owners

We maintain well-established relationships with various leading IP owners, including reputable writers and screenwriters, copyright and publishing companies, online literature platforms and other industry players. We select premium IPs that we believe would be of great interest to our customers and audiences from our shortlisted IP owners. Once approved by the internal project initiation committee, we will enter into a licensing agreement with the relevant IP owner to obtain such IP. We generally maintain 20 to 30 IP reserves in a given year in accordance with our internal policy to ensure that our IP reserve can satisfy our demands for drama series production.

Core Crew

Given our strong content production and distribution capabilities, we are able to attract well-known and/or excellent drama series core crew, including screenwriters, directors and actors. Drama series directed or starred by them are popular among TV channels, online video platforms and audiences,

thus enhancing our reputation and financial position. We also invite screenwriters to actively participate in project development and communicate with directors and actors to ensure the artistic value and quality of our drama series. We have maintained well-established cooperation with multiple well-recognized screenwriters, directors and actors, such as Chen Haifei (陳海飛), the screenwriter of Sparrow (麻雀), and Feng Le (馮樂), the producer of Once Upon A Time In Lingjian Mountain (從前有座靈劍山).

Filming and production studios

We have maintained well-established relationships with renowned producers and filming and production studios, enabling us to constantly produce quality drama series that attract audiences with different preferences to meet the diversified procurement demands of TV channels and online video platforms. As of June 30, 2020, we had worked with six drama series filming or production studios, including Mandala Media, a film and drama series production studio founded by industry-recognized producers. We have entered into strategic cooperation agreements with or acquired certain industry-recognized post-production studios to enhance our production capability. For example, we have completed the acquisition of Nova Film, an industry-leading visual arts post-production house as well as one of our five largest suppliers during the Track Record Period. As of June 30, 2020, we had entered into strategic cooperation agreements with two production houses, pursuant to which, they are responsible for providing one-stop post-production services for our drama series. Our internal production team also assign internal quality control staff on site to monitor and supervise the work of the filming and production studios to ensure the quality of our drama series.

External quality control specialists

We believe that the quality of drama series is critical in building up our brand and reputation as well as enhancing our leading industry position. Our quality control of drama series, comprising both internal and external seasoned quality control staff, is one of our core competencies that distinguishes us from other drama series producers and distributors. We invite industry-recognized producers and/or directors to conduct quality control through the entire process of drama series production, from IP selection to filming and further to post-production. These producers and directors are usually from major TV channels, top online video platforms or well-known film studios, who are equipped with extensive industry experiences in drama series production and knowledge of the prevailing trends of the drama series market.

Distribution channels

Since our inception, we have built well-established relationships with various distribution channels, in particular the top five TV channels and the top three online video platforms whose market share, in aggregate, accounted for approximately 71.3% of the PRC drama series market in terms of the number of the first-run broadcast drama series in 2019. According to the Frost & Sullivan Report, we were the only drama series producer and distributor that distributed new drama series on all of the top five TV channels and the top three online video platforms in 2019. We provide premium self-produced and outright-purchased drama series to TV channels, enabling them to attract audiences and advertisers. We provide quality and diversified self-produced, outright-purchased and made-to-order drama series to online video platforms, enabling them to attract audiences and enhance user engagement, which in turn generates monetization opportunities. Meanwhile, our well-established relationships with major distribution channels enable us to attract industry-recognized screenwriters, directors and actors as well as producers and production studios to cooperate with us to secure better distribution channels and/or

higher licensing fees for the drama series that they develop or produce. As such, we took charge of the distribution of substantially all of our drama series during the Track Record Period. Besides, benefiting from our well-established relationships with TV channels and online video platforms, we commenced our outright-purchased drama series business in 2017 to help online video platforms further monetize their drama series, by purchasing the broadcasting rights of drama series from online video platforms and sub-licensing such rights to TV channels for broadcasting.

Leveraging our resource integration capability, we can match suitable industry participants with a specific genre of the drama projects that they excel at to achieve synergies and industrialization, which shortens the cycle of drama series development, production and distribution and maximizes the value of our drama series. The industrialization enables us to effectively and efficiently assemble professional market players within the industry chain to achieve process standardization of drama series production. For instance, when we were planning a modern revolution drama series, *Inside Man* (局中人), we directly and instantaneously approached Liu Yu (劉譽), an industry-recognized screenwriter and director with extensive experiences in and knowledge of this genre, to develop and produce this drama series for us. We subsequently selected suitable production studio, which is one of our strategic partners, and external quality control specialist, who was the former assistant to president and a senior project director of one of the top three online video platforms, from our shortlist according to the genre and investment scale of this project. We only spent 11 months from application for public record to the completion of filming for this project benefiting from our industry resource integration capability. We obtained the Television Drama Distribution License (《國產電視劇發行許可證》) for this drama series in December 2019 and broadcast it in June 2020 on two major TV channels, Jiangsu TV and Zhejiang TV, and all of the top three online video platforms. In addition, it usually takes us approximately 17.8 months from Application for Public Record (備案公示申請) to the initial broadcast of our drama series, as compared to an industry average of approximately 22.5 months, according to the Frost & Sullivan Report. We believe our platform business model enables us to break through the scalability-bottleneck in the drama series industry resulting from limited quality resources, and enhances our leading market position by enabling us to produce and/or distribute more drama series than our competitors. According to the Frost & Sullivan Report, we ranked fourth within the industry in the PRC in terms of the number of first-run broadcast TV series produced and/or distributed by us for the three years ended 2019.

Capture the opportunities offered by the rise of online video platforms and produce diversified quality drama series

Online video platforms have experienced rapid growth since their rise in 2014 and we are an early mover in collaborating with online video platforms. Given the diversified content, flexible broadcasting schedules and smart content recommendation based on audiences' preferences provided by online video platforms, they have been gaining wide popularity among audiences and IP owners, and have become a major form of entertainment. According to the Frost & Sullivan Report, the total investment of drama series by online video platforms increased at a CAGR of 21.8% from RMB12.8 billion in 2015 to RMB28.2 billion in 2019, and is expected to further increase at a CAGR of 9.1% to RMB43.5 billion in 2024. Online video platforms have the largest audience base of and the highest procurement budget for drama series, according to the same source. In particular, we have established close relationship with iQIYI since 2014 by licensing the broadcasting right of our self-produced *Legend Of Zu Mountain* (蜀山戰紀之劍俠傳奇). See “Business — Our Customers — Top Customers — Business Relationship with iQIYI” for details regarding our relationship and cooperation with iQIYI.

To better serve and continue to benefit from online video platforms as one of our strategies, we have established four in-house content production studios to serve our major online video platform partners. We provide diversified content developed by ourselves or licensed from our content partners to different online video platforms according to their preferences and specific demands. We have also been exploring new business opportunities in cooperation with online video platforms, from distributing self-produced drama series on online video platforms and firstly introducing the “Online first, TV next” (“先網後台”) broadcasting model, to purchasing the broadcasting rights of drama series from online video platforms and sub-licensing such rights to TV channels to generate monetization opportunities for online video platforms, and further to producing made-to-order drama series for online video platforms to meet their evolving and specific demands for drama series. By doing so, we have not only deepened our relationship and cooperation with online video platforms, but also diversified our revenue sources and lowered the operational risks of a single business resulting from the evolving market and regulatory restrictions. As of the Latest Practicable Date, we had a reserve of four made-to-order drama series that we had entered into the relevant memorandums of understandings or production service agreement with online video platforms, one of which had applied for public record and registered with the local counterparts of the NRTA.

To cater to the preferences of online video platforms and their different groups of audiences, we also strive to produce an array of drama series with different genres and scales of investment. We produce not only top drama series with large scale investment, but also niche drama series at low costs to adapt to online video platforms’ procurement strategy for drama series with different scales of investment. As of June 30, 2020, we had produced two drama series with an investment of over RMB250 million, three drama series with an investment between RMB200 million and RMB250 million, four drama series with an investment between RMB100 million and RMB200 million, and three drama series with an investment under RMB100 million, that were broadcast on online video platforms, consisting of self-produced and made-to-order fantasy drama series. We also produce drama series with different genres and themes to satisfy the preferences of different groups of audiences on different platforms. As of June 30, 2020, we had produced three period fantasy drama series, three war drama series, four romance drama series and two metropolitan drama series, that were broadcast on online video platforms, consisting of self-produced and made-to-order drama series.

Benefiting from the rise of online video platforms and our efforts to explore business opportunities with them, our revenue generated from such platforms accounted for a large portion of our revenue during the Track Record Period. In 2017, 2018, 2019 and the six months ended June 30, 2020, we broadcast a total of one, three, three and four drama series on online video platforms, respectively, with revenue amounting to RMB353.9 million, RMB244.7 million, RMB310.7 million and RMB462.0 million, respectively, which accounted for 65.2%, 36.0%, 40.6% and 79.7%, respectively, of our total revenue in the same periods.

Strong investment and distribution capability

We place high value on the investment in drama series. Our management and project initiation committee keep track of, continuously seek for and make cautious selection in investment opportunities in drama series. As of June 30, 2020, we had invested in an aggregate of 16 drama series that had completed production, among which 11 are our self-produced drama series. As of June 30, 2020, we were the sole or largest investor in eight out of 11 of our self-produced drama series that had completed production.

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We have strong distribution capability arising from our leading market position and well-established relationships with major distribution channels, in particular the top five TV channels and the top three online video platforms. According to the Frost & Sullivan Report, we ranked fourth among all drama series producers and distributors in the PRC in terms of the number of the first-run broadcast TV series in 2019, with a market share of 6.0%. In 2017, 2018, 2019 and the six months ended June 30, 2020, we distributed two, five, three and three drama series to top five TV channels and/or top three online video platforms. Sound cooperation with distribution channels ensures successful and timely distribution of our drama series. During the Track Record Period, we successfully distributed 18 out of our 19 self-produced and outright-purchased drama series leveraging our strong distribution capability. Meanwhile, it usually takes us no more than six months from obtaining the distribution license to the initial broadcast of the drama series, which is much shorter than the industry average of approximately 12 months. In addition, our strong distribution capability also facilitates us to develop new business models. For example, since 2017, in response to the monetization demand of online video platforms, we have been engaging in outright-purchased drama series business where we generally purchase the broadcasting right of a drama series from online video platforms and sub-license such right to TV channels for their broadcasting. This business model not only generates additional monetization opportunities for online video platforms, but also diversifies our revenue streams and further enhances our cooperation with online distribution channels.

We believe that our strong distribution capability constitutes our core competitiveness, and will continue to guarantee our robust growth.

Visionary and experienced management team

We have a visionary management team boasting a successful track record and rich industry experience in the PRC film and TV industry. In particular, Mr. Liu, our founder and chairman of the Board, has approximately 20 years of experience in the media industry and profound influence in the drama series industry. He has produced and/or distributed more than 20 drama series with over 1,000 episodes, some of which won the annual viewership rating champions of various TV channels, such as Legend Of Zu Mountain 2 (蜀山戰紀2踏火行歌) and Second Time Is A Charm (第二次也很美). He is also the first to initiate the “Online first, TV next” (“先網後台”) broadcasting model which introduced a new broadcasting arrangement among distribution channels. Attributable to his deep understanding and accurate prediction of the future trends of the drama series industry in the PRC, Mr. Liu is a first-mover in cooperation with online video platforms, thereby having seized the opportunities brought by the rise of such platforms. He is also the first to have adopted the platform business model to integrate premium industry resources to ensure our rapid and sustainable growth. Our executive Director and chief marketing officer, Ms. Zhang, has approximately 20 years of experiences in the distribution and promotion of drama series. She has distributed more than 20 drama series with over 1,000 episodes since 2000 and is regarded as one of the best individual distributors in the industry. In addition, our management and other core members have an average of more than 15 years of relevant industry experience.

We believe that our management team’s keen insight into the drama series industry and their strong execution track record will continue to guide us to implement our strategies, predict market trends, seize business opportunities, and guarantee our profitable and sustainable future growth.

OUR STRATEGIES

We plan to continue to maintain our leading market position, further take advantage of our platform business model, and explore business innovations. To achieve our goals, we plan to execute the following strategies:

Continue to deepen our platform business model and enhance our production and distribution capabilities

We will continue to deepen the synergies arising intrinsically from our platform business model. Firstly, we plan to obtain more diverse IP resources covering different genres and themes of drama series, through enhanced cooperation with top writers/screenwriters, leading copyright companies and prevailing online literature platforms, to meet the diversified and specific demands of different distribution channels and their respective audiences, which in turn will guarantee our organic growth. Secondly, we plan to deepen our ties with premium filming and production studios on the market by performing our existing long-term strategic cooperation agreements with them or acquiring well-recognized production or post-production studios, to improve our drama series production capabilities. For example, we acquired Nova Film in June 2020, which focuses on visual effects and virtual cinematography as well as research and development of other advanced filming and production technologies. Nova Film is a “high and new technology enterprise” recognized by the local governmental authority and has developed a series of advanced production infrastructure, such as green screen background, 3D digital photography and real-time virtual reality production. The acquisition of Nova Film not only ramps up our production capabilities but also diversifies our revenue stream by providing unparalleled post-production services to other film/TV programs producers. We will also actively invite more external quality control specialists with experiences in and knowledge of different industry-verticals to supervise and review our filming and production process and works, to ensure the quality of our drama series of different genres and themes as well as their popularity among audiences of different preferences. Last but not the least, we will continue to strengthen our cooperation with leading distribution channels, mainly the top five TV channels and the top three online video platforms, to enhance our distribution capabilities. We seek to enter into strategic cooperation agreements with outstanding industry players, providing us with the competitive edge in obtaining premium resources.

We believe that our enhanced cooperation with industry players will further strengthen our resource integration capabilities as well as our operational efficiency.

Further expand our business through selective investments, mergers and acquisitions

We plan to make selective investment in or acquisition of companies that can enhance our market position and ramp up our drama series development, production and distribution capabilities. First, we plan to invest in or acquire copyright companies with high-quality and diversified IPs, to meet our production demand to continuously deliver quality drama series on one hand, and to cater to the preferences of audiences from different distribution channels to secure stable growth, on the other hand. Secondly, we plan to invest in or acquire downstream market players engaged in post-production such as special effects and sound editing and short-video promotion companies, to better serve our post-production and promotion needs, thereby reducing the relevant costs and increasing our profitability. Currently we do not have any definite acquisition target. However, we plan to invest in one copyright firm with a valuation of no more than RMB200 million and one post-production firm with a valuation between RMB300 million and RMB500 million, taking into accounts the potential business

growth, track record, industry reputation, advanced production technologies, production capability as well as the expected synergies to be achieved by us. A portion of such investments would be funded by the net proceeds from the Global Offering, with the remaining to be funded by cash inflow from our operations and bank facilities. See “Future Plans and Use of Proceeds — Use of Proceeds.”

As of the Latest Practicable Date, we had not engaged in any negotiation or entered into any letter of intent or agreement for potential acquisitions, nor identified any definite acquisition target. We believe that our continued investments and deployment in the upstream, middle stream and downstream of the drama series industry chain can further enhance our capabilities of drama series development, production and distribution and maintain our profitability.

Continue to further discover potential opportunities from online video platforms and explore business innovation

We will continue to explore opportunities from online video platforms to develop new businesses in terms of cooperation models, drama series innovation and derivative opportunities to diversify our monetization methods. For example, we plan to initiate our copyright licensing business. Under this business model, we will license our IPs to online video platforms at an early stage and provide made-to-order drama series production services to them. In addition, we are also responsible for licensing the broadcasting rights of such drama series to the TV channels. This business model not only ensures us to secure certain amount of the revenue at an early stage and maintain our sufficient liquidity, but also entitles us to TV channels distribution rights from which we can share part of the licensing fees of such drama series, apart from only production fees for providing production services to online video platforms. In the future, we also plan to produce new types of drama series such as interactive dramas and vertical screen dramas, based on the evolving needs of audiences on online video platforms. In view of the quality production and the attention catching genres and content of the PRC drama series, certain of them gained popularity overseas, especially among the overseas Chinese community. We plan to follow the online video platforms’ step to tap into overseas markets. As of the Latest Practicable Date, we had conducted a survey of overseas drama series markets, including user preference of themes and genres as well as the comparison of the drama series industries among our target markets, and began to purchase the relevant IPs, develop screenplays and set up filming and production teams. At the initial stage of our overseas expansion, we plan to select domestic actors and production studios for our overseas drama series production so as to better control costs and thereby minimize the risk of new business expansion.

We believe that with the continuous innovation of, and our well-established relationship with, online video platforms, we will be able to offer more diverse business and services, thus generating more monetization opportunities and maintaining sustainable growth.

Continue to attract and retain talented professionals

We believe that professionals from each stage of drama series investment, development, production and distribution play an important role in our business expansion. To ensure smooth and stable operation of our business, we plan to further recruit seasoned professionals in support of project initiation, production and financial management, marketing and promotion, quality control as well as completion and delivery management through internal recommendation, headhunting and other available means:

- *Project initiation:* We plan to further recruit seasoned professionals for project initiation to identify suitable IPs for drama series development, assess script and project feasibility, plan budgets, and search for suitable production studios.

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- *Production and financial management:* We plan to further recruit industry-recognized producers to supervise and guide the entire production process of our drama series. We also plan to recruit young producers that have knowledge of drama series with emerging themes, enabling us to catch the attention of the youngsters to continue to benefit from the evolving online video platforms, which in turn will provide us with continuous organic growth. In the meantime, we plan to recruit professional finance staff to further standardize our finance process and enhance our cost control and payment collection management capability.
- *Marketing and promotion:* We plan to expand our marketing and promotion team to effectively execute our marketing strategies, with a view to promoting our brand recognition and the impact of our drama series.
- *Quality control and completion and delivery management:* Quality control is part of our core competitiveness. We will continue to recruit quality control personnel specializing in different genres of drama series to ensure the quality of our drama series and their production process. Moreover, we also plan to improve our management of completed drama series and the delivery efficiency of master cassettes, so that we can determine the broadcast time slots of our completed series on TV channels and/or online video platforms as soon as possible.

In addition, to maintain our talents and encourage their loyalty, we plan to further improve our compensation and promotion system to incentivize our employees.

OUR BUSINESS MODEL

Overview

We primarily engaged in the investment, development, production and distribution of drama series in China, including both TV series and web series, during the Track Record Period.

During the Track Record Period, we generated revenue from the following business lines:

- *Licensing of broadcasting rights of self-produced drama series (自製劇集播映權許可).* During the Track Record Period, we primarily generated revenue from the licensing fees for licensing the broadcasting rights of our self-produced drama series to TV channels, online video platforms and sometimes third party distributors;
- *Licensing of broadcasting rights of outright-purchased drama series (買斷劇集播映權許可).* We also licensed the broadcasting rights of outright-purchased drama series from online video platforms and drama series producers to TV channels, third-party distributors and sometimes online video platforms and collected the licensing fees during the Track Record Period;

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- *Made-to-order drama series production (定制劇集承製)*. To capture the growth of the online video platforms and diversify our revenue sources, we started to undertake drama series production per online video platform's order since 2017, where the online video platform is responsible for investing in, developing and distributing such web series and we are entitled to production service fees; and
- *Others*. We also generated a small portion of our revenue from (i) the net licensing fees received from investment in drama series as a non-executive producer; and (ii) IP derivatives, such as licensing of adaptation rights of our self-produced drama series to online gaming companies to produce role play games, and product placement for advertisers, during the Track Record Period.

The table below sets forth a breakdown of our revenue by business line for the periods indicated:

	Year ended December 31,			Six months ended June 30,						
	2017	2018	2019	2019	2020					
	<i>(RMB in thousands, except percentages of revenue)</i>									
	<i>(Unaudited)</i>									
Licensing of broadcasting rights of self-produced drama series	95,804	17.6%	445,295	65.6%	571,412	74.7%	459,388	70.9%	480,848	83.0%
Licensing of broadcasting rights of outright-purchased drama series	423,061	77.9%	224,174	33.0%	183,272	24.0%	183,272	28.3%	2,288	0.4%
Made-to-order drama series production	5,178 ⁽²⁾	1.0%	–	–	–	–	–	–	84,906	14.6%
Others ⁽¹⁾	18,821	3.5%	9,640	1.4%	10,413	1.3%	5,085	0.8%	11,790	2.0%
Total	542,864	100.0%	679,109	100.0%	765,097	100.0%	647,745	100.0%	579,832	100.0%

Notes:

- (1) Others primarily comprise revenues from (i) net licensing fees received from investment in drama series as a non-executive producer; and (ii) IP derivatives, such as online games, and product placements for advertisers.
- (2) Represented production service fees we charged for made-to-order drama series *A Legend Of A Modern Man Gets Back To Qin Dynasty (尋秦記)*, the revenue of which was recognized over time until completion of the production in 2017. See "Financial Information — Description of Key Statement of Profit or Loss — Gross Profit and Gross Profit Margin — Made-to-order Drama series."

The drama series that we produce and/or distribute are categorized into either TV series or web series. TV series need to obtain the Television Drama Distribution License and can be broadcast on both TV channels and online video platforms; while web series can only be broadcast on online video platforms.

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The table below sets forth the number of our broadcast drama series by category and business line for the periods indicated:

	Year ended December 31,			Subsequent to December 31, 2019 and up to the Latest Practicable Date
	2017	2018	2019	
TV series				
Self-produced drama series	2	2	3	3
Outright-purchased drama series	3	3	2	5
Made-to-order drama series	–	–	–	3
Others ⁽¹⁾	1	2	–	1
Sub-total	6	7	5	12
Web series				
Made-to-order drama series	–	1	–	–
Total	6	8	5	12

Note:

- (1) Others represent three co-financed drama series where we act as a non-executive producer and one drama series where we act as a distribution agent.

We broadcast 32 drama series in total since our inception and up to the Latest Practicable Date, among which, two drama series were initially broadcast prior to the Track Record Period and the remaining 30 drama series were initially broadcast during the Track Record Period and up to the Latest Practicable Date. One of our self-produced drama series, The Impossible Mission (不可能完成的任務), was broadcast and generated revenue both prior to and during the Track Record Period, as a result of which, we broadcast a total of 31 drama series during the Track Record Period and up to the Latest Practicable Date, including both first-runs and re-runs. The rapid growth in the number of our drama series from pre-Track Record Period to 2017 was primarily because (i) we commenced operations since June 2014 and were in the process of developing a total of four self-produced drama series in 2015 and 2016, with only two initially broadcast prior to the Track Record Period and the remaining two initially broadcast in 2017 and 2018, respectively; and (ii) we commenced the business of licensing of the broadcasting rights of outright-purchased drama series in 2017, which required less financial and human resources as compared to self-produced drama series.

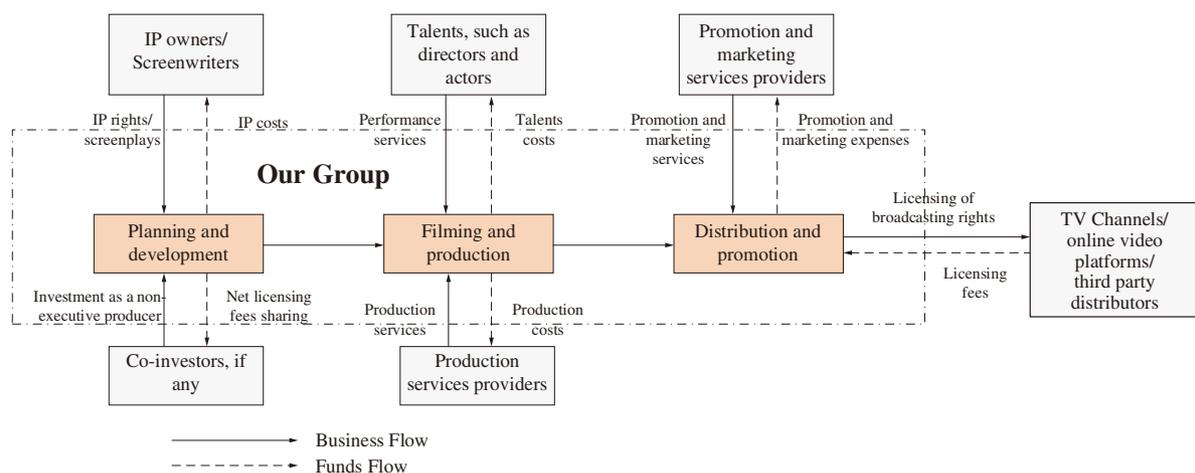
Licensing of Broadcasting Rights of Self-produced Drama Series

We commenced producing our own drama series and licensing the related broadcasting rights of these self-produced drama series to major TV channels, top online video platforms and sometimes third party distributors since our inception. Substantially all of our self-produced drama series are broadcast on both TV channels and online video platforms. In 2015, we were the first to introduce the broadcasting

model of “Online first, TV next” (“先網後台”) for our self-produced drama series in the market, with Legend Of Zu Mountain (蜀山戰紀之劍俠傳奇) broadcasting initially on iQIYI and subsequently distributing to Anhui TV. This broadcasting model, on one hand gives us more flexibility and discretion in arranging the broadcasting time slots based on the market conditions, and on the other hand, enhances and deepens our relationship with top online video platforms as they were becoming a more prevalent and efficient content distribution channel. We charge TV channels and online video platforms for broadcasting, and third party distributors for sub-licensing, our self-produced drama series, while we pay (i) IP costs to IP owners or screenwriters for their copyrights; (ii) service fees to talents, such as directors and actors, and to third party production service providers, such as filming and production studios; and (iii) marketing and promotion fees to marketing agencies for the relevant promotional services they provide. We outsourced part of the filming, post-production and promotional work to third party service providers that are equipped with appropriate experiences and resources, while we take control of the production management and oversee the whole production process.

Our self-produced drama series are developed either solely by ourselves or jointly with Independent Third Party investors under a co-investment arrangement. Under the co-investment arrangement, we act as the executive producer and take lead in the production and distribution of such drama series. We are responsible for initiating the development, overseeing the production process, and promoting the distribution of such drama series, while our co-investors generally play a passive role with limited involvement, such as production budgets review. We share with our co-investors the net licensing fees generated from licensing of broadcasting rights of our self-produced drama series after deduction of the relevant costs and expenses and/or distribution commission pursuant to our percentage of investment specified in the co-investment arrangements. We primarily collaborate with co-investors that are major industry players, such as TV channels and other competitive drama series producers. As of June 30, 2020, among our self-produced drama series that had completed production, one drama series was independently produced by us, and 10 drama series were produced under the co-investment arrangements in which we acted as the executive producer.

The chart below illustrates the business model of our business of licensing of broadcasting rights of self-produced drama series:



See “— Our Business Process” for more details regarding the value chain participants.

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We distributed two, two, three and two self-produced drama series for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively. We generated revenue from licensing of broadcasting rights of these self-produced drama series of approximately RMB95.8 million, RMB445.3 million, RMB571.4 million and RMB480.8 million, respectively, for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, accounting for approximately 17.6%, 65.6%, 74.7% and 83.0%, respectively, of our total revenue for the same periods.

The table below sets forth the breakdown of our revenue from licensing of broadcasting rights of self-produced drama series by distribution channel for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	<i>(RMB in thousands, except percentages of revenue)</i>									
TV channels	54,330	56.7%	196,486	44.1%	173,385	30.3%	173,245	37.7%	69,488	14.5%
Online video platforms	–	–	244,703	55.0%	307,071	53.7%	195,347	42.5%	368,055	76.5%
Third party distributors	41,474	43.3%	4,106	0.9%	90,956	16.0%	90,796	19.8%	43,305	9.0%
Total	95,804	100.0%	445,295	100.0%	571,412	100.0%	459,388	100.0%	480,848	100.0%

Co-investment Arrangements Where We Act as An Executive Producer

Our co-investors are generally PRC companies engaging in drama series investment, production and/or distribution. We enter into co-investment agreements with our co-investors on a project-by-project basis. The salient terms of such agreements are as follows:

- *Details of the drama series:* Generally specify the official or tentative name of the drama series, expected number of episodes and length of each episode, and the total estimated investment. Some of our co-investment agreements also include other details such as the major cast members and the expected production schedule;
- *Investment amount and payment:* The investment amounts to be contributed by co-investors as a percentage of the total estimated investment in the drama series generally vary from 10% to 70%. Such investments are generally paid by co-investors in installments according to the milestone payment schedule set out in the relevant co-investment agreement, generally from signing of the co-investment agreement to completion of post-production;
- *Investment returns:* The co-investors share part of the net licensing fees after deduction of the relevant costs and expenses and/or distribution commission in proportion to the percentage of their investment. In addition to the proportionate licensing fees, we are generally entitled to distribution commission as a percentage of the total licensing fees specified in the co-investment agreements, ranging from 10% to 15%;

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- *Allocation of works among the investors:* Under the co-investment agreements where we act as the executive producer, we are generally responsible for (i) screenplay planning and refinement; (ii) film and production crew assembling; (iii) production management; (iv) submissions of the Application for Content Examination and the Application for Public Record; and (v) promotion and distribution of the drama series, while the co-investors are entitled to limited supervision rights, such as assigning finance staff on-site to monitor project expenditures, and conducting inspections and reviews of project accounts and records;
- *Ownership of IP rights:* The IP rights of the drama series, together with all income and derivatives arising therefrom, shall (i) belong to us, while the co-investors are only entitled to authorship rights; (ii) be jointly owned by the co-investors and us; or (iii) be allocated to us based on our respective percentage of investment, as specified in the relevant agreements;
- *Settlement schedule:* All income derived from the IP rights of the drama series after deduction of expenses and disbursements incurred will be split between us and the co-investors according to the respective percentage of investment, and paid in installments as specified in the co-investment agreements, generally from the receipt of the drama series distribution licenses to a specific date specified in the agreements;
- *Confidentiality:* All investors undertake not to disclose other co-investors' trade secrets or other business information to any third party; and
- *Termination:* The agreement may be terminated by (i) the consent of all parties; (ii) any party in the case of bankruptcy, liquidation, dissolution or ceasing operations of the other parties; and (iii) the non-defaulting party in the event of a material breach of the other parties that is not remedied within a prescribed time period.

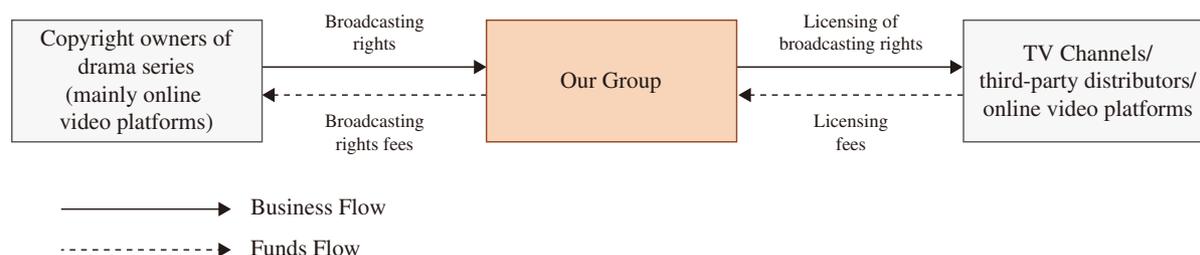
Licensing of Broadcasting Rights of Outright-purchased Drama Series

We also purchase the broadcasting rights of drama series from copyright owners which are mainly online video platforms and sometimes drama series producers and license such broadcasting rights of these drama series to TV channels, third-party distributors and sometimes online video platforms. We commenced licensing the broadcasting rights of outright-purchased drama series from online video platforms to TV channels in 2017 as these top online video platforms were exploring more monetization opportunities for their drama series. We conduct our outright-purchased drama series business on a back-to-back basis, and generally purchase the licensing rights of specified drama series from online video platforms pursuant to TV channels' or third party distributors' planned orders. We are able to effectively and efficiently match online video platforms' monetization needs with TV channels' diverse and evolving demand for drama series, leveraging our strong distribution capability and well-established relationship with both online video platforms and TV channels/third party distributors arising from our market leadership as well as Mr. Liu's and Ms. Zhang's industry experiences, reputation and influence. We maintain close and regular communications with the top five TV channels to learn about their diverse and evolving needs for different drama series, such as the genre, theme, investment size, broadcasting schedule, as well as budget. According to Frost & Sullivan, it is uncommon and not economically efficient for leading online video platforms to transact with TV channels directly, as they have to invest substantial time and efforts to learn about TV channels' diverse and evolving needs for different drama

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series. By doing so, we have also enhanced our distribution network and business relationship with top online video platforms, which have been dominant in content distribution market and have higher drama series procurement budgets. During the Track Record Period, five out of nine of our outright-purchased drama series were purchased from iQIYI. We generally purchase the first-run TV broadcasting rights of online video platforms' drama series, but may also consider to purchase the re-run drama series taking into accounts its popularity, revenue contribution and profitability. We charge TV channels, third party distributors or online video platforms a fixed-amount licensing fee of each episode for their broadcasting of these outright-purchased drama series and pay a fixed-amount licensing fee of each episode to online video platforms or drama series producers for the broadcasting rights licensed to us.

The chart below illustrates the business model of our business of licensing of broadcasting rights of outright-purchased drama series:



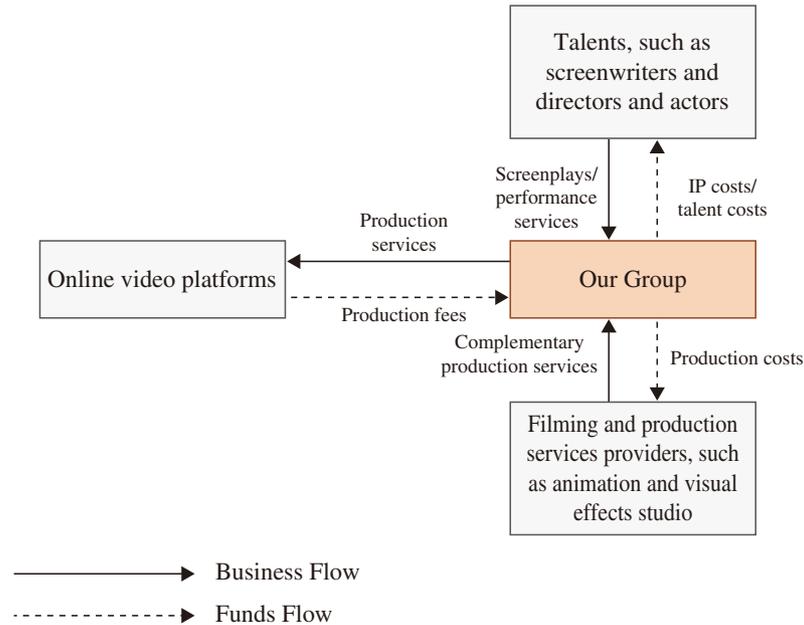
During the Track Record Period, we mainly purchased drama series pursuant to specific orders from TV channels or third-party distributors and sometimes may proactively search for popular drama series in consideration of profitability for such business. We licensed the outright-purchased broadcasting rights to TV channels, third-party distributors or online video platforms of three, three, two and one drama series for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively. During the Track Record Period, we purchased five first-run TV broadcasting rights and two first-run online video platform broadcasting rights, as well as two re-run broadcasting rights. We generated revenue from licensing of broadcasting rights of these outright-purchased drama series of approximately RMB423.1 million, RMB224.2 million, RMB183.3 million and RMB2.3 million, respectively, for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, accounting for approximately 77.9%, 33.0%, 24.0% and 0.4%, respectively, of our total revenue for the same periods.

Made-to-order Drama Series Production

To capture the growth of online video platforms and diversify our revenue sources, in March 2017, we entered into a production service agreement with one of the top three online video platforms and were engaged to undertake the production of *A Legend Of A Modern Man Gets Back To Qin Dynasty* (尋秦記), pursuant to which this top online video platform was responsible for investing in, developing and distributing such web series. This made-to-order drama series was initially broadcast on Youku in January 2018 and its accumulated online video views reached 1.9 billion as of December 31, 2019. We charge online video platforms production fees for provision of the overall production services, including cast talents and filming and production crew assembling, production management and quality control, as well as post-production editing; while we pay IP costs to screenwriters for their screenplays, talent costs to directors and actors for their performance services, and production costs to third party production services providers, such as animation and visual effects studios, for their complementary production services.

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The chart below illustrates the business model of our made-to-order drama series production business:



We commenced production of one, one, four and nil made-to-order drama series for online video platforms for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively. We expect to continue to provide production services for online video platforms, with a view to maintaining our close relationships with them and benefiting from their increasing demand for web series.

Other Businesses

During the Track Record Period, we also generated a small portion of our revenue from (i) net licensing fees received from investment in drama series as a non-executive producer; (ii) IP derivatives relating to our self-produced drama series, such as online games, and product placement we presented in our drama series for advertisers.

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The table below sets forth a breakdown of our revenue generated from other businesses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	<i>(RMB in thousands, except percentages of revenue)</i>									
Net licensing fees received from investment in drama series under co-financing as a non-executive producer	13,097	69.6%	8,339	86.5%	4,852	46.6%	4,704	92.5%	4,828	40.9%
Others	5,724	30.4%	1,301	13.5%	5,561	53.4%	381	7.5%	6,962	59.1%
Total	18,821	100.0%	9,640	100.0%	10,413	100.0%	5,085	100.0%	11,790	100.0%

Investment in Drama Series as A Non-executive Producer

Given our well-established relationship with major TV channels and top online video platforms, we are from time to time approached by drama series developers and/or producers that are usually copyright owners to fund, and assist in the distribution of, the drama series produced by them. We enter into co-financing agreements with these drama series developers or producers as a non-executive producer with limited involvement in the production and distribution of such drama series. Compared to the co-investment arrangement where we act as an executive producer, under such co-financing arrangements, we take a passive role, act as a non-executive producer, generally contribute a minority investment and promote the distribution of the drama series. We do not take control of the production process of such drama series, while are entitled to assign (i) finance staff on-site to regularly examine project expenditures, and conduct inspections and reviews of project accounts and records, and (ii) quality control staff on-site to regularly monitor the filming and editing of the drama series. We also conduct marketing and promotional activities, such as press releases, teasers and video clips, print advertisements and buzz marketing on social media platforms, to assist with the distribution of such drama series.

We enter into co-financing agreements with other drama series developers or producers on a project-by-project basis. The salient terms of such co-financing arrangements are as follows:

- ***Details of the drama series:*** The agreement generally sets out the official or tentative name of the drama series, expected number of episodes and length of each episode as well as the total estimated investment. Some of our co-financing agreements also include other details such as the major cast members and the expected production schedule;

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- ***Investment amount and payment:*** The investment amounts to be contributed by us as a percentage of the total estimated investment in the drama series vary from 5.0% to 25.0%. Such investments are generally paid by us in instalments according to the milestone payment schedule specified in the relevant co-financing agreement, generally from signing of the co-financing agreement to obtaining the relevant Television Drama Distribution License;
- ***Investment returns:*** We share part of the net licensing fees after deduction of the relevant costs and expenses and/or distribution commission in proportion to the percentage of our investment;
- ***Allocation of work among the investors:*** Under the co-financing agreements where we act as a non-executive producer, we are generally responsible for the marketing and promotion of the drama series and entitled to assign (i) finance staff on-site to regularly examine project expenditures, conduct inspections and reviews of project accounts and records, and (ii) quality control staff on-site to regularly monitor the filming and editing of the drama series; while the executive producers generally take charge of the development, production and distribution of such drama series;
- ***Ownership of IP rights:*** Typically, the IP rights of the drama series, together with all derivatives and other income arising therefrom, are either wholly owned by the executive producer or jointly owned by the executive producers and us; and
- ***Settlement schedule:*** All income derived from the IP rights of the drama series after deduction of the relevant costs and expenses incurred is split between the executive producers and us according to the respective percentage of investment in instalments specified in the co-investment agreements.

Under the co-financing arrangement, when we are entitled to copyright of the drama series, we record our revenue on a gross basis by sharing part of the licensing fees in proportion to our investment amount; otherwise when we do not have any share in the copyright of the drama series, we record our revenue on a net basis by sharing part of the licensing fees in proportion to our investment amount less such investment amount paid for the relevant drama series. In particular, under the gross method, our investment amount paid to the executive producer is recognized as prepayments under the co-investment arrangements and reclassified as inventories upon the receipt of the Television Drama Distribution License from the NRTA, and such inventories are subsequently recognized in cost of sales at the time when revenue is recognized. Under the net method, we do not record cost of sales and our investment amount paid to the executive producer is recognized as financial assets.

IP Derivatives and Product Placement

During the Track Record Period, we also provided (i) IP derivatives opportunities, such as licensing the adaptation rights of our self-produced drama series to online game developers to produce role play games; and (ii) product placement opportunities for advertisers in a variety of manners such as in-film advertising, purchase of poster space, and participation in our promoting and marketing events.

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No.	Name of the Drama Series	Business Nature	Genre	Director(s) and Major Cast Members	Number of Episodes	Our Investment Amount/ Percentage	Our Role	Co-investor/ Co-producer (commencement of business relationship)	Production Type	Revenue			Date of the First-run Broadcasting	Major Broadcast Channels		
										Year ended December 31,		Six months ended June 30, 2020				
										2017	2018				2019	
						(RMB million%)					(RMB million)					
(4)	Mr. Nanny (月魁先生)	Self-produced drama series	Romance	Xu Zongheng (徐宗政) Wu Qitong (吳奇隆) Li Xiaoran (李小冉)	45	108.6/46.0%	Production and distribution	Nanjing Huan'er (南京歡兒) (2016) Haining Qingmang (海寧青芒) (2017) Jiangsu Weiyi (江蘇維意) (2017) Zhongjian Huamei (中華華盟) (2017)	Original	-	186.3	6.3	-	August 15, 2018	August 23, 2018	Dragon TV, Zhejiang TV, Shandong TV, Shenzhen TV, Heilongjiang TV, iQIYI
(5)	Treasure Adventure (國寶奇旅) ⁽³⁾	Self-produced drama series	War/spy	Hua Qing (花菁) Liu Ye (劉燁) Yuan Shanshan (袁珊珊)	42	176.0/80.0%	Production and distribution	Omiqion Media (幸福藍海) (2016)	Original	-	204.7	0.2	October 9, 2018	February 6, 2019	Jiangsu TV, Zhejiang TV, iQIYI, Youku, Tencent Video	
(6)	Love Journey (一場遇見愛情的旅行)	Self-produced drama series	Romance	Mao Weiming (毛衛明) Chen Xiao (陳曉) Jing Tian (景甜)	52	209.7/56.0%	Production and distribution	Oxin Shiji (奇新世界) (2017) JieCheng Huashi Wangju (捷成華視網聚) (2017)	Original	-	250.2	4.0	March 12, 2019	April 20, 2019	Jiangsu TV, Zhejiang TV, iQIYI, Youku, Tencent Video	
(7)	Second Time Is A Charm (第二次也很美)	Self-produced drama series	Metropolitan	Chen Mingzhang (陳銘章) Wang Ziwen (王子文) Zhang Luyi (張魯一)	57	72.0/30.0%	Production and distribution	Tencent Pictures (騰訊影業) (2018) Shanghai Yishan (上海耀壹) (2018) Beijing Yijia (北京壹加) (2018)	Original	-	112.7	-	April 18, 2019	November 20, 2019	Dragon TV, iQIYI	
(8)	The Love Lasts Two Minds (兩世歡)	Self-produced drama series	Romance	Yu Cuihua (余翠華) Yu Menglong (于朦朧) Chen Yuqi (陳昱琪)	36	198.0/100.0%	Production and distribution	N/A	Adaptation	-	-	237.7	December 4, 2019	December 21, 2020	iQIYI	
(9)	Inside Man (局中人) ⁽⁴⁾	Self-produced drama series	War/spy	Liu Yu (劉燾) Zhang Yishan (張一山) Pan Yueming (潘粵明)	49	208.4/70.0%	Production and distribution	Shanghai Chengxin (上海橙芯) (2018)	Original	-	-	243.5	December 9, 2019	June 23, 2020	Jiangsu TV, Zhejiang TV, iQIYI, Youku, Tencent Video	

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No.	Name of the Drama Series	Business Nature	Genre	Director(s) and Major Cast Members	Number of Episodes	Our Investment Amount/ Percentage	Our Role	Co-investor/ Co-producer (commencement of business relationship)	Production Type	Revenue			Date of the First-run Broadcasting	Major Broadcast Channels	
										Year ended December 31,		Six months ended June 30, 2020			
										2017	2018				2019
						(RMB million/%)									
(10)	Lost Love In Times (醉玲瓏) ⁽⁵⁾	Outright-purchased drama series/ Co-financing arrangement where we act as a non-executive producer	Romance	Lin Yufen (林玉芬) (梁懿權) Yu Cuihua (余翠華) Ren Haitao (任海濤) Liu Shishi (劉詩詩) William Chan (陳偉霆)	56	68.3/20.0%	Distribution	New Pictures (新派系) (2017)	Adaptation	348.7	-	4.1	July 13, 2017	Youku, Tencent Video, iQIYI, Dragon TV	
(11)	Little Sweetheart (小情人)	Outright-purchased drama series	Romance	Liu Xin (劉新) Hu Jun (胡軍) Jin Chen (金晨)	40	N/A ⁽⁶⁾	Distribution	N/A ⁽⁶⁾	N/A ⁽⁶⁾	17.0	-	-	March 22, 2017	May 29, 2017	iQIYI, Shenzhen TV
(12)	My P.E. Teacher (我的體育老師)	Outright-purchased drama series	Romance	Lin Yan (林妍) Zhang Jiayi (張嘉譯) Wang Xiaochen (王曉晨)	38	N/A ⁽⁶⁾	Distribution	N/A ⁽⁶⁾	N/A ⁽⁶⁾	57.4	6.6	-	December 23, 2016	November 13, 2017	Youku, Tencent Video, iQIYI, Sohu, Zhejiang TV, Shenzhen TV, Southeast TV
(13)	Untouchable Lovers (鳳囚凰)	Outright-purchased drama series	Romance	Li Hui Zhu (李嘉珠) Guan Xiaotong (關曉彤) Song Weilong (宋威龍)	54	N/A ⁽⁶⁾	Distribution	N/A ⁽⁶⁾	N/A ⁽⁶⁾	-	120.3	-	November 20, 2017	January 14, 2018	iQIYI, MGTV, Hunan TV
(14)	Mask (面具)	Outright-purchased drama series	War	Lou Jian (樓健) Zu Feng (祖峰) Hou Yong (侯勇)	38	N/A ⁽⁶⁾	Distribution	N/A ⁽⁶⁾	N/A ⁽⁶⁾	-	59.2	-	January 25, 2018	March 2, 2018	iQIYI, Beijing TV, Shenzhen TV, Hubei TV, Guangxi TV, Southeast TV, CCTV 8
(15)	The Drug Hunter (獵毒人)	Outright-purchased drama series	Crime	Tian Yi (天毅) Yu Hwei (于和偉) Zhang Danfeng (張丹峰)	50	N/A ⁽⁶⁾	Distribution	N/A ⁽⁶⁾	N/A ⁽⁶⁾	-	28.7	-	June 25, 2018	July 6, 2018	iQIYI, Youku, Tencent Video, Dragon TV, Jiangsu TV
(16)	The Legends (招搖)	Outright-purchased drama series	Period	Zhen Weiren (鄭偉文) Bai Lu (白鹿) Xu Kai (許凱)	56	N/A ⁽⁶⁾	Distribution	N/A ⁽⁶⁾	N/A ⁽⁶⁾	-	-	140.1	December 29, 2018	January 28, 2019	iQIYI, Hunan TV

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No.	Name of the Drama Series	Business Nature	Genre	Director(s) and Major Cast Members	Number of Episodes	Our Investment Amount/ Percentage	Our Role	Co-investor/ Co-producer (commencement of business relationship)	Production Type	Revenue			Date of the First-run Broadcasting	Major Broadcast Channels
										Year ended December 31,		Six months ended June 30, 2020		
										2017	2018			
						(RMB million)								
(30)	Dating In The Kitchen (我喜歡你)	Made-to-order drama series	Metropolitan romance	Chen Chang (陳暢) Lin Yushen (林雨申) Zhao Lusi (趙露思)	24	N/A ⁽¹⁰⁾	Production	N/A ⁽¹⁰⁾	Adaptation	-	-	-	July 3, 2020	Tencent Video
Web Series														
(1)	A Legend Of A Modern Man Gets Back To Qin Dynasty (大秦記)	Made-to-order drama series production	Period fantasy	Liang Gunguan (梁國冠) Chen Xiang (陳翔) Guo Xiaoting (郭曉婷)	40	N/A ⁽¹⁰⁾	Production	N/A ⁽¹⁰⁾	Adaptation	5.2	-	-	N/A ⁽¹²⁾	January 18, 2018 Youku
Total										542.9	669.5	762.5	577.5	

Notes:

- (1) The date of the Television Drama Distribution License represents the date on which a particular drama series is approved by the relevant local counterparts of the NRTA in the PRC for distribution.
- (2) The Legend Of Zu Mountain (蜀山戰紀之劍俠傳奇) was a pre-Track Record Period drama series, and did not record revenue during the Track Record Period. It was initially broadcast on September 22, 2015 on iQIYI, where a distribution license is not required.
- (3) Treasure Adventure (國寶奇旅) is expected to generate revenue of RMB3.2 million for the six months ending December 31, 2020 and RMB2.4 million for the year ending December 31, 2021.
- (4) Inside Man (局中人) is expected to generate revenue of RMB5.9 million for the six months ending December 31, 2020 and RMB3.6 million for the year ending December 31, 2021.
- (5) Lost Love In Times (醉玲瓏) was initially a co-financed drama series where we act as a non-executive producer with an initial investment percentage of 20.0%. We subsequently purchased its broadcasting right and distributed such right to iQIYI, Tencent Video and Youku.
- (6) Represented the drama series we purchased from online video platforms, the broadcasting rights of which were licensed to TV channels.
- (7) A Sword Across The Sky (一劍橫空) was initially a co-financed drama series where we act as a non-executive producer with an initial investment percentage of 25.0%. We subsequently purchased its broadcasting right and distributed it to iQIYI.
- (8) Princess Agents (楚喬傳) was initially a drama series invested in by us with an investment percentage of 5%. We subsequently transferred our proportion of investment in Princess Agents and its related rights thereof to our counterparty (the executive producer) in 2017.
- (9) Represented the drama series invested in by us where we acted as a non-executive producer and were not responsible for distribution.
- (10) The made-to-order drama series were invested in and distributed by online video platforms.
- (11) Although Customer First (獵心者) is a made-to-order drama series produced for iQIYI, we are entitled to half of the licensing fees for TV channels distribution by us as provided in the relevant production services agreement.
- (12) Web series do not need to apply for or obtain any distribution license.
- (13) We are a distribution agent for this drama series.

Our Drama Series to be Broadcast

As of the Latest Practicable Date, we had produced and/or distributed but yet to broadcast two TV series and one web series. The table below sets forth certain details of our drama series to be broadcast as of the Latest Practicable Date:

Name of the Drama Series	Business Nature	Genre	Director(s) and Major Cast Members	Our Role	Production Type	Number of Episodes	Actual/Expected Broadcast Channel	Status as of the Latest Practicable Date	Actual/Expected Broadcasting Time
TV series									
(1) My Bargain Queen (我的砍價女王)	Self-produced drama series	Metropolitan romance	Zhou Xiaopeng (周曉鵬) Lin Gengxin (林更新) Wu Jinyan (吳謹言)	Production and distribution	Adaptation	40	Youku	Post-production	In the fourth quarter of 2021
(2) Breath Of Destiny (一起深呼吸)	Made-to-order drama series production ⁽¹⁾	Medical romance	Dou Qi (斗琪) Qi Wei (戚薇) Yang Youning (楊祐寧)	Production and distribution ⁽²⁾	Original	40	iQIYI	Post-production	In the first quarter of 2021
Web series									
(1) Spirit Realm (靈域)	Made-to-order drama series production ⁽¹⁾	Fantasy	Liang Guoguan (梁國冠) Fan Chengcheng (范丞丞) Cheng Xiao(程瀟)	Production	Adaptation	36	iQIYI	Post-production	In the first quarter of 2021

Notes:

- (1) The made-to-order drama series were invested in and distributed by online video platforms.
- (2) Although Breath Of Destiny (一起深呼吸) is a made-to-order drama series produced for iQIYI, we are entitled to half of the licensing fees for the distribution on TV channels by us as provided in the relevant production services agreement.

The followings are the posters of certain of our drama series to be broadcast as of the Latest Practicable Date:



A metropolitan romance story, where a bargainer and the boss of a hotel got acquainted and fell in love with each other in the course of business cooperations and supported each other to go through all hardships.



A medical romance story, where a group of Chinese doctors, providing medical foreign aid on a Pacific island, confront natural disasters and rediscover themselves.



A period fantasy story, where a supernatural and amnesia youngster and his friends protect the spirit land from invaders during his discovery adventure of his origin and fate.

BUSINESS

Our Pipeline Drama Series Projects

As of the Latest Practicable Date, we had three TV series and three web series that had applied for public record and registered with the local counterparts of the NRTA. The table below sets forth certain details of our pipeline drama series projects as of the Latest Practicable Date:

Proposed Name of the Drama Series	Genre	Actual/ Estimated Number of Episodes	Copyright Ownership of Screenplay	Status as of the Latest Practicable Date	Time of Public Record
TV Series					
(1) Hello Baby (你好寶貝)	Metropolitan	40	Our Company	Pre-production	November 2018
(2) Party Group (黨小組)	War/spy	40	Our Company	Under production	June 2020
(3) My Mr. Cat (我的貓先生)	Metropolitan romance	30	Our Company	Pre-production	September 2020
Web Series					
(1) Flying To The Moon (月歌行)	Period fantasy	40	Our Company	Under production	April 2020
(2) Our Destiny In Self-Redemption (浮圖緣)	Period romance	30	Our Company	Pre-production	April 2020
(3) Handsome Young Master (公子傾城)	Period romance	24	Our Company	Under production	June 2020

In addition to the drama series disclosed in the three tables above, as of the Latest Practicable Date, we had engaged screenwriters to create five original screenplays based on our own initial ideas and 20 adapted screenplays based on licensed IPs. Some of our IP reserves are licensed from industry-recognized writers or screenwriters, including The Wind Catcher (捕風者) (a spy novel), On The Stream Of Silence And Loneliness (在寂與寞的川流上) (a career and romance novel), Where Are You From (客從何處來) (a romance and mystery novel), Young Master Imprisoned In The Lake (湖中公子) (a period romance novel), Legend Of Yong Ye (永夜) (a period fantasy novel) and Love And Hate (沉魚記) (a period spy novel). We expect that our drama series to be developed from such superior IPs would gain audience popularity and become profitable.

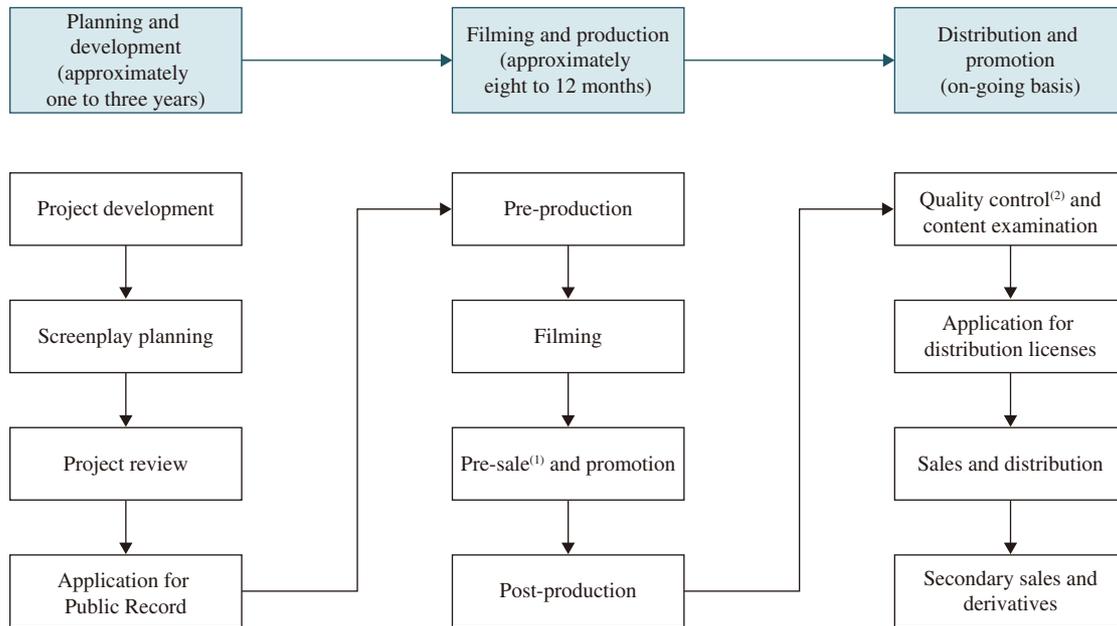
OUR BUSINESS PROCESS

Our involvement in a particular drama series project depends on our role and/or the terms specified in the agreements with co-investors or online video platforms, as applicable.

Self-produced Drama Series

We typically involve in (i) planning and development; (ii) filming and production; and (iii) distribution and promotion for our self-produced drama series.

The diagram below illustrates the typical project workflow of our self-produced drama series:



Notes:

- (1) Pre-sale may take place prior to the completion of production.
- (2) We conduct quality control for each self-produced drama series since its filming and production until the delivery of its master copy on an ongoing basis.

Planning and Development

Project Development

The initial stage of drama series development starts with the concept of a potential drama series. Our in-house development department regularly conducts market research to understand the audience preferences and market trends, based on which they develop a concept based on various sources such as literary works, animations, mobile games, real-life stories and social events, and formulate a proposed topic or theme on screenplay development.

Our in-house project initiation committee (立項委員會), comprising our senior management and the head of each of our production and distribution departments, will review the project proposal based on: (i) whether the concept caters to the entertainment preferences of target audiences and the prevailing social values; (ii) whether the concept appeals to the major TV channels and online video platforms; (iii) whether the concept is attractive to renowned directors, actors and production studios; (iv) whether the concept creates synergy with our existing drama series projects; and (v) the reputation and previous works of the screenwriter candidate(s).

BUSINESS

Apart from our own initiatives, we may be approached by other industry players with project proposal where we participate as a co-investor and executive producer. See “— Our Business Model — Licensing of Broadcasting Rights of Self-produced Drama Series — Co-investment Arrangements Where We Act as An Executive Producer.” We may also be approached by major online video platforms with project proposal to provide production services for their drama series. See “— Our Business Model — Made-to-order Drama Series Production.” The decision making process of whether to participate in these types of projects is similar to that of projects developed by us, while we also consider the financial, production and distribution capabilities, and the industry reputation and resources of the majority investor as well as whether there are future cooperation opportunities with such majority investor.

Screenplay Planning

After the project proposal is approved by the project initiation committee, our development department proceeds with engagement of the screenwriter and/or IP licensing, particularly those well-recognized screenwriters who have established long-term relationships with us. Our screenplay is developed by (i) engaging a screenwriter to write an original screenplay based on our own initial ideas; (ii) seeking licensing from IP owners and engaging a screenwriter to write an adapted screenplay, or (iii) purchasing a screenplay directly from the screenwriter.

We closely monitor every step of the screenplay development process, from story treatment, character breakdown and episode outline to the draft screenplay of the first five or 10 episodes, and then to the draft screenplay of the entire project. Our in-house content production studios review the draft screenplay of the first five or 10 episodes from different perspectives to analyze the feasibility and potential of the project, in order to make a well-informed decision as to whether to proceed. When necessary, we consult external technical advisors with particular expertise to provide professional opinions on the draft screenplay to ensure authenticity of the story-line and realism of character portrayal. During the screenplay development process, we have initial communications with major TV channels and top online video platforms to better evaluate the commercial value of the project and sometimes secure the distribution channels for certain projects.

Project Review

A drama series project will only be greenlit by our senior management if it meets the appropriate criteria to go into physical production or for us to co-invest in it. The final approval is based on a review of (i) the draft screenplay; (ii) the profit forecast, including cost and revenue projections; (iii) analysis of comparable drama series, including their TV viewership ratings and online video views; and (iv) the director, producer and major cast member candidates.

Application for Public Record

Once our project proposal and draft screenplay are internally approved, we need to file the Application for Public Record (備案公示申請) to the NRTA in accordance with the Administrative Measures of Record-filing and Announcement for Filming and Production of Drama Series (《電視劇拍攝製作備案公示管理辦法》). As one of the 73 holders of Television Drama Production Permit (Class A) as of December 31, 2019, which was obtained in April 2017 and renewed in April 2019, we do not have to apply for the relevant individual production permit prior to the commencement of each drama series production.

Filming and Production

Pre-production

Pre-production primarily involves (i) casting; (ii) engagement of other production crew, such as filming, lighting, props, riggings, costumes, make-ups, settings, art, martial arts and stunt coordination; (iii) location scouting; (iv) formulation of filming schedule and budget plan; (v) design and construction of production sets; (vi) purchase and lease of filming equipment and props; and (vii) purchasing accident insurance. During this stage, the screenwriter may continue to refine the screenplay and actors may receive special training or coaching if necessary.

We reach out to potential director, producer and major cast member candidates to seek cooperation opportunities. Major cast members are selected based on various factors including suitability with the role, popularity, fee quote and availability, after taking into consideration of the target audiences. Directors and producers are selected mainly based on their experience and expertise as well as availability. After the draft screenplay of the entire project becomes available, we also arrange them to review and provide advice based on production needs. We generally have the right to select directors and actors for our self-produced drama series, while we also take into consideration the recommendations of our counterparties as stipulated in the relevant agreements.

Depending on the terms of the co-investment agreements, the filming schedule, budget plan and major cast members may need to be approved by all co-investors before commencement of filming. When we are providing production services for made-to-order drama series, the filming schedule, budget plan and major cast members need to be approved by the investing online video platforms.

Filming

During the filming stage, the producer maintains frequent communications with the director, major cast members and other production crew to evaluate project progress and ensure that the project will be completed within budget and on schedule. In addition, we assign finance, production management and quality control staff on-site to closely monitor project expenditures.

Our productions are typically filmed at a combination of physical locations and sound stages or back-lot sets. We do not own such filming locations and rent various locations based primarily on the themes and genres of our drama series from third party tenants. Production shoots are typically scheduled for a number of full days based on the total production budget of the project, availability of actors, weather conditions, and setting conditions. The actors are called into sessions based on their performance call times when they arrive on set for make-up, costume and other preparations as needed. The directors and other production crew coordinate with each other to deliver a multitude of alternative shots and scenarios to be selected for inclusion in the final product.

Presale and Promotion

We generally have initial communications with TV channels and/or online video platforms to pre-sell our self-produced drama series at an early stage of production. The presale can, on one hand, secure the prime time (黃金檔, usually from 19:30 to 22:00) of broadcasting of TV channels in advance, and on the other hand, fund the production of the drama series in part.

We also typically promote our drama series at the production stage by being visited and interviewed by media and posting video clips on major online social media and video platforms to attract attention from mass media and target audiences and build up our target audience base before our drama series are broadcast.

Post-production

After filming is completed, the director and editors select the scenes to assemble the final product. Post-production primarily involves (i) video and sound editing; (ii) voice dubbing; (iii) creating and recording music; (iv) sound mixing; (v) adding special effects; and (vi) color grading. During the post-production stage, we regularly review the edited materials and sample video clips and provide artistic, commercial and censorship opinions on the content and editing of the drama series.

Distribution and Promotion

Quality Control and Content Examination

Once the post-production work is completed, our production department and distribution and promotion department will conduct an overall evaluation of the quality of the drama series based on the applicable laws and regulations and our internal quality-control standards. We designate experienced professionals comprising internal quality control staff and external counsels to regularly review and evaluate the quality of the product. Any quality-related issue discovered must be rectified before the drama series is submitted to the relevant government authorities for their review.

Upon completion of post-production of a TV series, we or our counterparty as specified in the relevant agreement needs to submit the Application for Content Examination (內容審查申請) to the provincial counterpart of the NRTA. See “Regulatory Overview — Regulations in Relation to Production and Distribution of Television Programmes.”

Application for Distribution License

Subsequently, we need to obtain the Television Drama Distribution License from the relevant provincial counterpart of the NRTA. In addition, if a TV series will be broadcast on a satellite TV channel during prime time, the relevant satellite TV channel needs to obtain an approval from the NRTA before broadcasting. For online broadcasting of a drama series, the relevant online video platform or us, as the producer, also needs to complete the record filing with the relevant provincial counterpart of the NRTA before broadcasting. During the Track Record Period, none of our applications for such distribution license was declined by the relevant competent authority. See “Regulatory Overview — Regulations in Relation to Production and Distribution of Television Programmes” and “Regulatory Overview — Regulations in Relation to Production of Web Series.”

Sales and Distribution

Upon obtaining the Television Drama Distribution License, we will sell and distribute our drama series to interested TV channels and/or online video platforms.

BUSINESS

We are generally responsible for the marketing and promotion activities of the drama series we distribute. The marketing and promotion activities generally include press releases, press conferences, teasers and video clips, media visits and interviews, appearances of the directors and major cast members, print advertisements and/or buzz marketing on social media platforms.

The NRTA has implemented a policy of “One Series, Two Satellite TV Channels” (“一劇兩星”), effective on January 1, 2015, pursuant to which a TV series can only be broadcast simultaneously on no more than two satellite TV channels during prime time and the number of episodes broadcast during a night shall not exceed two. As of June 30, 2020, for nine out of 11 of our self-produced drama series that had completed production, the first-run TV broadcasting rights were licensed to satellite TV channels.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any delay or reject in the distribution or broadcast of our drama series as a result of direct or indirect orders from the relevant PRC government authorities.

Due to our longstanding and well-established distribution networks with major TV channels and top online video platforms, we are from time to time approached by other drama series developers or producers to assist with the distribution of their drama series, under which circumstance we act as a non-executive producer and contribute a minority investment in such drama series. See “— Our Business Model — Other Businesses — Investment in Drama Series as A Non-executive Producer.”

Secondary Sales and Derivatives

After the completion of the first-run broadcast, the drama series may also be licensed to, and broadcast on, other TV channels and/or online video platforms. The licensing fee for the re-run is generally much lower than that for the first-run, and the times of re-run depend primarily on the popularity of our drama series.

When our drama series gain or are expected to gain popularity, we may consider offering IP derivatives opportunities by licensing the adaptation rights of such drama series. We work closely with our IP derivative customers to coordinate the advertising and launching of IP derivatives with the marketing and promotion of our drama series. IP derivatives are generally launched immediately after the initial broadcasting of the relevant TV series. See “— Our Business Model — Other Businesses — IP Derivatives and Product Placement.”

Outright-purchased Drama Series

For our outright-purchased drama series, we typically only involve in the sales and distribution process as stated above and sometimes may undertake certain promotion activities.

Made-to-order Drama Series

Our made-to-order drama series production typically only involves in the filming and production as well as the promotion stages as stated above. To a less extent, we may sometimes assist online video platforms with the projects planning and development. Normally we are invited by online video platforms to produce web series, while they are responsible for investing in, developing and distributing such web series. As a result, we are able to secure the distribution of such web series and receive a portion of the production fees in installments at an early stage, which helps us to maintain our liquidity and lower the

risks of unsuccessful distribution. Prior to the production of web series, rather than obtaining the Television Drama Production Permit, we need to file and register certain key information, such as the name, genre, synopsis, production budgets, potential broadcasting platform, or total compensation of the actors, of the web series with, and/or obtain the relevant approvals from, the provincial counterparts of the NRTA, depending on the investment amounts. See “Regulatory Overview — Regulations in Relation to Production of Web Series.”

PRICING

In determining the licensing fee of our self-produced drama series, we generally consider the total investment, the genre, the distribution channels (TV channels or online video platforms) and their reputation and relationships with us, the broadcasting schedules (first-run or re-run broadcast and the broadcasting time slot), the prevailing market price, the target audience base, the expected level of popularity, as well as our target profit margin. See “Financial Information — Description of Key Statement of Profit or Loss Items — Revenue.” Generally, the amount charged for first-run broadcasting rights is much higher than subsequent distributions, and we normally target to cover our total investment by the licensing fees received from first-run broadcast. During the Track Record Period, except for Treasure Adventure (國寶奇旅) which was broadcast in February 2019, all of the total investments of our self-produced drama series were covered by revenue generated from their respective first-run broadcasting right. The shortfall not covered by the first-run licensing revenue of Treasure Adventure (國寶奇旅) was approximately RMB10.4 million, primarily as a result of (i) the lower licensing fees as online video platforms generally reduced their purchase prices of TV series per episode in 2019, which was in line with the market trend, and drama series with war/spy genre and theme are relatively less popular among online video platforms; and (ii) the higher actors’ remuneration as it was produced before actors’ remuneration had been substantially reduced pursuant to relevant government policies. Such shortfall is expected to be compensated by a total of (i) revenue of RMB4.5 million generated from re-run broadcast; (ii) investment income contributed by a co-investor of RMB4.1 million; and (iii) expected revenue to be generated of RMB5.6 million for the years ending December 31, 2020 and 2021. During the Track Record Period, the licensing fees of the first-run broadcasting rights of our self-produced drama series generally ranged (i) from RMB1.0 million to RMB2.6 million per episode for TV channels; and (ii) from RMB0.4 million to RMB7.0 million per episode for online video platforms. According to Frost & Sullivan, the licensing fees of the first-run of self-produced drama series normally range from RMB0.8 million to RMB4.0 million per episode for TV channels.

In determining the licensing fee of our outright-purchased drama series, we generally consider the costs of purchases of the relevant broadcasting rights, the broadcasting time slot (prime time or otherwise), the video views, the prevailing market price, and our target profit margin. During the Track Record Period, the licensing fees of the first-run broadcasting rights of our outright-purchased drama series generally ranged from RMB0.5 million to RMB3.4 million per episode. According to Frost & Sullivan, the licensing fees of the first-run of outright-purchased drama series normally range from RMB0.1 million to RMB3.0 million per episode.

For made-to-order drama series, we charge online video platforms a pre-determined fixed fee based on negotiations between the parties on a cost-plus basis, taking into consideration our target profit margin for the production services we provide. During the Track Record Period, our pre-determined fixed fees of made-to-order drama series generally ranged from RMB2.5 million to RMB7.5 million per episode. According to Frost & Sullivan, pre-determined fixed fees of made-to-order drama series normally range from RMB0.5 million to RMB5.0 million per episode.

BUSINESS

During the Track Record Period, the licensing fees of the re-run of our drama series generally ranged from RMB800 to RMB0.2 million per episode for TV channels; while according to Frost & Sullivan, the licensing fees of the re-run of drama series normally range from RMB50,000 to RMB0.6 million per episode for TV channels.

The above industry pricing ranges are derived from interviews with industry participants by Frost & Sullivan, and may not be indicative of all the licensing fees and pre-determined fixed production services fees exhaustively on the market. As such, the ranges of the licensing fees and the pre-determined fixed production services fees of our drama series may not fall completely within, but are overall commensurate with, the corresponding industry ranges.

SALES AND MARKETING

Our sales and marketing strategies focus on maintaining close and smooth relationships with major TV channels and top online video platforms, as well as exploring new distribution channels by attending industry trade exhibitions. We have an internal marketing and promotion team responsible for formulating sales and marketing strategies, engaging marketing agencies to execute marketing and promotion plans and overseeing the execution of such plans by marketing agencies. Our marketing and promotion team also keeps track of the market trend of the drama series industry to capture new business opportunities. As of June 30, 2020, our marketing and promotion team consisted of six employees, led by Ms. Zhang with approximately 20 years' relevant industry experiences.

We generally engage Independent Third Party marketing service providers to promote our drama series. The marketing and promotion activities of our drama series generally include press releases, marketing campaigns, drama series release conferences, media interviews with the major cast members, advertisements, such as posters, trailers and billboards, and/or buzz marketing on social media platforms. The marketing and promotion activities of a drama series generally begin prior to filming activities and may last for several months after its initial broadcasting. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, our selling and distribution expenses for marketing and promotional activities amounted to approximately RMB24.4 million, RMB75.8 million, RMB33.5 million and RMB32.4 million, respectively, in line with the number of TV series distributed, and web series, produced, by us that were broadcast for the same periods.

INVENTORY

Overview

Our inventory comprises 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). We monitor the inventory level on a regular basis in order to ensure it can meet our production and distribution requirements. 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 as of the same dates, respectively.

We purchase a screenplay when and if we consider that it has potential for future production and its price is within our budget. It is our policy to reserve sufficient number of screenplays to meet our continuous production and distribution needs, generally ranging from 20 to 30 IP rights simultaneous. In case we purchase a screenplay from a licensor, we will also seek authorization from the relevant screenwriter to ensure the copyrights are duly transferred to us.

BUSINESS

Our production department and distribution and promotion department closely monitor and adjust the production and distribution schedules for the drama series in stock in order to minimize the risk of exposure to obsolete stock.

Inventory Provision Policy

Our management reviews the conditions of our inventories and make provision for obsolete and slow-moving inventory items. We carry out an inventory review on a project-by-project basis at the end of each reporting period and make provisions for obsolete projects. Net realizable value of inventories is the estimated selling price in the ordinary business, less estimated costs of completion and selling expenses. These estimates are based on the current market conditions and our historical experience in producing and distributing drama series of a similar nature. Our management reassesses the estimation at the end of each reporting period.

OUR CUSTOMERS

While the consumers of drama series are the general audiences who watch such drama series, our revenue mainly comes from TV channels, online video platforms and third party distributors that are mainly drama series producers and distributors. The table below sets forth our customers in respect of each of our primary sources of revenue:

<u>Primary Sources of Revenue</u>	<u>Customers</u>
Licensing revenue from our self-produced and outright-purchased drama series	TV channels, online video platforms and third party distributor
Production revenue from production services for made-to-order drama series	Online video platforms

Top Customers

We had had relationships with our five largest customers for approximately one to six years as of June 30, 2020, which include major TV channels and online video platforms. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, revenue from our five largest customers accounted for approximately 83.3%, 95.5%, 83.5% and 99.1%, respectively, of our total revenue, and revenue from our largest customer accounted for approximately 22.4%, 36.0%, 27.2% and 69.2%, respectively, of our total revenue for the same periods. We became acquainted and established solid business relationships with our customers primarily attributable to Mr. Liu's and Ms. Zhang's over 20 years of industry experience, reputation and influence, as well as our sales and marketing staff's continuous efforts to explore cooperation opportunities with TV channels and online video platforms. In light of our quality and popular drama series, enhanced market leadership and well-established relationships with top TV channels and online video platforms, more industry participants began to approach us to purchase best-selling drama series, such as third party distributors. We generally settle with our five largest customers by wire transfer or banker's acceptance and grant to them credit terms ranging from 15 to 365 days.

BUSINESS

The tables below set forth our five largest customers for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020:

Year Ended December 31, 2017

Customer	Nature of Revenue	Amount of Revenue <i>(RMB'000)</i>	As a Percentage of Our Total Revenue	Commencement of Business Relationship	Background
Customer A/ Supplier D	Licensing of broadcasting rights of outright-purchased drama series/ made-to-order drama series production	121,405	22.4%	2017	A technology and e-commerce conglomerate located in Hangzhou, Zhejiang Province with total net assets of approximately RMB928.5 billion as of June 30, 2020, listed on both the New York Stock Exchange and the Hong Kong Stock Exchange, founded in 1999. It owns one of the top three online video platforms.
iQIYI	Licensing of broadcasting rights of outright-purchased drama series	116,226	21.4%	2014	One of the top three online video platforms located in Beijing with total net assets of approximately RMB6.3 billion as of June 30, 2020, listed on Nasdaq in the U.S., founded in 2007
Customer B	Licensing of broadcasting rights of outright-purchased drama series	116,226	21.4%	2017	A technology and social media conglomerate located in Shenzhen, Guangdong Province with total net assets of approximately RMB606.3 billion as of June 30, 2020, listed on the Hong Kong Stock Exchange, founded in 1998. It operates one of the top three online video platforms.
Customer C	Licensing of broadcasting rights of outright-purchased drama series	57,384	10.6%	2016	A state-owned radio and television media group located in Hangzhou, Zhejiang Province with registered capital of RMB309.0 million, founded in 2001. It operates one of the top five TV channels.
Customer D	Licensing of broadcasting rights of self-produced drama series	40,910	7.5%	2016	A third party distributor located in Changzhou, Jiangsu Province with registered capital of RMB12.5 million, founded in 2013. It is a wholly-owned subsidiary of a public media group listed on the Shenzhen Stock Exchange in the PRC.
Total		452,151	83.3%		

BUSINESS

Year Ended December 31, 2018

Customer	Nature of Revenue	Amount of Revenue <i>(RMB'000)</i>	As a Percentage of Our Total Revenue	Commencement of Business Relationship	Background
iQIYI	Licensing of broadcasting rights of self-produced drama series	244,703	36.0%	2014	One of the top three online video platforms located in Beijing with total net assets of approximately RMB6.3 billion as of June 30, 2020, listed on Nasdaq in the U.S., founded in 2007
Customer C	Licensing of broadcasting rights of self-produced and outright-purchased drama series	175,651	25.9%	2016	A state-owned radio and television media group located in Hangzhou, Zhejiang Province with registered capital of RMB309.0 million, founded in 2001. It operates one of the top five TV channels.
Customer E	Licensing of broadcasting rights of outright-purchased drama series	120,283	17.7%	2017	A state-owned TV channel located in Changsha, Hunan Province with registered capital of approximately RMB9.2 billion, founded in 2000. It is one of the top five TV channels.
Customer F	Licensing of broadcasting rights of outright-purchased drama series	59,158	8.7%	2016	A state-owned TV channel located in Beijing with registered capital of RMB1.0 billion, founded in 1979. It is one of the top five TV channels.
Customer G	Licensing of broadcasting rights of self-produced drama series	49,011	7.2%	2018	A state-owned broadcasting and media group located in Shanghai with registered capital of RMB5.0 billion, founded in 2001. It operates one of the top five TV channels.
Total		<u>648,806</u>	<u>95.5%</u>		

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Year Ended December 31, 2019

Customer	Nature of revenue	Amount of revenue <i>(RMB'000)</i>	As a percentage of our total revenue	Commencement of Business Relationship	Background
iQIYI	Licensing of broadcasting rights of self-produced drama series	208,484	27.2%	2014	One of the top three online video platforms located in Beijing with total net assets of approximately RMB6.3 billion as of June 30, 2020, listed on Nasdaq in the U.S., founded in 2007
Customer C	Licensing of broadcasting rights of self-produced drama series	172,824	22.6%	2016	A state-owned radio and television media group located in Hangzhou, Zhejiang Province with registered capital of RMB309.0 million, founded in 2001. It operates one of the top five TV channels.
Customer H	Licensing of broadcasting rights of outright-purchased drama series	140,094	18.3%	2019	A private third party distributor located in Beijing controlled by an individual, with registered capital of RMB10.0 million, founded in 2017
Customer B	Licensing of broadcasting rights of self-produced drama series	68,196	8.9%	2017	A technology and social media conglomerate located in Shenzhen, Guangdong Province with total net assets of approximately RMB606.3 billion as of June 30, 2020, listed on the Hong Kong Stock Exchange, founded in 1998. It operates one of the top three online video platforms.
Customer I	Licensing of broadcasting rights of self-produced drama series	49,002	6.5%	2019	A private third party distributor located in Yichun, Jiangxi Province controlled by an individual, with registered capital of RMB1.0 million, founded in 2018
Total		638,600	83.5%		

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Six Months Ended June 30, 2020

Customer	Nature of revenue	Amount of revenue <i>(RMB'000)</i>	As a percentage of our total revenue	Commencement of Business Relationship	Background
iQIYI	Licensing of broadcasting rights of self-produced and outright-purchased drama series/ made-to-order drama series production	401,278	69.2%	2014	One of the top three online video platforms located in Beijing with total net assets of approximately RMB6.3 billion as of June 30, 2020, listed on Nasdaq in the U.S., founded in 2007
Customer C	Licensing of broadcasting rights of self-produced drama series	67,523	11.6%	2016	A state-owned radio and television media group located in Hangzhou, Zhejiang Province with registered capital of RMB309.0 million, founded in 2001. It operates one of the top five TV channels.
Customer A/ Supplier D	Licensing of broadcasting rights of self-produced drama series	60,708	10.5%	2017	A technology and e-commerce conglomerate located in Hangzhou, Zhejiang Province with total net assets of approximately RMB928.5 billion as of June 30, 2020, listed on both the New York Stock Exchange and the Hong Kong Stock Exchange, founded in 1999. It owns one of the top three online video platforms.
Customer J	Licensing of broadcasting rights of self-produced drama series	40,494	7.0%	2020	A private third party distributor located in Dongyang, Zhejiang Province controlled by individuals, with registered capital of RMB10.0 million, founded in 2018
Customer K	Licensing of broadcasting rights of outright-purchased drama series	4,828	0.8%	2016	A private third party distributor located in Yining, Xinjiang Uygur Autonomous Region controlled by an individual, with registered capital of RMB5.0 million, founded in 2016
Total		<u>574,831</u>	<u>99.1%</u>		

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Except iQIYI as disclosed above, all of our five largest customers during the Track Record Period are Independent Third Parties. To the best of the knowledge of our Directors, except iQIYI, none of our Directors, their respective associates or any shareholder who owns more than 5% of our issued share capital had any interest in any of our five largest customers during the Track Record Period. Save as disclosed above, to the best of the knowledge of our Directors, none of the Company, its subsidiaries, their shareholders, directors, senior management, and any of their respective associates has any other past or present relationships, such as business, employment, family or financing, with our five largest customers (save for being our customers) during the Track Record Period.

Historically, we have maintained well-established relationships with our customers and have not suffered any substantial loss due to their default. We intend to further strengthen and deepen our relationships with our customers to maintain our leading market position and profitable growth.

Business Relationship with iQIYI

iQIYI was among our five largest customers during the Track Record Period and Taurus Holding, a subsidiary of iQIYI Inc., has been our substantial shareholder since November 2018.

iQIYI is one of the largest Chinese online video platforms listed in the U.S., with approximately 476.0 million average MAUs in 2019. According to Frost & Sullivan, 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. iQIYI's strategic partners include various leading media service providers and producers, such as Netflix and Fuji TV, and it has expanded its global footprints to approximately 10 countries. Given iQIYI's market leadership and great demand for drama series, in addition to licensing our self-produced and outright-purchased drama series to iQIYI, we also provide production services for iQIYI to produce made-to-order drama series. iQIYI's large audience base also contributes to the success of our quality drama series. We are collaborating with iQIYI to tap into new businesses, such as our copyright licensing business. See “— Our Strategies — Continue to further discover potential opportunities from online video platform and explore business innovation.”

Salient Terms of Our Framework Agreements with iQIYI

We have entered into several framework agreements with iQIYI in respect of drama series and web films copyrights licensing, copyrights and broadcasting rights purchasing, original soundtrack production, as well as made-to-order drama series production and the related distribution revenue sharing. Except for the Web Films Cooperation Framework Agreement, these agreements generally will commence on the Listing Date and expire on December 31, 2022, and would automatically renew for a term of three years unless we serve written notice to cease cooperation.

For details regarding the salient terms of our framework agreements with iQIYI, see “Connected Transactions.”

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Quantitative Information in Relation to Revenue from iQIYI

We generated a significant amount of revenue from iQIYI by licensing the broadcasting rights of our self-produced and outright-purchased drama series to, and producing made-to-order drama series for, iQIYI, during the Track Record Period. We licensed one, two, three and three self-produced and outright-purchased drama series to iQIYI in 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively, and commenced production of nil, one, three and nil made-to-order drama series for iQIYI for the same periods, respectively. We also purchased the broadcasting rights of drama series from iQIYI and paid them licensing fees during the Track Record Period. Our Directors are of the view that the transactions with iQIYI during the Track Record Period were conducted on normal commercial terms and the pricing policy adopted for such transactions as well as the contract terms we offered were comparable to those of the similar transactions with Independent Third Parties. The Joint Sponsors have (i) reviewed the relevant documents and information provided by the Company in relation to the transactions with iQIYI during the Track Record Period; (ii) obtained necessary representations and confirmations from the Company and the Directors, and (iii) participated in the due diligence and discussions with the management of the Group. Based on the above, the Joint Sponsors concur with the Directors' view that the transactions with iQIYI during the Track Record Period were conducted on normal commercial terms and the pricing policy adopted for such transactions as well as the contract terms the Group offered were comparable to those of the similar transactions with Independent Third Parties. The table below sets forth our revenue generated from and cost of sales paid to iQIYI for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	% of total revenue or cost of sales, as RMB'000	applicable	% of total revenue or cost of sales, as RMB'000	applicable	% of total revenue or cost of sales, as RMB'000	applicable	% of total revenue or cost of sales, as RMB'000	applicable	% of total revenue or cost of sales, as RMB'000	applicable
Revenue										
Self-produced										
drama series	-	-	244,703	36.0%	204,253	26.7%	92,528	14.2%	307,348	53.0%
Outright-purchased										
drama series	116,226	21.4%	-	-	-	-	-	-	2,288	0.4%
Made-to-order										
drama series	-	-	-	-	-	-	-	-	84,906	14.6%
Other ⁽¹⁾	-	-	-	-	4,231	0.5%	334	0.1%	6,736	1.2%
	<u>116,226</u>	<u>21.4%</u>	<u>244,703</u>	<u>36.0%</u>	<u>208,484</u>	<u>27.2%</u>	<u>92,862</u>	<u>14.3%</u>	<u>401,278</u>	<u>69.2%</u>
Cost of sales	<u>(5,677)</u>	<u>1.5%</u>	<u>(112,169)</u>	<u>23.9%</u>	<u>(148,933)</u>	<u>22.7%</u>	<u>(148,933)</u>	<u>25.9%</u>	<u>-</u>	<u>-</u>

Note:

- (1) Others primarily include (i) other copyrights of our self-produced drama series sold to iQIYI other than broadcasting rights; and (ii) sale of the copyright of a screenplay to iQIYI in the first half of 2020.

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The significant increase in our revenue generated from iQIYI for the six months ended June 30, 2020 is primarily due to our exclusive licensing of *The Love Lasts Two Minds* (兩世歡) to iQIYI in the first half of 2020, which contributed a large amount of revenue of RMB237.7 million.

Mutually Beneficial and Complementary Relationship

We are one of iQIYI's major collaborators and have maintained well-established business relationship with it since 2014. We are also one of the first drama series producers to offer production services for iQIYI since 2017. We believe we are a valuable business partner of iQIYI in the sense that:

- *We are a major market player in the PRC.* According to the Frost & Sullivan Report, we were the fourth largest drama series producer and distributor in terms of the number of the first-run broadcast TV series in 2019. We were also the sixth largest drama series producer and distributor in the PRC in 2019 in terms of (i) the revenue generated from drama series and (ii) the number of episodes of drama series distributed for the first-run and re-run broadcast, according to the same source. We produce quality and appealing drama series to help iQIYI attract and retain audiences, which enables iQIYI to gain popularity and acquire potential paying users. We have also been exploring innovative cooperation models with iQIYI. For example, in 2015, we were the first to introduce the broadcasting model of "Online first, TV next" ("先網後台") for our self-produced drama series in the market, with *Legend Of Zu Mountain* (蜀山戰紀之劍俠傳奇) broadcasting initially on iQIYI and subsequently distributing to Anhui TV. With this broadcasting model, iQIYI is able to acquire potential audiences for being the first to broadcast a popular series.
- *We have adequate production capability and premium industry resource.* We license self-produced and outright-purchased drama series to iQIYI and are from time to time ordered by iQIYI to produce drama series to meet its evolving and specific demands for drama series. Leveraging our industry resource integration capabilities empowered by our platform business model, we are able to efficiently assemble suitable producers, directors and actors, qualified production studios, as well as external quality control specialists. We can select from our shortlisted performers and service providers with particular knowledge of and experiences in a certain industry based on the themes and genres of iQIYI's drama series. Since our inception and up to June 30, 2020, we had licensed in aggregate 10 self-produced and outright-purchased drama series to, and produced in aggregate four made-to-order drama series for, iQIYI, including one self-produced drama series licensed to iQIYI prior to the Track Record Period.
- *We have strong distribution capability.* We have maintained well-established relationship with both the top five TV channels and the top three online video platforms. According to the Frost & Sullivan Report, we were the only drama series producer and distributor that distributed new drama series on all of these eight channels in 2019. Given our sound cooperation with top distribution channels and major market position, we from time to time purchase the broadcasting rights of iQIYI's drama series and sub-license such rights to TV channels, to help iQIYI generate more monetization opportunities. We purchased in aggregate five broadcasting rights of iQIYI's drama series and successfully distributed all of them to TV channels or third-party distributors during the Track Record Period. We will continue to expand our cooperation in this respect to further contribute to iQIYI's growth.

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Leveraging these advantages, we believe our relationship with iQIYI will continue to be mutually beneficial and complementary, and the likelihood that our relationship with iQIYI will materially and adversely change or terminate is low.

Diversification of Customer Base and Revenue Stream

We have made efforts to reduce our customer concentration on iQIYI by diversifying our customer base and seeking opportunities to cooperate with other major TV channels and industry leading online video platforms. For example, in addition to licensing the broadcasting rights of our self-produced drama series to Tencent Video, we also began to provide production services for Tencent Video's drama series in 2019, such as *Dating In The Kitchen* (我，喜欢你). We not only strive to expand the breadth and depth of cooperation with leading distribution channels, but also plan to explore business opportunities with international market players to diversify our revenue resources. For example, we are in the process of developing screenplays and setting up filming and production team to produce overseas drama series for a leading international media service provider. For more details, see “— Our Strategies — Continue to further discover potential opportunities from online video platforms and explore business innovation.” We also plan to seek for opportunities to explore new forms of cooperation with other prevailing online video platforms that are experiencing rapid growth, in addition to the top three online video platforms. Currently we are approaching and communicating with three more emerging PRC online video platforms to further diversify our customer base.

We Are Capable of Maintaining Our Revenue in the Future in Light of the Customer Concentration

According to Frost & Sullivan, the size of drama series market in the PRC in terms of revenue, comprising licensing or distribution revenue and advertising revenue, was approximately RMB99.1 billion in 2019. Due to (i) the increasing demands for premium video content driven by people's evolving entertainment needs and growing disposable income; (ii) the prevalence of mobile internet platforms, which makes video content easily accessible and affordable; and (iii) the enhanced appeal and quality content arising from innovative technologies, such as visual and sound effects, this market is expected to further grow from approximately RMB93.1 billion in 2020 to approximately RMB121.3 billion in 2024. As a major player in this market, we believe that we will continue to be well positioned and benefit from the stable and continuous market growth potential.

Please see “Risk Factors — Risks Relating to Our Business and Industry — 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.”

Salient Terms of Agreements with Major Customers

We enter into agreements with our customers on a project-by-project basis. The salient terms of the agreements with our major customers are as follows:

Agreements of Licensing of Broadcasting Rights of Self-produced and Outright-purchased Drama Series with TV Channels and Online Video Platforms

- *Term of license:* Generally three to 10 years from the delivery of master copy, or the date of premiere on the TV channels or the online video platforms, as applicable;
- *Details of the drama series:* The agreements typically set out the official name, the number of episodes and the length of each episode, major cast members, and relevant distribution licenses of the drama series;
- *Scope of license and exclusivity:* Generally the TV channel is granted the broadcasting rights of the drama series within certain specific provinces, and online video platforms are granted such rights in the PRC. The broadcasting rights granted to our licensee customers can be exclusive or non-exclusive;
- *Broadcasting Schedule:* The licensing agreements usually specify the broadcasting schedule, including the number of episodes each day and their corresponding time slot. Certain licensing agreements also set out the priority of broadcasting, including the number of first-run broadcast during prime time, the number of first-run broadcast during normal time, and the maximum number of re-run broadcast. We shall indemnify our licensee customers for default on the planned priority of broadcasting.
- *Licensing fee:* Generally fixed amount per episode, while in some cases may be subject to adjustments based on the actual number of episodes;
- *Payment:* One-off payment or payments in installments in accordance with the milestone payment schedules set out in the relevant agreements, generally from signing of agreements to the initial broadcasting of the drama series;
- *Technical specifications:* Our master copy needs to satisfy certain technical specifications such as cassette format, resolution, sound channel and accuracy of subtitles;
- *Confidentiality:* All parties undertake not to disclose the other party's trade secrets or other business information to any third party; and
- *Termination:* Our licensee customers are entitled to terminate the relevant licensing agreements in the event of, among other reasons, delay in delivering the cassettes, delay in obtaining the Television Drama Distribution License, adverse social impact caused by the cast members during distribution or failure to meet pre-agreed broadcasting schedule. We are entitled to terminate the relevant licensing agreements in the event of, among other reasons, improper use of the drama series beyond the agreed licensing scope, material delay in payment or *force majeure*.

Production Service Agreements with Online Video Platforms

- *Details of the drama series:* The agreements generally set out the expected number of episodes and the length of each episode, the total production budget and expected production schedule, the specific production work, as well as the major cast members;
- *Production service fee:* (i) A fixed-amount service fee and/or (ii) a percentage of the net distribution revenue after deduction of the relevant expenses and distribution commission generated from distribution to TV channels as specified in the production service agreement;
- *Milestone payment schedules:* The production service fee is payable in installments in accordance with the payment milestones specified in the relevant agreements, generally from the signing of the agreements to the acceptance of the production by online video platforms; and
- *Allocation of IP rights:* Generally online video platforms have the full ownership of the copyrights of the drama series, while we are entitled to the authorship.

OUR SUPPLIERS

Our suppliers primarily consist of (i) IP owners who sell the copyrights of creative works or license the broadcasting rights of the drama series to us; and (ii) third-party service providers in relation to (a) drama series production, including screenwriters, directors and actors, filming and production studios as well as external post-production studios; and (b) marketing and promotional activities, such as marketing agencies.

Top Suppliers

We had had relationships with our five largest suppliers for approximately one to four years as of June 30, 2020 which include online video platforms, third party distributors, filming and production studios as well as post-production studios. During the Track Record Period, purchases from our five largest suppliers collectively accounted for approximately 80.0%, 79.6%, 58.6% and 78.5% of our total purchases for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively, and purchases from our largest supplier accounted for approximately 42.5%, 25.4%, 15.8% and 41.7% of our total purchases for the same periods, respectively. We became acquainted and established solid business relationships with our suppliers, such as well-known IP owners, screenwriters, directors and actors as well as filming and production studios, primarily attributable to Mr. Liu's and Ms. Zhang's over 20 years of industry experience, reputation and influence. In light of our popular and best-selling drama series, enhanced market leadership and strong distribution capability, more industry participants began to approach us to seek for prospective cooperations. Our five largest suppliers generally settle with us within 90 to 365 days by wire transfer.

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The tables below set forth our five largest suppliers for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020:

Year Ended December 31, 2017

Supplier	Nature of purchases	Purchase amounts <i>(RMB'000)</i>	As a percentage of our total purchases	Commencement of Business Relationship	Background
Supplier A	Purchases of outright-purchased drama series	322,264	42.5%	2016	A private media institution primarily engaged in IP development, films and drama series production and distribution as well as integrated marketing located in Shanghai controlled by an individual, with registered capital of approximately RMB11.8 million, founded in 2015
Supplier B	Purchases of production services for self-produced drama series	133,354	17.6%	2016	A private television programs producer and distributor located in Nanjing, Jiangsu Province controlled by an individual, with registered capital of RMB5.0 million, founded in 2015
Supplier C	Purchases of production services for self-produced drama series	100,693	13.3%	2017	A private television programs producer and distributor located in Dongyang, Zhejiang Province controlled by an individual, with registered capital of RMB1.0 million, founded in 2017
Supplier D/ Customer A	Purchases of outright-purchased drama series	28,695	3.8%	2017	A technology and e-commerce conglomerate located in Hangzhou, Zhejiang Province with total net assets of approximately RMB928.5 billion as of June 30, 2020, listed on both the New York Stock Exchange and the Hong Kong Stock Exchange, founded in 1999. It owns one of the top three online video platforms.
Nova Film	Purchases of post-production services for self-produced and made-to-order drama series	21,698	2.8%	2015	A private film and drama series post-production studio located in Wuxi, Jiangsu Province with registered capital of RMB10.0 million, founded in 2012 and acquired by us in 2020
Total		606,704	80.0%		

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Year Ended December 31, 2018

Supplier	Nature of purchases	Purchase amounts	As a percentage of our total purchases	Commencement of Business Relationship	Background
		<i>(RMB'000)</i>			
Supplier E	Purchases of production services for self-produced drama series	175,330	25.4%	2017	A private film and drama series producer and distributor located in Haining, Zhejiang Province controlled by an individual, with registered capital of RMB5.0 million, founded in 2012
Supplier F	Purchases of production services for self-produced drama series	118,090	17.1%	2018	A private television programs producer and distributor located in Shanghai controlled by an individual, with registered capital of approximately RMB3.8 million, founded in 2017
iQIYI	Purchases of outright-purchased drama series	112,169	16.2%	2017	One of the top three online video platforms located in Beijing with total net assets of approximately RMB6.3 billion as of June 30, 2020, listed on Nasdaq in the U.S., founded in 2007
Supplier G	Purchases of production services for made-to-order drama series production	87,453	12.7%	2018	A private television programs producer and distributor located in Dongyang, Zhejiang Province controlled by an individual, with registered capital of RMB1.0 million, founded in 2017
Supplier H	Purchases of planning and development services for self-produced drama series	56,604	8.2%	2018	A private film and drama series planning and development studio located in Ningbo, Zhejiang Province controlled by an individual, with registered capital of RMB1.0, founded in 2016
Total		<u>549,646</u>	<u>79.6%</u>		

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Year Ended December 31, 2019

Supplier	Nature of purchases	Purchase amounts	As a percentage of our total purchases	Commencement of Business Relationship	Background
		<i>(RMB'000)</i>			
iQIYI	Purchases of outright-purchased drama series	148,933	15.8%	2017	One of the top three online video platforms located in Beijing with total net assets of approximately RMB6.3 billion as of June 30, 2020, listed on Nasdaq in the U.S., founded in 2007
Supplier G	Purchases of production services for made-to-order and pipeline self-produced drama series	132,451	14.1%	2018	A private television programs producer and distributor located in Dongyang, Zhejiang Province controlled by an individual, with registered capital of RMB1.0 million, founded in 2017
Supplier F	Purchases of production services for self-produced and made-to-order drama series	101,237	10.8%	2018	A private television programs producer and distributor located in Shanghai controlled by an individual, with registered capital of approximately RMB3.8 million, founded in 2017
Supplier I	Purchases of production services for made-to-order drama series	85,822	9.1%	2019	A private film and drama series production studio located in Beijing controlled by an individual, with registered capital of RMB5.0 million, founded in 2017
Supplier J	Purchases of production services for made-to-order drama series	82,960	8.8%	2019	A private film and drama series producer and distributor located in Nanjing, Jiangsu Province controlled by an individual, with registered capital of RMB5.0 million, founded in 2019
Total		<u>551,403</u>	<u>58.6%</u>		

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Six Months Ended June 30, 2020

Supplier	Nature of purchases	Purchase amounts	As a percentage of our total purchases	Commencement of Business Relationship	Background
		<i>(RMB'000)</i>			
Supplier I	Purchases of production services for made-to-order drama series	74,402	41.7%	2019	A private film and drama series production studio located in Beijing controlled by an individual, with registered capital of RMB5.0 million, founded in 2017
Supplier K	Purchases of distribution services for self-produced drama series	25,725	14.4%	2020	A private film and drama series producer and distributor as well as a talent agency located in Ningbo, Zhejiang Province controlled by an individual, with registered capital of RMB2.0 million, founded in 2020
Supplier J	Purchases of production services for made-to-order drama series	14,362	8.1%	2019	A private film and drama series producer and distributor located in Nanjing, Jiangsu Province controlled by an individual, with registered capital of RMB5.0 million, founded in 2019
Supplier L	Purchases of production services for self-produced drama series	14,349	8.0%	2019	A private film and drama series producer and distributor with a focus on IP development located in Jinhua, Zhejiang Province controlled by an individual, with registered capital of RMB10.0 million, founded in 2016
Supplier F	Purchases of production services for made-to-order drama series	11,183	6.3%	2018	A private television programs producer and distributor located in Shanghai controlled by an individual, with registered capital of approximately RMB3.8 million, founded in 2017
Total		<u>140,021</u>	<u>78.5%</u>		

Except iQIYI and Nova Film, all of our five largest suppliers during the Track Record Period are Independent Third Parties. Nova Film was our fifth largest supplier and an Independent Third Party in 2017, which was acquired by us in June 2020. To the best of the knowledge of our Directors, except iQIYI, none of our Directors, their respective associates or any shareholder who owns more than 5% of our issued share capital had any interest in any of our five largest suppliers during the Track Record Period. Save as disclosed above, to the best of the knowledge of our Directors, none of the Company, its subsidiaries, their shareholders, directors, senior management, and any of their respective associates has any other past or present relationships, such as business, employment, family or financing, with our five largest suppliers (save for being our suppliers) during the Track Record Period.

Salient Terms of Agreements with Major Suppliers

Agreements with IP Owners

We generally enter into agreements with IP owners on a project-by-project basis. The salient terms of these agreements are as follows:

- *Term of licensing:* Generally three to seven years;
- *Details of the drama series:* Some of the agreements set out the official or tentative name, the number of episodes and the length of each episode, major cast members, and the tentative production schedule of the drama series;
- *Scope of licensing:* We are generally licensed the exclusive adaptation rights and distribution rights of such IP globally but are sometimes restrained from transferring such licensed rights. The agreements generally specify certain circumstances under which the licensed rights would be forfeited at no cost, including, among others, delay in obtaining internal approval to produce the drama series within a specified period, delay in commencing production within a specified period and delay in completing the production. We are generally also prohibited from any derivative works or income arising from the licensed rights;
- *Licensing fee and settlement:* Generally a fixed-amount licensing fee to be settled in one go or in installments as specified in the agreements;
- *Ownership of IP rights:* Our IP owners have the full ownership of the copyrights of the creative works, while we are entitled to the authorship of the drama series and other rights generated during the production; and
- *Termination:* The agreements are terminable under certain circumstances, including, among others, mutual agreement, breach of contract and our licensor suppliers' lack of right to license such copyrights.

Agreements with Broadcasting Rights Licensors

We generally enter into agreements with the copyright owners of the drama series who license the broadcasting rights of these drama series to us on a project-by-project basis. The salient terms of these agreements are as follows:

- *Term of license:* The agreements typically specify the term of the licensing of the broadcasting rights of the drama series, and the maximum times of re-run broadcast within such term;
- *Details of the drama series:* The agreements typically set out the official name, the number of episodes and the length of each episode, major cast members, and broadcasting schedule of the drama series;
- *Scope of license and exclusivity:* We are usually granted the broadcasting rights of the drama series within certain specific provinces and/or only on TV channels. The broadcasting rights granted to us can be exclusive or non-exclusive; and
- *Licensing fee and settlement:* We are usually required to settle the total amount of the licensing fee specified in the relevant agreements for the licensing of broadcasting rights of the drama series either (i) on a lump-up basis within a specified period upon the completion of the broadcast, or (ii) in installments from the signing of the licensing agreements to a specified time by wire transfer.

Agreements with Service Providers

We generally enter into agreements with (i) talent agencies or talent studios for engaging cast members and (ii) filming and production studios for our self-produced or made-to-order drama series on a project-by-project basis and remit their service fees directly to such service providers by wire transfer. Our agreements with such service providers generally include the following major terms:

- *Details of the drama series:* The agreements generally set out the official or tentative name of the drama series, the expected number of episodes and the length of each episode, the total production budget, the major cast members and the expected production schedule;
- *Allocation of work:* We are responsible for providing the relevant screenplay and other necessary assistance and overseeing the production process, while the cast members are obliged to provide performance service and the production service providers shall take charge of the whole production process, including pre-production, filming and post-production. The production service providers also need to ensure that the content conforms to the applicable laws and regulations;
- *Production acceptance:* The production service providers need to submit a demo within a specified period upon the completion of the production for our review. We will accept the production if the demo satisfies our requirements, or otherwise ask the production service providers to modify the production if we deem necessary and appropriate;

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- *Service fees and settlement:* A fixed amount service fee for cast talents or production service providers to be settled in installments specified in the relevant agreement by wire transfer, usually from the signing of the service agreements to the initial broadcasting of the drama series; and
- *Ownership of IP:* We have the full ownership of the copyrights of the drama series, while the third-party service providers are entitled to limited IP rights, such as authorship or performers' right.

During the Track Record Period and up to the Latest Practicable Date, we had not entered into any “yin-yang contract⁽¹⁾” (陰陽合同) with any cast talents in respect of our self-produced and made-to-order drama series. To the best of the knowledge of our Directors, the suppliers of our self-produced and made-to-order drama series had not entered into any “yin-yang contract” with the cast talents they engaged because the main casts of our self-produced and made-to-order drama series are generally selected by us or the online video platforms, as applicable, and we require our suppliers to engage these casts based on the budgets provided by us. For our outright-purchased drama series, as we are just the purchasers of drama series that have completed production, we did not enter into any “yin-yang contract” with the casts for such outright-purchased drama series.

OVERLAPPING OF CUSTOMERS AND SUPPLIERS

During the Track Record Period, (i) some of our online video platform customers procuring our drama series and production services were also our suppliers licensing to us broadcasting rights of their drama series; and (ii) some of our third party drama series producers and distributors providing production services for our self-produced and made-to-order drama series were also our customers procuring broadcasting rights of our drama series. According to Frost & Sullivan, it is common in the drama series industry that (i) online video platforms need to not only procure production services to produce their own drama series but also license out the broadcasting rights of their drama series to other distribution channels to generate revenue and increase profitability; and (ii) drama series producers and distributors not only provide production services for drama series but also purchase the broadcasting rights of drama series for sub-licensing. Negotiations of the terms of our sales to and purchases from these overlapping customers and suppliers were conducted on an individual basis and the sales and purchases were neither inter-connected nor inter-conditional with each other. We became acquainted and established solid business relationships with our overlapping customers and suppliers primarily attributable to Mr. Liu's and Ms. Zhang's over 20 years of industry experience, reputation and influence. In light of our popular and best-selling drama series, enhanced market leadership and strong distribution capability, more industry participants began to approach us to seek for prospective cooperations. Our Directors confirmed that all of our sales to and purchases from these overlapping customers and suppliers were conducted in the ordinary course of business under normal commercial terms and on arm's length basis. To the best of the knowledge of our Directors, except iQIYI, none of the Company, its subsidiaries, their shareholders, directors, senior management, and any of their respective associates has any other past or present relationships, such as business, employment, family or financing, with these overlapping customers and suppliers (save for being our customers or suppliers) during the Track Record Period.

(1) For the purpose of this prospectus, “yin-yang contract” is a practice where parties execute multiple contracts to avoid taxes. The yin contract provides the real transaction price, while the yang contract stipulates a lower price which is to be reported to the relevant tax authorities.

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The table below sets forth the breakdown of the revenue generated from and purchases paid to our overlapping customers and suppliers, which was among either our five largest customers or suppliers during the Track Record Period, for the periods indicated:

Transaction Nature	Year ended December 31,			Six months ended		Commencement of Business	Relationship	Background		
	2017		2018		June 30, 2020					
	Revenue	Purchases	Revenue	Purchases	Revenue				Purchases	
	(RMB'000)									
iQIYI	116,226	(5,677)	244,703	(112,169)	208,484	(148,933)	401,278	-	2014/2017	One of the top three online video platforms located in Beijing with total net assets of approximately RMB6.3 billion as of June 30, 2020, listed on Nasdaq in the U.S., founded in 2007
Customer A/ Supplier D	121,405	(28,695)	-	(5,377)	34,623	-	60,708	-	2017	A technology and e-commerce conglomerate located in Hangzhou, Zhejiang Province with total net assets of approximately RMB928.5 billion as of June 30, 2020, listed on both the New York Stock Exchange and the Hong Kong Stock Exchange, founded in 1999. It owns one of the top three online video platforms.

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Transaction Nature	Year ended December 31,				Six months ended		Commencement of Business	Relationship	Background
	2017		2018		June 30,				
	Revenue	Purchases	Revenue	Purchases	2020	Purchases			
	(RMB'000)								
Customer E/ Supplier M	-	(5,189)	120,283	-	-	-	-	2017	- Customer E is a state-owned TV channel located in Changsha, Hunan Province with registered capital of approximately RMB9.2 billion, founded in 2000, and also one of the top five TV channels;
									- Supplier M is a drama series and TV programs producer and distributor and a talent agency located in Dongyang, Zhejiang Province with registered capital of RMB10.0 million, founded in 2011. It is a wholly-owned subsidiary of a public media group listed on the Shenzhen Stock Exchange in the PRC. Supplier M and Customer E are ultimately controlled by the same entity.
Customer L/ Supplier A	-	(322,264)	-	-	4,082	-	-	2016	A private media institution primarily engaged in IP development, films and drama series production and distribution as well as integrated marketing located in Shanghai controlled by an individual, with registered capital of approximately RMB11.8 million, founded in 2015
Customer M/ Supplier C	-	(100,693)	472	(43,166)	-	-	(8,491)	2017	A private television programs producer and distributor located in Dongyang, Zhejiang Province controlled by an individual, with registered capital of RMB1.0 million, founded in 2017
									- Purchase of production services for self-produced drama series

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QUALITY CONTROL

Our quality control capability is one of our core competencies that makes us stand out among our competitors in the drama series industry in the PRC. We have adopted strict internal examination guidelines and procedures for our production process to serve both compliance and quality control purposes for the drama series produced by us. During the production of a drama series, we assign in-house quality control staff on site to monitor the quality and progress of the production services provided by third party suppliers on a regular basis and provide constructive feedback timely. In addition, we also invite external quality control consultants, who are generally well-known producers or directors with extensive experiences to ensure the quality of our drama series. We select external quality control consultants with vertical-specific knowledge for different genres of drama series so that our drama series will fit the preferences of different distribution channels and specific group of audiences. See “— Our Competitive Strengths — Our platform business model enables us to effectively integrate premium industry resources.” Upon completion of the production of a drama series, we review its content to ensure that (i) it is compliant with industry requirements and the applicable laws and regulations in the PRC; and (ii) it satisfies the specific content or technical requirements of our customers and us. Any content that promotes obscenity or violence or undermines social morality will be strictly prohibited by us. Our head of production team, He Mai (何麥), with approximately 10 years of relevant industry experiences, will conduct a final review of the drama series before it is delivered to the relevant government authorities and our customers.

AWARDS AND RECOGNITIONS

Awards and Accreditation

Our commitment to providing diversified and quality drama series and excellent achievements in the drama series industry are evidenced by the honors awarded to us. The table below sets forth our major awards and recognitions:

<u>Year</u>	<u>Award/ Recognition</u>	<u>Award Issuing Authority</u>	<u>TV Series/ Group Entity Receiving Award</u>
2020	2019 Top 10 Outstanding Production Company (2019十大實力出品公司)	TV-insight (電視劇鷹眼)	Jiangsu Strawbear
2020	Third Prize of the Jiangsu Province TV Series Award (江蘇電視劇獎三等獎)	Jiangsu Provincial Administration of Radio and Television (江蘇省廣播電視局)	Second Time Is A Charm (第二次也很美)
2019	Five-one Project Award of Jiangsu Province (江蘇省五個一工程獎)	Standing Committee of Jiangsu Provincial Committee of the Communist Party of China (江蘇省委)	Treasure Adventure (國寶奇旅)
		Publicity Department of Jiangsu Provincial Committee of the Communist Party of China (江蘇省委宣傳部)	

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Year	Award/ Recognition	Award Issuing Authority	TV Series/ Group Entity Receiving Award
2019	Second Prize of the Jiangsu Province TV Series Award (江蘇電視劇獎二等獎)	Jiangsu Provincial Radio and Television Administration (江蘇省廣播電視局)	Treasure Adventure (國寶奇旅)
2019	First Prize of the 2019 Jiangsu Province Outstanding Copyright Award (2019年江蘇省優秀版權作品一等獎)	Copyright Administration of Jiangsu Province (江蘇省版權局) Industry and Information Technology Department of Jiangsu (江蘇省工業和信息化廳)	Treasure Adventure (國寶奇旅)
2019	Second Prize of the Jiangsu Province TV Series Award (江蘇電視劇獎二等獎)	Jiangsu Provincial Radio and Television Administration (江蘇省廣播電視局)	Mr. Nanny (月嫂先生)
2019	2018 Annual Outstanding Contribution Award (2018年度貢獻傑出獎)	Sichuan Radio and Television (四川廣播電視台)	A Sword Across The Sky (一劍橫空)
2019	2018 Viewership Ratings Gold Award for National and City Networks (2018年雙網收視金獎)	Sichuan Radio and Television (四川廣播電視台)	A Sword Across The Sky (一劍橫空)
2018	Gazelle Enterprise of Nanjing (南京市瞪羚企業)	Nanjing Municipal People's Government (南京市政府)	Jiangsu Strawbear
2018	Famous Cultural Enterprise Award of Pukou District (浦口區第一批文化產業「名企」獎)	Publicity Department of the Pukou District, Nanjing City Committee of the Communist Party of China (中共南京市浦口區委宣傳部)	Jiangsu Strawbear
2018	2017 Outstanding Cultural Contribution Award of Pukou District (浦口區2017年度文化產業突出貢獻獎)	Publicity Department of the Pukou District, Nanjing City Committee of the Communist Party of China (中共南京市浦口區委宣傳部)	Jiangsu Strawbear
2018	Excellent TV Series Production Company (優秀電視劇出品公司)	Guangdong Radio and Television (廣東廣播電視台)	Starry April (繁星四月)
2018	Excellent TV Series Production Company (優秀電視劇出品公司)	Guangdong Radio and Television (廣東廣播電視台)	A Sword Across The Sky (一劍橫空)

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Year	Award/ Recognition	Award Issuing Authority	TV Series/ Group Entity Receiving Award
2018	Excellent Television Award of the 34 th “Jiangsu Literary and Art Award” (第34屆「江蘇省文藝大獎•電視獎」電視劇類優秀獎)	Jiangsu Provincial Federation of Literary and Art Circles (江蘇省文學藝術界聯合會) Jiangsu Provincial Television Artists Association (江蘇省電視藝術家協會)	Starry April (繁星四月)
2018	Excellent Television Award of the 34 th “Jiangsu Literary and Art Award” (第34屆「江蘇省文藝大獎•電視獎」電視劇類優秀獎)	Jiangsu Provincial Federation of Literary and Art Circles (江蘇省文學藝術界聯合會) Jiangsu Provincial Television Artists Association (江蘇省電視藝術家協會)	Legend Of Zu Mountain 2 (蜀山戰紀2踏火行歌)
2018	Famous Cultural Product Award of Pukou District (浦口區第一批文化產業「名品」獎)	Publicity Department of the Pukou District, Nanjing City Committee of the Communist Party of China (中共南京市浦口區委宣傳部)	Legend Of Zu Mountain (蜀山戰紀之劍俠傳奇)
2018	Jiangsu Province Government Television Award (江蘇省新聞出版廣電政府獎 電視劇獎)	Jiangsu Provincial Administration of Radio and Television (江蘇省新聞出版廣電局)	The Impossible Mission (不可能完成的任務)
2017	Major Culture and Technology Enterprise of Nanjing City (南京市重點文化科技企業)	Nanjing Municipal People’s Government (南京市政府)	Jiangsu Strawbear
2017	Golden Partner of the First Drama Series Purchase Alliance (第一購劇聯盟金牌合作夥伴)	The First Drama Series Purchase Alliance (第一購劇聯盟)	Jiangsu Strawbear
2017	2016 Viewership Ratings Champion (2016年收視王牌獎)	Zhejiang Education & Technology Channel (浙江電視台教育科技頻道)	The Impossible Mission (不可能完成的任務)
2017	Viewership Ratings Contribution Award (收視貢獻獎)	The First Drama Series Purchase Alliance (第一購劇聯盟)	The Impossible Mission (不可能完成的任務)
2017	2016 Excellent TV Drama Award (2016年度優秀劇目獎)	Henan City Channel (河南電視台都市頻道)	The Impossible Mission (不可能完成的任務)

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Year	Award/ Recognition	Award Issuing Authority	TV Series/ Group Entity Receiving Award
2017	Most Popular TV Drama (最受觀眾喜愛的電視劇劇作)	Shanghai TV News Comprehensive Channel (上海新聞綜合頻道)	The Impossible Mission (不可能完成的任務)
2017	2016 Excellent TV Drama on Beijing List (2016電視劇京榜年度優秀獎)	Beijing TV (北京電視台)	The Impossible Mission (不可能完成的任務)
2016	Cultural Industry Outstanding Contribution Institution (文化產業突出單位貢獻獎)	Leading Group on Cultural Cultivation of Pukou District (浦口區文化建設領導小組)	Jiangsu Strawbear
2016	Highest Investment Value Award (最具投資價值獎)	Nanjing Cultural Finance Service Center (南京文化金融服務中心) Public Securities News (大眾證券報)	Jiangsu Strawbear
2015	Highest Growth Potential Award (最具成長性獎)	Nanjing Cultural Finance Service Center (南京文化金融服務中心)	Jiangsu Strawbear

Membership in Industry Organizations

Our senior management actively participate in the organizations in the PRC drama series industry. Mr. Liu, our founder and chief executive officer, is a member of China Television Artists Association (中國電視藝術家協會), a council member of Jiangsu Provincial Television Artists Association (江蘇省電視藝術家協會) and the vice president of Film and Television Artists Association of Nanjing City (南京市電影電視藝術家協會). Mr. Chen Chen, our executive Director and chief financial officer, is a member of Jiangsu Provincial Television Artists Association. The aforesaid memberships of our management team members symbolize the recognition and reputation of our Group in the industry in which we operate.

INTELLECTUAL PROPERTY

Overview

Intellectual property is fundamental to our success and competitiveness. We rely on a combination of copyrights, trademarks, domain names as well as confidentiality or licensing agreements with our employees, customers, suppliers and other third parties to protect our intellectual property. As of the Latest Practicable Date, we had (i) 31 copyrights in relation to the drama series and web films produced and to be produced by us, including one registered copyright; (ii) 11 copyrights of screenplays, including three registered copyrights; (iii) 18 adaptation rights of creative works licensed to us; (iv) 12 broadcasting rights of drama series licensed to us; (v) 38 trademarks registered in the PRC; (vi) 18 registered patents; (vii) 11 registered software copyrights; and (viii) 19 registered domain names.

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Details of our intellectual property rights are set forth in “Appendix IV — Statutory and General Information — B. Further Information about Our Business — (2) Intellectual Property Rights of Our Group.”

Copyrights

In general, the proprietary rights attached to the content of the drama series we produced belong to us. In case of co-invested drama series, the proprietary rights of such drama series will (i) be proportionally owned according to the respective investment ratios; (ii) be jointly owned by the co-investors and us; and (iii) belong entirely to us as the executive producer, as the case may be in the relevant co-investment agreements. Generally, in case of co-financed drama series in which we act as a non-executive producer, the proprietary rights of such drama series will be proportionally owned according to the investment ratios. As of the Latest Practicable Date, we had the sole copyright ownership of two drama series in the PRC in which we acted as the executive producer.

Licensed IPs are also important assets of our business. As of the Latest Practicable Date, we had a library of 30 licensed IPs from diversified sources, such as popular literary works.

We also have anti-piracy measures in place to safeguard our intellectual property rights. Our production department keeps track of and regularly reviews the status of our drama series and use a mix of legal and administrative proceedings as well as negotiations to settle such copyright infringement.

As advised by our PRC Legal Advisors, during the Track Record Period and up to the Latest Practicable Date, we were not subject to, nor were we party to, any intellectual property rights infringement claims or litigations that we believe would have any material adverse effect on our business, results of operations, financial condition, or reputation. However, unauthorized use of our intellectual property by third parties and the expenses incurred in protecting our intellectual property rights from such unauthorized use may adversely affect our business and results of operations. See “Risk Factors — Risks Relating to Our Business and Industry — We are subject to risks of piracy and intellectual property infringement.”

COMPETITION

The drama series market in the PRC is highly competitive. We compete with other drama series production and distribution companies in the PRC for the acquisition of quality screenplays and creative materials as well as the services of performing talent, directors, and filming and production firms. Key competitive factors also include financial resources and deep and broad network connections with TV channels and online video platforms.

Leveraging our founder’s approximately 20 years of industry experiences, his profound industry reputation and influence as well as insight of the market trend, we internally developed the high-potential screenplay of our first drama series, Legend Of Zu Mountain (蜀山戰紀之劍俠傳奇), and were able to effectively and efficiently invite and assemble suitable directors, major cast and filming and production firm promptly. Due to the appealing content, well-known actors, and our founder’s close relationship with TV channels and online video platforms, Legend Of Zu Mountain (蜀山戰紀之劍俠傳奇) achieved great success and was licensed to an online gaming company to produce role play games.

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We believe market competition is based on the quality of drama series content, brand recognition, scale of production as well as distribution capability. We believe our competitive edge lies in our large and diversified pool of IP rights, platform business model, experienced production team, and close and stable relationships with top TV channels and online video platforms in China, which enable us to achieve our leading position in the market and sustainable growth.

See “Industry Overview” for a more detailed discussion regarding the markets in which we operate as well as our market shares in the relevant markets.

EMPLOYEES

As of June 30, 2020, we had 73 employees, including 53 based in Jiangsu Province, 15 based in Beijing, 3 based in Xinjiang Uyghur Autonomous Region and 2 based in Zhejiang Province. The table below shows a breakdown of our employees by function as of June 30, 2020:

Functions	Number of Employees	% of Employees
Management	4	5.5%
Production	26	35.6%
Investment	2	2.7%
Distribution	3	4.1%
Marketing and promotion	6	8.2%
Government affairs	1	1.4%
Finance and legal	12	16.5%
Administrative	10	13.7%
Research and development	9	12.3%
Total	73	100.0%

We believe we have maintained good relationships with our employees. Our employees are not represented by a labor union. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any strikes or any labor disputes with our employees which had had or were likely to have a material effect on our business.

Our employees typically enter into standard employment contracts with a confidentiality clause and non-compete agreements with us. We place high value on recruiting, training and retaining our employees. We maintain high recruitment standards and provide competitive compensation packages. Remuneration packages for our employees mainly comprise base salary and bonus. We also provide both in-house and external trainings for our employees to improve their skills and knowledge.

We contribute to social security insurance and housing provident funds for our employees in all material aspects in accordance with applicable PRC laws, rules and regulations.

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INSURANCE

We purchase or require the filming and production suppliers to purchase injury insurance for the actors and/or filming and production crew. During the Track Record Period, we also purchased vehicle insurance for our automobiles. We do not, and are not required by PRC laws to, maintain any business interruption insurance, key man life insurance, third-party liability insurance or any insurance for our leased properties. We also do not maintain insurance against risks relating to the Contractual Arrangements. See “Risk Factors — Risks Relating to Our Business and Industry — Our limited insurance coverage could expose us to significant costs and business disruption.”

Our Directors believe that our insurance coverage is sufficient and adequate and in line with the industry norm. We periodically review and will make necessary and appropriate adjustments to our insurance coverage. During the Track Record Period and up to the Latest Practicable Date, we had not made any material claim under our insurance policies.

PROPERTIES

As of the Latest Practicable Date, we did not own any property. As of the Latest Practicable Date, we leased and occupied 13 properties in Beijing, Shanghai, Nanjing, Hangzhou, Wuxi and Horgos with an aggregate gross floor area of approximately 4,159.8 sq.m. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules as office premises.

Our leased properties are leased from Independent Third Parties, with a lease term ranging from six months to 20 years. Title certificates of five leased properties have been duly obtained by the relevant landlords. With respect to the remaining eight leased properties with an aggregate gross floor area of 2,350.2 sq.m., or 56.5% of the total gross floor area of our leased properties, the landlords failed to provide the relevant building ownership certificates, as a result of which, there may be risks that these eight leases may be held invalid, and therefore we may not be able to continue to occupy and use such properties. Our Directors believe that our use of these eight properties individually or collectively will not have a material adverse effect on our business, financial condition or results of operations. Even if we are required to vacate from the properties, we believe we will be able to readily find comparable properties to relocate and the costs and expenses we may incur for relocation will be immaterial. As of the Latest Practicable Date, we were not aware of any ownership controversy or dispute or third party claims, nor had we been imposed any administrative penalties.

In addition, all of our 13 leases have not been registered with the relevant competent authorities. As advised by our PRC Legal Advisors, apart from the eight leases without building ownership certificates, despite the remaining five leases not having been registered with the relevant competent authorities, they remain valid and legally binding and enforceable under the applicable PRC laws and regulations, according to the Interpretation of the Supreme People’s Court on Several Issues concerning the Application of Law in the Trial of Cases about Disputes over Lease Contracts on Urban Buildings (最高人民法院關於審理城鎮房屋租賃合同糾紛案件具體應用法律若干問題的解釋). A maximum penalty of RMB10,000 may be imposed for non-registration of each lease, and the estimated total maximum penalty would be RMB130,000, as advised by our PRC Legal Advisors.

HEALTH, SAFETY AND ENVIRONMENTAL MATTERS

We are committed to providing a safe and healthy working environment for our employees. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material accidents in the course of our operations, nor had we been subject to any material claims for personal or property damages or for health or safety related compensation.

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Due to the nature of our business, we do not generate any hazards or pollutants during the course of our operations. During the Track Record Period and up to the Latest Practicable Date, we had not incurred any expenses in relation to the compliance with the applicable environmental laws and regulations.

LICENSES AND PERMITS

As advised by our PRC Legal Advisors, we had obtained all material licenses, permits and approvals required for our operations, which were valid and remained in effect as of the Latest Practicable Date. The table below sets forth the major licenses and permits relating to our business and operations as of the Latest Practicable Date (apart from those pertaining to general business requirements):

<u>License/Permit/ Certificate</u>	<u>Holder</u>	<u>Issuing Authority</u>	<u>Expiration Date</u>
Television Drama Production Permit (Class A) (電視劇製作許可證 (甲種))	Jiangsu Strawbear	NRTA (國家廣電總局)	March 31, 2021
Radio and Television Programs Production and Operation Permit (廣播電視節目製作經 營許可證)	Jiangsu Strawbear	Jiangsu Provincial Radio and Television Administration (江蘇省廣播電視局)	March 31, 2021
Radio and Television Programs Production and Operation Permit (廣播電視節目製作經 營許可證)	Beijing Strawbear	Beijing Municipal Radio and Television Bureau (北京市廣播電視局)	September 14, 2022
Radio and Television Programs Production and Operation Permit (廣播電視節目製作經 營許可證)	Nova Film	Jiangsu Provincial Radio and Television Administration (江蘇省廣播電視局)	March 31, 2021
Radio and Television Programs Production and Operation Permit (廣播電視節目製作經 營許可證)	Horgos Strawbear	Administration of Radio and Television of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區廣播 電視局)	March 31, 2021

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We have been the holder of Television Drama Production Permit (Class A) for three years since 2017. This Class A permit is valid for two years and subject to renewal upon its expiration, during which we do not have to apply to the competent authorities for the production of individual TV series on a project-by-project basis. We were one of the 73 holders of Television Drama Production Permit (Class A) in the PRC, and the only one in Jiangsu Province, as of December 31, 2019. We monitor the validity status of our licenses and permits, and make timely applications for the renewal of relevant licenses and permits prior to the expiration date. We had not experienced any material difficulty in obtaining or renewing the required licenses and permits for our business operations during the Track Record Period and up to the Latest Practicable Date. Our PRC Legal Advisors are of the view that, there is no material legal impediment in renewing these licenses and permits as they expire in future as long as we are in compliance with applicable laws, regulations and rules. However, we cannot assure you that we will be able to obtain or renew such licenses or permits in a timely manner or at all in the future. See “Risk Factors — Risks Relating to Our Business and Industry — 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.”

LEGAL PROCEEDINGS AND COMPLIANCE

We may be involved in legal or other disputes in the ordinary course of our business. During the Track Record Period and up to the Latest Practicable Date, we had not been involved in any actual or pending litigation, arbitration or administrative proceedings (including any bankruptcy or receivership proceedings) that we believe would have a material adverse effect on our business, results of operations, financial condition or reputation. Our Directors had not been involved in any actual or threatened material claims or litigation during the Track Record Period and up to the Latest Practicable Date.

We are subject to a wide range of PRC laws and regulations in the ordinary course of business. See “Regulatory Overview.” As advised by our PRC Legal Advisors, we complied with the laws and regulations of the PRC applicable to us in all material aspects during the Track Record Period and up to the Latest Practicable Date.

RISK MANAGEMENT AND INTERNAL CONTROL

Risk Management

We have established risk management and internal control systems consisting of policies and procedures that we consider to be appropriate for our business operations. In particular, we have adopted and implemented risk management policies in various aspects of our business operations such as financial reporting, information system and human resources.

Financial Reporting Risk Management

We have in place a set of accounting policies in connection with our financial reporting risk management, such as financial report management policies, budget management policies, financial statements preparation policies and finance department and staff management policies. We have various procedures in place to implement these accounting policies, and our finance department reviews our management accounts regularly based on such procedures. We also provide regular trainings to our finance department staff to ensure that they understand our accounting policies.

BUSINESS

As of June 30, 2020, our finance department consisted of 11 employees. It is headed by our chief financial officer, who has more than 10 years of experience in financial management with a bachelor's degree in financial management from Nanjing University (南京大學) and a master's degree in accounting from Shanghai University of Finance and Economics (上海財經大學).

Information System Risk Management

We have adopted procedures, such as regular system check, password policy, user authorization review and approval and data back-up, as well as data recovery test, to safeguard our information assets and ensure the proper management of our operational data. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material information leakage or loss of data.

Human Resources Risk Management

We provide regular and specialized training tailored to the needs of our employees in different departments. We have in place an employee handbook approved by our management and distributed to all our employees, which contains internal rules and guidelines regarding best commercial practice, work ethics, fraud prevention mechanism, negligence and corruption. We provide employees with trainings and resources to explain the guidelines contained in the employee handbook.

We also have in place an anti-corruption policy to safeguard against any corruption activities. The policy explains potential corruption conducts and our anti-corruption measures. We make our internal reporting channel open and available for our staff to report any corruption acts, and our staff can also make anonymous reports. Our human resources and administrative department liaises with legal department to investigate the reported incidents and take appropriate measures.

Audit Committee Experience and Qualification and Board Oversight

We have established an audit committee to monitor the implementation of our risk management policies on an ongoing basis to ensure that our internal control system is effective in identifying, managing and mitigating risks involved in our business operations. The audit committee consists of three Directors, namely Mr. Zhang Senquan, Mr. Wang Jun and Mr. Chung Chong Sun. Mr. Zhang Senquan and Mr. Chung Chong Sun are independent non-executive Directors and Mr. Wang Jun is a non-executive Director. Mr. Zhang Senquan is the chairman of the audit committee. For the professional qualifications and experiences of the members of our Audit Committee, see “Directors and Senior Management — Board of Directors.”

Our legal and compliance department is responsible for reviewing the effectiveness of internal controls and reporting to the audit committee on any issues identified. Members of legal and compliance department hold regular meetings to discuss any internal control issues we face and the corresponding measures to implement toward resolving such issues. The legal and compliance department reports to the audit committee to ensure that any major issues identified thus are channeled to the committee on a timely basis. The audit committee then discusses the issues and reports to the Board if necessary.

Ongoing Measures to Monitor the Implementation of Risk Management Policies

Our audit committee, legal and compliance department and senior management together monitor the implementation of our risk management policies on an ongoing basis to ensure our policies and implementation are effective and sufficient.

Internal Control

In preparation for the Listing, we had engaged in May 2020 an independent internal control adviser to perform an internal control review (the “**IC Review**”) of our internal control system within the agreed scope which covers areas such as corporate governance, risk assessment, financial systems, project management and taxation. During the IC Review, the internal control adviser identified a number of findings in relation to our internal control policies and procedures mainly with respect to internal control monitoring and regulatory compliance policies and systems pursuant to which we have taken the internal control enhancement measures recommended by the internal control adviser, such as enhanced trade receivable, trade payables and inventories management policies, strengthened intellectual property rights protection policies, stricter anti-corruption and bribery and anti-money laundering practices and adoption of financial reporting and information disclosure procedures. The internal control adviser performed a follow-up review on the enhancement measures taken by us in response to the findings and enhancement recommendations from the internal control adviser. After considering the implementation of the enhancement measures and the result of such follow-up review, our Directors are satisfied that our internal control system is adequate and effective for our current operational environment.